



July 11, 2019

SURGE HOLDINGS, INC.
(OTC – SURG)

Industry: FinTech/Supply Chain

Price Target: \$3.25

SURGE HOLDINGS, INC.

Set to Emerge as One of FinTech's Fastest Growing Companies

Rob Goldman
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July 11, 2019

SURGE HOLDINGS, INC. (OTC – SURG - \$0.56)

Price Target: \$3.25

Rating: Speculative Buy

COMPANY SNAPSHOT

Surge Holdings, Inc. is a retail supply chain company leveraging blockchain technology to provide a virtual distribution hub for retailers, as well as offer telecom services for low income customers and financial payment services for the unbanked and under-banked. Surge products are delivered through a nationwide network of convenience stores and corner markets connected to the *SurgePays*™ retail blockchain network. This retail platform is designed to transform the traditional supply chain by providing local retailers seamless access to global products, and empowers the corner store to select, order and fulfill delivery of wholesale goods from around the country. This platform also provides manufacturers a cost-effective and efficient platform to access local retailers.

KEY STATISTICS

Price as of 7/10/19	\$0.56
52 Week High – Low	\$0.94 - \$0.241
Current O/S	89.7M
FD O/S	276.9M
Mkt Cap (Current Shares)	\$50.4M
Est. Average Volume (30D)	57,335
Exchange	OTCQB

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

Emerging fintech and retail supply chain solutions provider Surge Holdings is poised to generate outsized revenue and market share in large, underserved markets. The Company's approach improves and enhances operations and profits for retailers, provides previously inaccessible broad-scale distribution for manufacturers, and improves the quality of life directly and indirectly for its low income, underbanked consumers.

***SurgePays*™ Retail Blockchain Network is a first-in-kind fintech network connecting independent retailers, manufacturers and consumers.** As the first company to truly tie these three specific components of the food chain together, we view Surge as a unique combination of financial transactions clearinghouse and service/product marketplace.

Surge is on its way to installing its flagship blockchain offering in 40,000 stores affiliated with the highly regarded trade association, AATAC. We believe at least \$1500/mo. in revenue per store can be generated, once fully deployed. As a technology company Surge is well-positioned to scale easily and rapidly.

Our forecasts call for revenue to leap from \$25M in 2019 to \$104M in 2020 and \$204M in 2021, with over 21% margins. Fees are generated via sales of products in the retail and manufacturer chain, and the soon-to-be-launched Visa PrePaid Card.

Our \$3.25 price target is based on 4.8x 2021P revenue and 22x 2021P EPS forecasts. It should be noted that these metrics are below that of a key publicly traded comparable as well as other SaaS companies.

SURGE HOLDINGS: QUIETLY BUILDING A FINTECH POWERHOUSE

Company Set to Reach Key Inflection Point

We began covering **Surge Holdings Inc. (OTC – SURG – Speculative Buy)** roughly a year ago and since our initiation of coverage report a great deal has transpired as the Company has evolved from its reliance on wireless service offerings to a becoming full-fledged fintech and retail supply chain provider. Leveraging its proprietary SaaS (Software as a Service) blockchain technology platform, Surge entered into key strategic relationships designed to foster swift and deep penetration of its key target markets, which should result in unmatched industry top-line growth, beginning in late 2019. Moreover, we believe that this quarter will serve as the key inflection point for revenue growth as if a starter's pistol has been fired as marketing and sales teams are hitting the ground hard in Q3, with respect to both service and product offerings for its C-store/independent retailer clients, manufacturers, and consumers.

Surge Model: The Big Picture

SurgePays™ Retail Blockchain Network is a first-in-kind fintech network connecting independent retailers, manufacturers and consumers. As the first company to truly tie these three specific components of the food chain together, we view Surge as a unique combination of financial transactions clearinghouse and service/product marketplace for huge, underserved institutional, small business, and niche consumer markets. The Company's approach improves and enhances operations and profits for retailers, provides previously inaccessible broad-scale distribution for manufacturers, and improves the quality of life directly and indirectly for its consumers. Moreover, with each new store deployment or new product/service introduction, the Company is creating additional value for its each its targeted segments and its shareholders.

Retail: Surge has solved key operational issues plaguing the independent C-store/bodega owners. By joining the *SurgePays™* network, these operators do not have to deal with dozens of vendors, many of them hawking sub-par products. Plus, these operators now have access to in-demand, high-margin, niche products, and by using the efficient blockchain platform, Surge empowers the business owners buying, inventory management, and fulfillment capabilities. Moreover, with services such as wireless programs and handsets, pre-paid Visa cards and other, future offerings, the convenience store owner can raise his "game" and foster greater loyalty among its customers.

Manufacturers: Any and all manufacturers desire to obtain maximum customer reach, growth and sales efficiency. Instead of spending large sums on a sales force or a enduring a meaningful reduction in margins through the use of distributors, manufacturers can join the *SurgePays™* network for order processing, fulfillment, sales, and other features in exchange for a reasonable fee and reach tens of thousands of targeted-demographic locations through a single point, or relationship with Surge.

Consumers: Surge intends to become the country's leading provider of financial, wireless, technology, and in-demand, niche consumable offerings to the unbanked, the under-banked, immigrant, and credit-challenged. Surge is poised to achieve this objective by selling through its *SurgePays™* network of convenient stores and through online digital marketing. Over 73 million US consumers utilize no contact wireless services, 63 million are unbanked or underbanked and essentially half of all Americans carry subprime credit scores. Surge now can

provide these consumers with access to life-enhancing products/services, varied product choices versus limited traditional bodega-type inventory options, and the opportunity to utilize convenient, low-cost digital services.

Surge generates a monthly fee per retail store for its usage of the *SurgePays*[™] platform along with a percentage of fees (or in some cases all fees) related to services and products procured, or funds loaded onto and transacted via the Visa Pre-Paid Card by the consumers. Manufacturers pay Surge a flat fee and a percentage of its sales per store as well. As a result, there are multiple customer categories generating recurring and transaction-based revenue, which only increases as more stores, products and services are on-boarded. It is important to note that while Surge generates greater fees for its branded products, its approach is brand-agnostic, which only serves to create loyalty and greater market penetration, as revenue will be generated by the Company, regardless of the product.

Business and Revenue Drivers

In our view, investors should focus attention on three primary revenue drivers, in addition to its core wireless business. These are the AATAC partnership, the launch of the *SurgePays*[™] Visa PrePaid card, and manufacturer relationships. As evidenced below, the AATAC relationship will drive deployment and sales, going forward.

AATAC: In late 2018, Surge entered into a strategic partnership with AATAC, one of the nation's largest private trade associations spanning over 110,000 stores across the US. Over the past several months, Surge and the AATAC teams have been working very closely on managing deployment properly and ensuring the necessary infrastructure is in place for optimum efficiency and revenue. The initial contract calls for a rollout of the Company's *SurgePhone*[™] Wireless and installation of the *SurgePays*[™] Retail Blockchain Network in 40,000 AATAC locations. This deal assumes a minimum value of \$17.5 million in initial purchase orders, and we believe future orders will be meaningfully higher.

At present, the parties' objective is to complete 3000-4000 installations per month going forward, which we believe is ambitious. Our take is that it will take through most of 2020 to complete the initial 40,000 installations. In addition, *SurgePays*[™] will sign exclusive contracts with other manufacturers utilizing AATAC for refill orders after the initial install.

Even at \$1500 in revenue per store, once fully deployed in 40,000 locations, Surge could generate \$60 million in transactional revenue, and with a potential gross profit target of around 20%, the Company would generate a substantial \$12 million in gross profit per month. This figure could rise depending upon the activity consumer generate via the *SurgePays*[™] Visa PrePaid card.

SurgePays[™] Visa PrePaid Card: Officially launching this quarter, management is utilizing a clever methodology with respect to the prepaid card by introducing an opportunity for consumers to obtain a second, personalized card. The value of the prepaid card to consumers is enormous---and this demographic is begging for a sound option. This is particularly the case with immigrant customers who do not have bank accounts or pay huge remittance and other fees such as through Western Union to send money abroad or pay for services/utilities. By offering a second personalized card, along with a high-end feature-set, these cards could serve as a quasi-bank account or go-to payment system for users, thus driving as much as \$20/per card/month/user in fees. The

average fees will be dependent upon the amount loaded and we will have a better idea of these figures and expectations later in the year. At present, 25,000 cards loading \$1750/month would generate \$6 million in annual revenue and fees to Surge. In our view, this figure represents low, initial, near term run-rates.

Manufacturers: Companies like Weekend Warrior and Pastime Foods may elect to join the *SurgePays*[™] network and enable order fulfillment and payment on the Company's network. Given that the likely sales per month would dwarf the Surge-centric sales, we believe upside exists in overall *SurgePays*[™] fees. In fact, with the future addition of other manufacturers/partners utilizing *SurgePays*[™] the average revenue per store could ultimately be at the high end of our \$1500-3500 estimated range in the next 12-18 months. Considering it is likely that Surge will continue to sign on new manufacturers such as Weekend Warrior and Brimhall Foods, any new products bolted on represents more fees and meaningful profit---given the SaaS structure.

Wireless: Long the flagship business of the Company, True Wireless will eventually be the legacy and previous core of the Company. Surge is now transitioning sales resources to *SurgePhone*[™] *Wireless* to eliminate reliance on government subsidies and replace it with ad revenue which could unlock a nationwide market opportunity. With the AATAC deal in hand, management expects that as many as 100,000 service plans @ \$10/month for *SurgeWireless*[™] equates to \$12 million in sales and as much as \$8 million in gross profit.

What's New...



In recent weeks, Surge has signed on two niche manufacturers which should serve as a great product offering for its retail clients and in turn, their customers. Both companies sell products geared toward this demographic. One agreement calls for the Company to distribute BRIM'S snack foods through the *SurgePays*[™] Retail Blockchain Network. Established in 1979, Brimhall Foods is a leading manufacturer and distributor of quality snack food items throughout the Southeast under the BRIM'S brand. As Surge CEO Brian Cox noted, "BRIM'S has been one of the most recognized brands in the

Southeast over the past 30 years and we are honored to launch our first 15 BRIM'S products in the Bagged Snacks Category on the *SurgePays* network. Helping an established regional manufacturer expand into new markets nationwide is a significant component of our business model and overall strategy. "

Surge also signed an agreement with Weekend Warrior Wellness, a brand of Contigo Products, LLC, to distribute its '5-Hour Hemp Energy Shots,' 'Energy Mints with CBD' and 'Mint Strips with CBD' through the *SurgePays*[™] Retail Blockchain Network. The impact of the agreement is already being realized, with Weekend Warrior Wellness products already shipped that are expected to generate revenue of approximately \$275,000, and further products shipping next week that are expected to generate an additional \$260,000 in revenue.

Separately, management is planning an uplist to NASDAQ in the coming quarters. Such moves are typically very good in the long run for companies enjoying outsized growth and performance. However, such moves can be bumpy in the early going as investor awareness may not be high. Still, such contemplation should provide comfort

to shareholders that the Company strongly believes in what the future holds and that real value has yet to be unlocked.

By the Numbers

Until Surge has a history of *SurgePays*[™] fees and analytics related to the Visa prepaid fees, accurately projecting top-line contributions is difficult. Still, in our view, it is just a question of timing of AATAC deployments/installations first and the related, subsequent data analytics second to produce tight pro formas. As a result, investors should view Surge forecasts as an order of magnitude of the Company's tangible potential along with deployment/revenue milestones, rather than poring over quarterly data through the balance of the year.

Our current forecasts call for 2019 revenue of \$25 million with a loss of \$5.2 million, as funds are expensed to complete the rollout as quickly as possible. This model assumes 10,000 – 20,000 AATAC locations are installed with the bulk of revenue from this channel recorded in 4Q19. However, in 2020, we anticipate the completion of the 40,000 AATAC installs by the second half of the year along with recurring revenue from all locations beginning sometime in 3Q20. Clearly, our \$104 million top-line estimate reflects roughly one-third contribution from the Visa prepaid, one-third from *SurgePays*[™] and the balance from other business lines. Net income of \$18.3 million and EPS of \$0.06 reflect margin expansion and could be higher if the tax rate is reduced. For 2021 our preliminary estimates include \$205 million in sales and \$51.3 million in net and \$0.15 in EPS. Frankly, this number may be too low; if more stores or manufacturers are on-boarded, or Visa holders and usage rise, the sales figure could approach \$300 million. It is interesting to note that as the Company moves forward it will be less and less a wireless play and more a fintech and retail supply chain play on huge, untapped markets. This status should have a very positive effect on the stock's valuation.

Our 12-month price target remains \$3.25 and reflects roughly 4.8x 2021P sales and 22x EPS. If the Company begins to record 2020 traction that is greater than our forecasts, it is possible that our target price is conservative and we would not be surprised if Surge then becomes an acquisition target. One interesting publicly traded comparable, **SPS Commerce Inc. (NASDAQ - SPSC - NR)** also specializes in retail supply chain management and boasts 80,000 customers. It currently trades 6x 2020 sales and over 40x EPS---with similar margins but much slower sales growth relative to our estimates for Surge. It is possible in the next couple of years that an acquirer in this space (such as SPSC or other supply chain, SaaS, or other cloud-based fintech companies) would be interested in the Company as a buyer could buy unique market share and leverage in one fell swoop.

INDUSTRY SNAPSHOT: UNTAPPED DEMOGRAPHICS

Too often, businesses and investors focus on high-end technologies, narrow, high-end markets, or even the perceived "mass market". In contrast, Surge Holdings' multi-billion-dollar target market remains the underserved, underbanked, credit-challenged consumer along with the businesses that, not coincidentally, are themselves underserved.

The Consumers

Surge Holdings' target market tends to skew towards low income consumers; some may be older or foreign-born and live in both rural and urban communities. Despite these variables, the purchase of goods and services, along

with payment processing remain key common threads among this group. Typical characteristics of this demographic:

- Utilizes no contract wireless service providers
- May not have a checking account and/or credit card
- Conducts business (pays bills, buys goods/services) in the same retail location multiple times weekly

In this demographic, business is often transacted via cash, money orders, prepaid debit cards, and decentralized, service provider-based systems. Over 73 million US consumers utilize no contact wireless services, 63 million are unbanked or underbanked and essentially half of all Americans carry subprime credit scores.

The Businesses

Quantifying the size of the retail opportunity for Surge is challenging—due to its sheer size, as each store could be worth \$1500 - \$3500 per month in revenue to the Company. Considering the company is largely targeting ISOs (independent sales organizations), which include corner/small grocers, ethnic stores, wireless businesses, convenience stores, gas stations and the like, the number is likely north of 300,000. Below is a high-level view of the market opportunity, at the business level.

Business Opportunity Snapshot

Convenience Stores: 154,535; 122,522 selling fuel (Source: 2017 NACS industry report)

Ethnic Stores: 44,751 (Source: 2017 IBISWorld industry report)

Wireless Dealers: 30,000 independents (Source: NWIDA)

Sub-Total:	229,286 (excludes other corner grocers/bodegas)
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Telecom Services

In the wireless communications world, we often think of iPhones, Android smartphones, high-end features and functionality. While these phones and post-paid (contract) services with the “Big 4” dominate our perceptions of the market, the 73 million users beg to differ. These customers are cost-conscious and convenience-centric in their buying and paying habits. Thus, branding and a broad array of features beyond talk, text, and certain data levels are not key selling points.

Infrastructure

Much like the unbanked and underbanked are largely underserved by providers, the targeted businesses do not always have access to an integrated, broad-based PoS (point of sale) offering. As a result, they often use disparate systems for various merchant services such as bill payments, product purchases, inventory control and fulfillment, etc. To this end, leading payment processing companies tend to dominate the space. However, they tend to be hardware-based and require multiple machines and systems, with varying fee structure. In our view, the market is actively seeking a comprehensive, all-encompassing, user-friendly offering that aids in product sales and service fees. Enter Surge Holdings.

THE SURGE DIFFERENCE

The Company operates through a variety of subsidiaries. Below is a breakdown of the key divisions. Telecom, Fintech, Blockchain/SaaS, and Digital Media.



SurgePhone offers discounted talk, text, and 4G LTE data wireless plans at prices that average 15% – 40% lower than competitors. (Unlimited plans start at just \$10/mo) Available nationwide.

True Wireless is licensed to provide subsidized wireless service to qualifying low income customers in 5 states. Utilizing all 4 major USA wireless backbones, True Wireless provides discounted and free wireless service to over 60,000 veterans and other qualifying federal programs such as SNAP (EBT) and Medicaid.



**SURGE
VOLT 5XL**



The Surge Volt 5XL is a Google Certified Android manufactured specifically for providing the lower income market with a low-cost android with a large 5" screen, 8 GB and a powerful quad-core processor. The Volt 5XL is the perfect vehicle to bring customers into the Surge ecosystem and become the hub for customers to receive the full suite of Surge FinTech products and services. Also, by controlling the software on the handsets, Surge is

able to preload and market related Surge products and services for significant additional revenue streams while at the same time monetizing and rewarding the activity of Surge customers (Surge Rewards Program) to further encourage longer term, more loyal and profitable customer relationships.



SurgePays™ Visa® Prepaid Card will be launched in the third quarter of 2019. This card will provide and perform vital functions for the unbanked or credit challenged population. The card will be distributed through the *SurgePays™* network by having cards located in retail locations on J-hooks (similar to gift cards). The customer

will be able to load cash on the card through the *SurgePays™* 2.0 at all Green Dot retail serving locations. Also, the customer will have the option to go online and apply for a personalized card. This personalized *SurgePays™* *Visa® Prepaid Card* offers safety, security, convenience and, empowerment for customers as they enter the digital age. Customers will be able to access their accounts from the connected app to remit money to friends and relatives while avoiding costly fees. In addition, customers will be able to take a picture of their paycheck and load the cash directly onto their cards (eliminating costly check cashing fees). There are a number of revenue streams built into the *SurgePays™* *Visa® Prepaid Card* including interchange portions of the merchant transaction fees, ATM withdrawal fees, convenience fees and, additional fees.



SurgePays™ Portal is a multi-purpose software interface for convenience stores, bodegas and other corner merchants providing goods and services to the underbanked community. The merchant or clerk is able to use the portal – similar to a website – with image driven navigation to add wireless minutes for any carrier, pay bills and also load debit cards etc. What makes *SurgePays™* unique is that it also offers the merchant access to order wholesale goods

through the portal with one touch ease.

The traditional distribution model has changed....companies can no longer afford to send salespeople pulling doors to promote their individual products. This keeps a variety of new and profitable products out of the reach of corner stores while locking manufacturers and distributors to regional sales only. *SurgePays™* is essentially an e-commerce storefront that enables manufacturers and distribution companies to have access to a nationwide network of merchants while empowering these stores to purchase lower cost goods and services. *SurgePays™* cuts out the middleman and therefore can pass along discounts which further makes *SurgePays™* a significant profit partner for both the Manufacturer/Distributor and the Merchant.

The goal of the *SurgePays™* Portal is to provide every Fintech and Telecom product available to convenience stores, corner markets, bodegas, and supermarkets while procuring other consumable products commonly sold in these same stores.

Surge Logics is a full-service digital advertising agency, specializing in lead generation, Pay Per Call, landing page optimization and managed ad spending. Our primary media buying platforms are Google AdWords, Facebook, Instagram and Bing, with having managed over \$15,000,000 Facebook and \$100,000,000 on Google alone. We have a call center that can handle Live Call Transfers, Customer Service Support, Lead Verification and Attorney Case Support. Our certifications are in Google Search and Display.



CenterCom Global BPO (CenterCom), founded in 2017, is a nearshore (bi-lingual) business process outsourcing firm that provides a broad range of business support services. CenterCom is a member of the Glass Mountain Holdings LLC network and is affiliated with

Glass Mountain Capital LLC (a national accounts receivable management agency). The CenterCom operations

center is located in El Salvador and its network affiliates are located in Chicago, IL, Las Vegas, NV, Oklahoma City, OK and Memphis, TN.

Competitive Advantages: SurgePays™

Surge Holdings is reinventing the retail supply chain by empowering independent retailers as profit partners to access products and services through the™ proprietary network. This unique, proprietary, and secure blockchain fintech software platform transforms the traditional supply chain by providing a virtual marketplace for retailers to access global products. As a result, the merchant can efficiency through 1-click ordering via the wholesale product portal. Plus, profitability can be increases on all products through the network by eliminating the middleman--distributors and creating a more efficient supply chain. Advanced data analytics can further improve operating efficiencies.

Competitive Advantages: SurgePays™ Visa

The *SurgePays™ Visa® Prepaid Card* can serve as a virtual checking account for the unbanked, underbanked, credit challenged or those unable to access traditional financial services. Customers can purchase and reload the *SurgePays™ Visa® Prepaid Card* at retail stores as well as accept direct deposit from employers directly to *SurgePays™ Visa® Prepaid Card*. Plus, card users can take a picture of their paycheck and load the cash to their cards thereby eliminating check cashing fees. Users can also access accounts from the *SurgePays™ Visa® Prepaid Card* app on their mobile device and allocate money to friends and relatives locally and internationally while avoiding costly transfer/remittance fees.

Competitive Advantages: SurgePhone™ Wireless

The Company offers high value wireless plans and lowers monthly costs for consumers. In fact, *SurgePhone™ Wireless* offers the first completely free service plan option supported by ad revenue. (Surge anticipates ad/usage revenue of at least \$10/customer/month.) Customers can purchase a Google Certified Surge Android or choose the SIM Kit and use their own phone

SURGE HOLDINGS LEADERSHIP TEAM

Brian Cox, Chairman and Chief Executive Officer

Mr. Cox founded his first Telecom company from a spare bedroom in 2004. Brian grew the company organically and through acquisition to the largest privately-owned prepaid home phone company in the country. After selling the conglomerate in 2009, Mr. Cox transitioned to wireless and FinTech (Financial Technology). Brian has planned, funded, built and led multi-location organizations of over 1,400 people in regulated sectors while achieving well beyond \$100's of million in revenue in the private sector. Being a visionary that delivers and looking to leverage the expertise and knowledge of the unbanked market, Brian has set out to merge his companies into one single public entity with the specific goals of up-listing to a major exchange while continuing to build a high growth company offering a suite of reoccurring revenue products and services.

Anthony Nuzzo, President, Chief Operating Officer

Experience financial services entrepreneur; Mr. Nuzzo has owned and operated accounting services businesses and accounts receivables companies since 1991. Mr. Nuzzo heads up Glass Mountain Holdings LLC and its three network member companies: Glass Mountain Capital LLC., Malcolm S. Gerald and Associates, Inc., and a Near Shore Call Center. In 2008 ranked 21st in the U.S. within the Financial Services Industry by the Inc. 500 Fastest Growing Private Companies annual publication received the honor of Inc. 500 Fastest Growing Private Companies annual publication being Ranked 346 overall by Inc. In 2013 under the leadership of Mr. Nuzzo, Glass Mountain Capital, LLC was ranked 198 in the U.S. within the Financial Services Industry by the Inc. 500 Fastest Growing Private Companies annual publication received the honor of Inc. 500 Fastest Growing Private Companies annual publication being overall by Inc. Magazine annual publishing of the Top 500 Fastest Growing Private Companies in the U.S. REVENUE: \$6.9 Million.

David Ansanji, J.D., (MBA) – CAO - Chief Administrative Officer, Secretary

Mr. Ansani has a background in legal compliance, negotiation, finance, due diligence and audit. David is a corporate expert specializing in administrative back-office accountability while assisting in general business compliance aspects including mergers and acquisitions. He earned a Master of Business Administration in Strategic Management/Organizational & Managerial Behavior from the University of Chicago and Juris Doctor from IIT/Chicago-Kent School of Law.

John Mott, Chief Technology Officer

Thirty plus years of software development experience which includes a diverse skill set including an early operating systems programming background in C/C++ and Assembler. For the last 15 years John has focused on web technologies, C#, .NET, MVC, MSSQL, PHP/MySQL, JavaScript, AJAX, JSON and JQuery with the most recent focus on Blockchain technologies, Digital Assets and distributed ledgers with regards to real world applications.

Carter Matzinger, CEO Surge Logics

Mr. Matzinger is a results-driven entrepreneur for over 20 years focusing on the online and mobile marketing industry. He holds a deep insight into the world of online marketing, including content development, emailing, social media, and performance-based marketing such as CPA, PPC, and CPI. Carter's main area of focus is driving revenue through affiliates, leads, Google, Facebook, Instagram and Snapchat marketing and other revenue growth and expansion in the online ad network sector.

Brian Speck, Chief Financial Officer

Mr. Speck has been Chief Financial Officer of the Company since March 2018. Since late 2013, he has been Director of Financial Reporting for Brio Financial Group, which will also support the Company's ongoing financial reporting. In his capacity at Brio, he consults various private and public companies in financial reporting, internal control development and evaluation, budgeting and forecasting. Prior to joining Brio, from 2011 to 2013, he was an audit supervisor at Wiss & Company. In that capacity, he was involved in their accounting and tax practice

with industry focuses in manufacturing, wholesalers, construction contractors, and professional service firms. Mr. Speck has a Master of Science in Accounting from Kean University.

FINANCIALS

It should be noted that our forecasts for Surge are generally preliminary at this time, as we believe we will be better able to gauge the order of magnitude of sales ramps for the varying revenue categories around the turn of the year. As a result, our current projections could prove to be conservative.

Given the history and performance of just the True Wireless and digital media segments, investors should feel very comfortable with what view as a core, base revenue, separate from which fast-growing top-line performance will occur. For 2018 and 1Q19, True Wireless million generated \$12.8 million and around \$3 million in revenue respectively, with the balance spread across varying business lines. Surge as a whole recorded \$15.4 million in revenue last year (although True Wireless was profitable to the tune of over \$400,000). Total sales for 1Q19 were \$3.9 million and a loss of \$1.6 million as management elected to build out infrastructure ahead of the AATAC deployments.

Our current forecasts call for 2019 revenue of \$25 million with a loss of \$5.2 million, as funds are expensed to complete the rollout as quickly as possible. This model assumes 10,000 – 20,000 AATAC locations are installed with the bulk of revenue from this channel recorded in 4Q19. However, in 2020, we anticipate the completion of the 40,000 AATAC installs by 2H20 along with recurring revenue from all locations beginning sometime in 3Q20. Clearly, our \$104 million top-line estimate reflects roughly one-third contribution from the Visa prepaid, one-third from *SurgePays*[™] and the balance from other business lines. Net income of \$18.3 million and EPS of \$0.06 reflect margin expansion and could be higher if the tax rate is reduced. Still, we are modeling very healthy 17% operating margin. For 2021 our preliminary estimates include \$205 million in sales and \$51.3 million in net and \$0.15 in EPS, with operating and next margin exceeding 21%.

Frankly, this number may be too low; if more stores or manufacturers are on-boarded, or Visa holders and usage rise, the sales figure could approach \$300 million. It is interesting to note that as the Company moves forward it will be less and less a wireless play and more a fintech and retail supply chain play on huge, untapped markets. It all depends on the timing and magnitude of the deployments, sales, utilizations, and sales ramps. The key determinants are the exponential and sequential growth organic and inorganic growth rates.

Due to the absence of data trends, our top-line figures are based upon per store contributions and average Visa utilization and sign-ups, rather than a more comprehensive breakdown. As analytics become available, we plan to revisit our forecasts in the coming months.

RISK FACTORS

As stated previously, Surge's biggest risks relate to timing and the order of magnitude of sales and deployment/implementation, long with the product/service offering and prepaid utilization. Pricing in the space and the introduction of new or competing approaches and technologies could also adversely affect the value of

the Company's IP and hinder its business model efforts. Still, these risks are typical future concerns and are also consistent with firms of Surge's size and standing.

Volatility and liquidity are typical concerns for microcap stocks that trade on the stock market, especially those that are in the early stages of new business implementation. Finally, the shares outstanding of this stock could increase due to potential capital needs or to execute future acquisitions. However, since the proceeds of any future funding would be used in large part to advance exploration and development efforts, we believe that any dilutive effect from such a funding would be more than offset by related increases in market value. Management has already demonstrated it is adept and prudent with respect to such transactions.

Management is planning an uplist to NASDAQ in the coming quarters. Such moves are typically very good in the long run for companies enjoying outsized growth and performance. However, such moves can be bumpy in the early going as investor awareness may not be high.

CONCLUSION

Emerging fintech and retail supply chain solutions provider Surge Holdings is poised to generate outsized revenue and market share in large, underserved markets. The Company's approach improves and enhances operations and profits for retailers, provides previously inaccessible broad-scale distribution for manufacturers, and improves the quality of life directly and indirectly for its low income, underbanked consumers.

SurgePays™ Retail Blockchain Network is a first-in-kind fintech network connecting independent retailers, manufacturers and consumers. As the first company to truly tie these three specific components of the food chain together, we view Surge as a unique combination of financial transactions clearinghouse and service/product marketplace. Surge is on its way to installing its flagship blockchain offering in 40,000 stores affiliated with the highly regarded trade association, AATAC. We believe at least \$1500/mo. in revenue per store can be generated, once fully deployed.

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Surge Holdings, Inc.				
Pro Forma Projected Statements of Income				
(\$, thousands)				
	<u>FY18A</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21P</u>
Revenue				
SurgePays	\$0	\$4,000	\$60,000	\$130,000
SurgePhone/True Wireless	\$12,799	\$18,000	\$40,000	\$70,000
Other	<u>\$2,445</u>	<u>\$3,000</u>	<u>\$4,000</u>	<u>\$5,000</u>
TOTAL REVENUE	\$15,244	\$25,000	\$104,000	\$205,000
Cost of Sales	<u>\$8,570</u>	<u>\$16,250</u>	<u>\$60,320</u>	<u>\$110,700</u>
Gross Profit	\$6,674	\$8,750	\$43,680	\$94,300
<i>Gross Margin</i>	43.8%	35.0%	42.0%	46.0%
Operating Expenses				
Depreciation & Amortization	\$150	\$50	\$100	\$150
SG&A	\$8,060	\$14,000	\$24,960	\$43,050
Total Operating Expenses	\$8,210	\$14,050	\$25,060	\$43,200
OPERATING INCOME (LOSS)	(\$1,536)	(\$5,300)	\$18,620	\$51,100
<i>Operating Margin</i>	-10.1%	-21.2%	17.9%	24.9%
Interest Expense	(\$141)	(\$100)	\$500	\$700
Change in Value of Crypto, Der Liab	(\$99)	(\$100)	\$100	\$100
Settle.Gains & Gain on Assets Sale	\$316	\$100	(\$250)	(\$1,000)
PRETAX INCOME	(\$1,459)	(\$5,200)	\$18,270	\$51,300
Income Tax	8	10	\$1,827	\$7,695
NET INCOME	(\$1,541)	(\$5,210)	\$16,443	\$43,605
<i>Net Margin</i>			15.8%	21.3%
EPS	(\$0.01)	(\$0.02)	\$0.06	\$0.15
FD Shares Outstanding	277,000	277,000	295,000	300,000
Sources: Surge Holdings, Inc. and Goldman Small Cap Research				

RECENT TRADING HISTORY FOR SURGE HOLDINGS, INC.

(Source: www.StockCharts.com)





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Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. In addition to his work leading GSCR, Rob serves as the Director of Research for Marble Arch Research, Inc. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

ANALYST CERTIFICATION

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