

SURGE HOLDINGS, INC.

New Acquisition Accelerates Revenue Growth

SURG Could Emerge as CBD Industry's Most Important Channel

Rob Goldman
rob@goldmanresearch.com

October 31, 2019

SURGE HOLDINGS, INC. (OTC – SURG - \$0.27)

Price Target: \$3.25

Rating: Speculative Buy

COMPANY SNAPSHOT

Surge Holdings, Inc. is a retail supply chain company that provides 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 recently launched SurgePays™ Network. This retail platform is designed to transform the traditional supply chain by providing local retailers seamless access to global products and to empower 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 10/30/19	\$0.27
52 Week High – Low	\$0.94 - \$0.2562
Current O/S	95.3M
EST FD O/S	281.2M
Mkt Cap (Current Shares)	\$26.3M
Est. Average Volume (30D)	68,354
Exchange	OTCQB

COMPANY INFORMATION

Surge Holdings, Inc.
 3124 Brother Blvd, Suite 104
 Bartlett TN 38133
 Web: www.SurgeHoldings.com
 Email: invest@surgeholdings.com
 Phone : 800.760.9689

INVESTMENT HIGHLIGHTS

In July 2019, we liked SURG. Today, we love it. At current levels, there may be no better risk/reward offering than Surge Holdings, Inc. The stock has three things in its favor and each one on its own would serve as a major catalyst. Combined, however, and major stock gains are projected ahead. Thus, we reiterate our sentiment and \$3.25 price target on these shares. Here are three reasons to buy the stock.

New Acquisition is a Substantial Catalyst. The Company just announced an acquisition that will add roughly \$50M in annual revenue to SURG. Given the cross-sale opportunities, we believe that this segment's top-line could grow by 40-50% in its first full year, potentially taking it to the \$70-75M level in 2020.

Surge's "Multiplier Model" Translates into Exponential Growth. In our view, the best way to describe the core of Surge's approach is what we term the "Multiplier Model." The essence of Surge's capabilities is its inherent, exponential growth model. Top-line growth rises exponentially as new locations are on-boarded, and when new products/services are executed in existing or new stores through the Surge platform. Thus, revenue growth forecasts remain high.

The First National In-Store CBD Sales Channel? The sale of CBD products is one of the fastest growing and most popular consumer offerings and is limited only by the current lack of true, national, in-store availability. Through the Surge network of local retailers and C-stores, a primary sales channel for these products, Surge has just begun to offer products with strong results. The Multiplier Model targeting the introduction of the top CBD products will drive industry sales and add major revenue/profit growth to Surge.

FINTECH AND RETAIL SUPPLY CHAIN INNOVATOR

Surge Focuses on Small While Building Big

When investors think of fintech and retail supply chains, they think big. Big networks, big functionality, big banks, big retail and wholesale markets. When they think of fintech and supply chain management in the independent retail and C-store level they think old-style PoS, EDI, and feature-poor functionality. Surge, an innovator, is changing this sentiment in the industry and certainly on behalf of the retailers and regional/small product manufacturers and service providers. Moreover, its approach to deploying and scaling its offering and capabilities could lead to unprecedented growth in this segment for the Company, stores, and its product/service provider partners. After all, as a result of its latest acquisition and its key partnerships, Surge is in the early innings of offering multiple products, services, and fintech capabilities to nearly 50,000 stores and their customers, nationwide, with a path to service over 110,000.

The Acquisition

Earlier this month, the Company entered into an agreement with GBT Technologies Inc. (OTC - GTCH) to acquire the assets of their ECS Prepaid Business, Electronic Check Services business and the Central State Legal Services segment. Based on 2018 results, these businesses represent over \$48.7M in annualized revenue, bringing Surge's expected annualized revenue run rate to over \$60M million.

This transaction adds over 9,800 retail customer locations (and over 160 salesforce) to which the Company can now cross market its SurgePays Network products, SurgePays™ Reloadable Debit Card, SurgePhone Wireless and SIM Starter Kits. Over the coming months, management will integrate operations and infrastructure which will likely generate significant operating synergies, including the elimination of potentially redundant expenses, thus enhancing overall profitability.

The transaction enhances Surge's shareholders' equity, which is key as the Company moves toward its goal of listing on a national exchange. Surge Holdings paid \$5 million in consideration - 3,333,333 shares of Surge Holdings common stock and a \$4 million note. Given that the deal is closing this quarter, we estimate that \$10M+ in revenue will be recorded from the ECS deal this quarter, and that on a preliminary basis, ECS could account for \$70-75M in revenue next year.

The Multiplier Model

In our view, the best way to describe the core of Surge's approach to growth and wide-scale implementation in both a vertical and horizontal fashion, is what we term the "Multiplier Model." The basis of the Company's capabilities is inherent in its exponential, top-line growth model. Top-line (horizontal) growth rises exponentially as new locations are on-boarded, and when new products/services are introduced (vertical) and then penetrated into existing or introduced in new stores through the Surge platform.

Targeting large, underserved markets, Surge's offerings improve and enhance 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 fintech and retail supply chain provider.

On the front-end, retailers can offer in-demand products and services and financial capabilities to its customers while on the back end, can enhance their payments turnaround times along with the key blockchain and management platform functionality. Organizations like AATAC also serve as a purchasing group to improve pricing and order flow from the manufacturers. The manufacturers, particularly regional producers, can now broadly offer their wares through Surge's network which dramatically enhance their reach. Surge and its role as distributor can "cherry-pick" the top product and service providers in the greatest in-demand categories.

One great example is a recent agreement 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." Thus, AATAC and ECS locations benefit greatly from leveraging the opportunities laid before them in "joining the network."



Clearly, Surge is on its way to installing its flagship blockchain offering in 40,000 stores affiliated with the aforementioned and 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. Moreover, we believe that expansion into this segment will accelerate, beginning in the coming weeks.

The Best CBD Channel; Creative, Lower-Risk Play on CBD Market

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, as the products have been shipping over the past few months and are in high demand. Most CBD products are sold online and those that are sold in stores are typically available on a regional or local basis only and it does not appear that the large-scale, national availability has yet occurred.

Hemp-infused CBD products are very popular in C-stores, leveraging tobacco, energy, and other similarly categorized products. Thus, we believe that by broadening the CBD product manufacturers and adding multiple product types and SKUs, there is a real opportunity for Surge to offer a true, national platform that could

potentially reach more than 110,000 locations nationwide. As with other products, the Multiplier Model targeting the introduction of the top CBD products will drive industry sales and add major revenue/profit growth to Surge. And this model enables Surge to onboard the hottest products in the top-selling categories very quickly. From an investing perspective, clearly a channel with such a broad reach offers much lower risk and unique upside as a play on the growth of the CBD market, already one off the nation's fastest-growing consumer product segments.

LOOKING AHEAD

At present, we are suspending our financial forecasts, pending a closer review of ECS and the CBD opportunities over the next few weeks. With an estimated addition of \$70-75M from ECS alone, it is clear our next pro forma projections would be upward top-line and profit revisions to those found in our July 2019 report. Still, the core of our investment thesis has only been bolstered even higher by the ECS transaction along with management's strategy and traction with AATAC. Thus, we reiterate our sentiment and \$3.25 price target on these shares.

RECENT TRADING HISTORY FOR SURGE HOLDINGS, INC.

(Source: www.StockCharts.com)





SENIOR ANALYST: ROBERT GOLDMAN

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

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

DISCLAIMER

This *Opportunity Research* report was prepared for informational purposes only.

Goldman Small Cap Research, (a division of Two Triangle Consulting Group, LLC) produces research via two formats: *Goldman Select Research* and *Goldman Opportunity Research*. The *Select* format reflects the Firm's internally generated stock ideas along with economic and stock market outlooks. *Opportunity Research* reports, updates and Microcap Hot Topics articles reflect sponsored (paid) research but can also include non-sponsored micro-cap research ideas that typically carry greater risks than those stocks covered in the *Select Research* category. It is important to note that while we may track performance separately, we utilize many of the same coverage criteria in determining coverage of all stocks in both research formats. Research reports on profiled stocks in the *Opportunity Research* format typically have a higher risk profile and may offer greater upside. Since 2018, *Goldman Small Cap Research* was compensated by the Company in the amount of \$8800 for research services. All information contained in this report was provided by the Company via filings, press releases or its website, or through our own due diligence. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence. Analysts are compensated on a per report basis and not on the basis of his/her recommendations.

Goldman Small Cap Research is not affiliated in any way with Goldman Sachs & Co.

Separate from the factual content of our articles about the Company, we may from time to time include our own opinions about the Company, its business, markets and opportunities. Any opinions we may offer about the Company are solely our own and are made in reliance upon our rights under the First Amendment to the U.S. Constitution, and are provided solely for the general opinionated discussion of our readers. Our opinions should not be considered to be complete, precise, accurate, or current investment advice. Such information and the opinions expressed are subject to change without notice.

The information used, and statements of fact made have been obtained from sources considered reliable but we neither guarantee nor represent the completeness or accuracy. *Goldman Small Cap Research* did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company, or other firms. *Goldman Small Cap Research* relied solely upon information provided by the Company through its filings, press releases, presentations, and through its own internal due diligence for accuracy and completeness. Such



information and the opinions expressed are subject to change without notice. A *Goldman Small Cap Research* report or note is not intended as an offering, recommendation, or a solicitation of an offer to buy or sell the securities mentioned or discussed. This report does not take into account the investment objectives, financial situation, or particular needs of any particular person. This report does not provide all information material to an investor's decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Neither *Goldman Small Cap Research*, nor its parent, is registered as a securities broker-dealer or an investment adviser with FINRA, the U.S. Securities and Exchange Commission or with any state securities regulatory authority.

ALL INFORMATION IN THIS REPORT IS PROVIDED "AS IS" WITHOUT WARRANTIES, EXPRESSED OR IMPLIED, OR REPRESENTATIONS OF ANY KIND. TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, *TWO TRIANGLE CONSULTING GROUP, LLC* WILL NOT BE LIABLE FOR THE QUALITY, ACCURACY, COMPLETENESS, RELIABILITY OR TIMELINESS OF THIS INFORMATION, OR FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES THAT MAY ARISE OUT OF THE USE OF THIS INFORMATION BY YOU OR ANYONE ELSE (INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF OPPORTUNITIES, TRADING LOSSES, AND DAMAGES THAT MAY RESULT FROM ANY INACCURACY OR INCOMPLETENESS OF THIS INFORMATION). TO THE FULLEST EXTENT PERMITTED BY LAW, *TWO TRIANGLE CONSULTING GROUP, LLC* WILL NOT BE LIABLE TO YOU OR ANYONE ELSE UNDER ANY TORT, CONTRACT, NEGLIGENCE, STRICT LIABILITY, PRODUCTS LIABILITY, OR OTHER THEORY WITH RESPECT TO THIS PRESENTATION OF INFORMATION.

For more information, visit our Disclaimer: www.goldmanresearch.com