



March 10, 2020

SURGE HOLDINGS, INC.

(OTC – SURG)

Industry: FinTech/Supply Chain

Price Target: \$3.45

SURGE HOLDINGS, INC.

Raising Estimates and Price Target; Revenue Set to Jump by 300% in 2020 to \$109M with EBITDA Profit

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SURGE HOLDINGS, INC. (OTC – SURG - \$0.275)

2020 Price Target: \$3.45

Rating: Speculative Buy

COMPANY SNAPSHOT

Surge Holdings, Inc. operates the SurgePays™ Marketplace, a product sales channel that disrupts the traditional c-store supply chain model by providing independent and local retailers direct access to regional manufacturers from around the country. Surge leverages its wholly owned subsidiaries (value driven prepaid wireless and fintech products) to build relationships with convenience stores, bodegas, tiendas and community markets that serve the underbanked and unbanked - approximately 35% of the US population.

KEY STATISTICS

Price as of 3/9/20	\$0.275
52 Week High – Low	\$0.94 - \$0.11
Current O/S	103.3M
Mkt Cap (Current Shares)	\$28.4M
Est. Average Volume (30D)	74,620
Exchange	OTCQB

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

Surge Holdings, already a leading prepaid wireless provider, is poised to emerge as a major fintech and c-store product sales channel provider in 2020 and beyond. The Company is generating outsized revenue growth and market share in large, underserved markets.

Led by major top-line growth from the ECS acquisition and with meaningful store deployment inflection points around the corner, we have raised our forecasts and price target. These new estimates call for revenue to leap from \$29.1M in 2019 to \$109.3M in 2020 and \$237.8M in 2021, with EPS reaching \$0.03 in 2020 and \$0.23 in 2021. Our new 2020 target of \$3.45 reflects 15x 2021E EPS and 1.5x 2021E sales, and we expect the figure to move higher.

The SurgePays™ Marketplace Network is a first-in-kind fintech network that enriches the entire B2B and B2C food chains. This network connects independent retailers, manufacturers while improving the quality of life for its low income, underbanked consumers.

Surge is on its way to executing new and recurring cross-sales via its ECS acquisition and broadly deploying its flagship fintech offering in tens of thousands of stores, including those affiliated with the highly regarded AATAC. Eventually, we believe at least \$1500/mo. in revenue per store can be generated, once fully deployed.

Additional, potential valuation catalysts lie ahead. A major fintech/supply chain peer trades 31x next year's EPS, indicating the current valuation has a lot of room to move higher. Management plans to up-list SURG to NASDAQ which would also serve as a valuation catalyst.

A SURGE IN REVENUE IS UNDERWAY

With a Return to its Roots, Marketing Leverage Drives Growth

Since our update on 10/31/19, we have conducted additional due diligence which included refining and updating our financial model and expectations. This review has given us a great deal of confidence that substantial top-line and operating line growth is set to occur this year and going forward, prompting an upward revision to our projections and our 2020 price target.

Surge's roots were entrenched in the telecom services market, where it historically enjoyed growth and profit. Leveraging the huge opportunity in the untapped low-income market by introducing a platform for targeting the unbanked and underbanked, the Company sought to generate outsized growth by becoming a full-fledged fintech and c-store product sales channel provider, by building on its wireless business. Through its proprietary SaaS (Software as a Service) blockchain technology platform, Surge entered into key strategic relationships such as AATAC which brought major revenue potential of 40,000 c-stores. The initial contract calls for a rollout of the Company's *SurgePhone*[™] Wireless and installation of the *SurgePays*[™] *Marketplace Network* in 40,000 AATAC locations. This deal assumed a minimum value of \$17.5 million in initial purchase orders, with future orders expected to be meaningfully higher.

To date, AATAC conversion and penetration has been a bit slow which is not uncommon in third party relationships. However, we believe an acceleration in penetration and business is likely to commence in mid-2020. This catalyst, or turning point, can be attributed to, in part, the September 2019 acquisition of ECS. With 9,800 stores under its direct sales umbrella, Surge has the unique opportunity to build the same sales blockchain and telecom product offerings that it will use through AATAC, which will offer a broad basket of services and products. Moreover, these 9,800 stores represent a cross market opportunity for its *SurgePays*[™] *Marketplace Network* products, *SurgePays*[™] Reloadable Debit Card, *SurgePhone* Wireless and SIM Starter Kits. With AATAC, the potential for the sale of new offerings is even greater per store, given the broad, diversified product potential.

Thus, in order to blitzscale its SaaS platform in tens of thousands of c-stores and tiendas/bodegas, Surge has built a large telecom revenue and customer base which will enrich store owners, regional manufacturers, and their customers with access to greater revenue and retail offerings. Surge is one of the few companies targeting these large, underserved markets, which is a major differentiator and positions Surge as one of the few pure plays on these segments.

The Multiplier Model

In an era where fintech and supply chain valuations are on the rise, only Surge is focused on the independent retail and C-store level where the Company can improve the back-end systems while featuring its own offerings along with those services and products sold by regional/small product manufacturers and service providers. The approach to deploying and scaling its offering and capabilities from telecom services to a broad basket (due to its huge store and customer reach) should 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.

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™ Marketplace 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 play on a huge, underserved market.

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. Moreover, we expect that Surge will introduce its own products, including white label CBDs and others, which will enhance margins.

By the Numbers

As illustrated in the table below, 2020 sales are expected to be dominated by wireless revenue, top-line growth from 2019 to 2020 will be huge for the *SurgePays™* business and will begin to serve as the primary revenue segment for Surge, beginning in 2021. Given The Multiplier Model, it is possible that our forecasts are conservative, depending on how quickly stores are on-boarded and new offerings are introduced. We should note that ECS revenue for 2019 is accounted for in 4Q19 only but is expected to enjoy meaningful top-line year-over-year growth in 2020 and 2021. We project that some of the ECS business could begin to taper off in 2021/2022 as customers migrate to in-house, higher margin, wireless service offerings. Such as Surge Wireless.

As noted in an early 2020 press release. Full-service digital agency Surge Logics is enjoying impressive growth and the expectation is that it could generate around \$1 million per month this year. Leadership has positioned the segment as the go-to source for media marketing on behalf of law firms leading high profile, mass tort lawsuits. Our forecast suggests solid annual revenue increases going forward. Considering its growth rates and above-average gross margin (as compared with lower margin prepaid wireless revenue), and that this segment is a big profit generator but not core to the Surge story, we would not be surprised to see Surge Logics spun off to shareholders in the future. A back of the envelope calculation leads us to believe that this unit could be worth tens of millions to Surge in a year's time.

Still, the crown jewel here is the *SurgePays™ Marketplace Network* segment, which in addition to serving as the primary revenue growth driver also raises gross profit for Surge, as it comprises a larger percentage of overall sales. We maintain a conservative store deployment and customer penetration stance. While the target revenue per store for the *SurgePays™ Marketplace* is \$1500 per month, our model assumes that it will take several quarters to achieve this figure and that while tens of thousands of stores will be on-boarded from 2020-2022, it could take 1-2 years to achieve the target figure. Thus, we believe that the near-term average will likely hover around the \$500 mark after the first 6 months and believe that the Marketplace-based revenue will begin to comprise the largest portion of sales in 2021. At present, we forecast that Surge will end 2020 with over 15,000 stores on-boarded and the significant per store revenue generation to occur in 1H21, along with an acceleration of store platform implementation.

Table I. Surge Holdings, Inc.
 Projected Sales Breakdown
 (\$ USD, 000)

	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>	<u>FY22P*</u>
True Wireless	\$4,400	\$10,900	\$18,500	\$20,000
ECS Prepaid	\$12,000	\$60,000	\$72,000	\$82,000
SurgePays	\$5,900	\$24,000	\$128,000	\$231,000
Surge Logics	\$6,300	\$12,400	\$15,300	\$18,000
Other	\$500	<u>\$2,000</u>	\$4,000	\$7,000
TOTAL SALES	\$29,100	\$109,300	\$237,800	\$358,000

* Denotes Preliminary
 Sources: Surge Holdings, Inc. and Goldman Small Cap Research

Better Results, Higher Target

As noted above, the ECS acquisition, combined with the mid-year SurgePays™ catalysts, have prompted us to revise our forecasts upward, along with our 2020 price target. We now project 2019 revenue of \$29.1M, up from \$115.2M, previously. For 2020, we now estimate \$109.3M, versus \$104M, although margins will be lower to reflect the ECS prepaid margins. For 2021 we estimate \$237.8M in total revenue as compared with the prior \$205M revenue target. Our EBITDA and EPS expectations are \$4M and \$0.03 for 2020 and \$31.2 and \$0.23, respectively. It should be noted that our estimates could provide to be conservative as greater revenue per store and/or an acceleration in store on-boarding is in the cards. Our new 2020 target of \$3.45, up from \$3.25 reflects a 15x P/E on our \$0.23 FY21E EPS estimate and 1.5x our 2021E \$237.8 revenue forecast.

As the Company moves forward it will be less and less a wireless play and more a fintech and c-store product sales channel play on huge, untapped markets. This status should have a very positive effect on the stock's valuation. Thus, we believe that an increase in valuation will occur in 2021, thus raising both Price/Sales and Price/Earnings multiples by as much as 100%.

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 roughly 5x 2020 sales and over 30x 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.

Against this backdrop, management plans to up-list the stock to NASDAQ in the coming quarters. Considering all of these factors, we believe that Surge's current share price represents a very attractive entry point. We rate these shares Speculative Buy.

THE SURGE MODEL: A PRIMER



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 *SurgePays™ Marketplace Network* 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 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 provides these consumers with access to life-enhancing offerings, 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 the wireless business (ECS and Surge Wireless), new service/product introductions in this market, cross-sales into the ECS channel, AATAC on-boarding, manufacturer relationships, and Surge Logics performance.

ECS: This late 2019 transaction adds over 9,800 retail customer locations (and over 160 salesforce) to which the Company can now cross market its *SurgePays*[™] *Marketplace Network* products, *SurgePays*[™] Reloadable Debit Card, SurgePhone Wireless and SIM Starter Kits, along with new services. Management has integrated operations and infrastructure which in 2020 will likely generate operating synergies, thus enhancing overall profitability.

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. Our take is that the Company will end 2020 with over 15,000 stores under its belt. Plus, *SurgePays*[™] will sign exclusive contracts with other manufacturers utilizing AATAC for refill orders after the initial install, along with a potential Surge white labeled product rollout in popular categories such as CBDs.

***SurgePays*[™] Visa PrePaid Card:** A wild card for Surge is the *SurgePays*[™] Visa PrePaid card. Fees could rise depending upon the activity consumers generate. 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.

Manufacturers: Companies like Weekend Warrior and Pastime Foods may elect to join the *SurgePays*™ network and enable order fulfilment and payment on the Company's network. Given that the likely sales per month will eventually dwarf the Surge-centric wireless sales, we believe upside exists in overall *SurgePays*™ fees. Surge will continue to sign on new manufacturers such as Weekend Warrior and Brimhall Foods, and any new products bolted on represents more fees and meaningful profit---given the SaaS structure.

Surge Logics: The success of Surge Logics reflects a recent expansion of initiatives including an investment in the development and launch of InTake Logistics, a proprietary intake management solution for law firms specializing in mass tort lawsuits. This growth also reflects the synergies of Surge's strategic equity stake in Centercom Global last year, which is having a sustained positive impact on revenue. This investment supports the Company's ability to rapidly scale the business, as Centercom provides sales support, outbound client qualification, reporting, database programming, software development, and other various operational support services for Surge Logics.

LEVERAGING 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 at least \$1500 and potentially as much as \$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 FAMILY

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.



In late 2019, 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 represented over \$48.7M in annualized revenue, and we project \$60M in revenue in 2020. 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.

SurgePays™ Visa® Prepaid Card provides and performs 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™ Marketplace 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™ Marketplace* 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. 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. The Centercom call center that can handle Live Call Transfers, Customer Service Support, Lead Verification and Attorney Case Support.



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.

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 Ansani, 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

Given the history and performance of just the True Wireless, ECS Prepaid and Surge Logics segments, investors should feel very comfortable with what view as a core, base revenue, separate from which fast-growing top-line performance from *SurgePays™ Marketplace* will occur. For example, we expect these three units to generate \$83.3M alone in 2020. This compares with \$15.2M as a whole for 2018 and our total \$29.1M revenue estimate for 2019 (which includes \$5.9M in *SurgePays™ Marketplace* sales).

Our current forecasts for 2019 revenue also include an EBITDA loss of (\$3.5M) and a net loss of (\$3.9M), or (\$0.04), reflecting investment in its *SurgePays™ Marketplace* operations, which were expensed to complete the back-end store rollout as quickly as possible. For the first nine months of the year, revenue was \$12.3M and we project that ECS Prepaid could contribute \$12M in 4Q19 alone.

For 2020, in which we anticipate the Company reaches its inflection point, revenue is projected to reach \$109.3M, with nearly two-thirds of revenue comprised of wireless-related top-line. As previously announced, \$12M is forecast for Surge Logics while *SurgePays™* should account for \$24M. This figure reflects over 15,000 *SurgePays™*-deployed stores. Due to the concentration of revenue, we forecast gross margin of 16%, with margins rising as the year goes on and *SurgePays™* enjoys a greater percentage of sales. EBITDA is slated to reach \$4M and EPS of \$0.03.

The 2021 year should generate outsized growth across the board, with revenue slated to reach \$237.8M in revenue and gross margin of 23%, thus boosting EBITDA to \$31.2M, a 13.1% margin. EPS is forecast to reach \$0.23. Interestingly, *SurgePays™* business is slated to reach \$128M, a figure higher than all of 2020. Our preliminary estimate of \$358M in sales, \$77M in EBITDA and \$0.47 in EPS for 2022 will likely be revised as we gain more clarity in 2H20.

Frankly, our 2020-2022 top-line figures may be too low; if more stores or manufacturers are on-boarded, or Visa holders and usage rise, the sales figure could approach \$150M for 2020, and \$300 million for 2021. 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. As analytics become available, we plan to revisit our forecasts in the coming months.

RISK FACTORS

Surge's biggest risks relate to timing and the order of magnitude of sales and deployment/implementation, along 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 up-list 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

Surge Holdings, already a leading prepaid wireless provider, is poised to emerge as a major fintech and c-store product sales channel provider in 2020 and beyond. The Company is generating outsized revenue growth and market share in large, underserved markets. Surge's approach enriches the entire B2B and B2C food chains. Surge enhances operations and profits for retailers, provides previously inaccessible broad-scale distribution for manufacturers, and improves the quality of life for its low income, underbanked consumers.

SurgePays™ Marketplace Network is a first-in-kind fintech network connecting independent retailers, manufacturers and consumers. As the first company to truly tie these components together, we view Surge as a unique combination of financial transactions clearinghouse and service/product marketplace. Surge is on its way to executing cross-sales via its ECS acquisition and broadly deploying its flagship fintech offering in up to 40,000 stores or more affiliated with the highly regarded AATAC. Eventually, we believe at least \$1500/mo. in revenue per store can be generated, once fully deployed.

We have raised our forecasts and price target. These new estimates call for revenue to leap from \$29.1M in 2019 to \$109.3M in 2020 and \$237.8M in 2021, with EPS reaching \$0.03 in 2020 and \$0.23 in 2021. Our new 2020 target of \$3.45 reflects 15x 2021E EPS and 1.5x 2021E sales, and we expect the figure to move higher.

Potential valuation catalysts lie ahead. A major fintech/supply chain peer trades 31x next year's EPS, indicating the current valuation has a lot of room to move higher. Plus, management plans to up-list these shares to NASDAQ which would serve as a valuation catalyst as well. Separately, considering its growth rates, above-average gross margin, and non-core status, we would not be surprised to see Surge Logics spun off to shareholders in the future. A back of the envelope calculation leads us to believe that this unit could be worth tens of millions to Surge in a year's time.

Table II. SURGE HOLDINGS, INC.
Pro Forma Projected Statements of Income
(\$ USD, 000)

	<u>FY18E</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>	<u>FY22P*</u>
True Wireless	\$12,799	\$4,400	\$10,900	\$18,500	\$20,000
ECS Prepaid	\$0	\$12,000	\$60,000	\$72,000	\$82,000
SurgePays	\$0	\$5,900	\$24,000	\$128,000	\$231,000
Surge Logics^	\$0	\$6,300	\$12,400	\$15,300	\$18,000
Other	\$2,445	\$500	\$2,000	\$4,000	\$7,000
TOTAL REVENUE	\$15,244	\$29,100	\$109,300	\$237,800	\$358,000
Cost of Sales	\$8,570	\$20,370	\$91,812	\$183,106	\$247,020
Gross Profit	\$6,674	\$8,730	\$17,488	\$54,694	\$110,980
<i>Gross Margin</i>	43.8%	30.0%	16.0%	23.0%	31.0%
Depreciation & Amortization	\$150	\$300	\$1,000	\$1,500	\$2,000
Sales, General, Administrative	\$8,060	\$11,923	\$12,500	\$22,000	\$32,000
Total Operating Expenses	\$8,210	\$12,223	\$13,500	\$23,500	\$34,000
EBITDA	(\$1,536)	(\$3,493)	\$3,988	\$31,194	\$76,980
<i>EBITDA Margin</i>	-10.1%	-12.0%	3.6%	13.1%	21.5%
Interest Expense, net	(\$141)	\$150	\$400	\$700	\$800
Change in fair value of deriv liab	\$4				
Change in fair value of LTC crypto	(\$95)				
Gain on Inv. Centercom	\$0	(\$71)	\$100	\$150	\$200
Gain/loss settlement of liab.	\$43	\$485	\$0	\$0	\$0
Gain on sale of assets	\$273	\$466	\$0	\$0	\$0
Total Other Expenses	\$76	\$488	\$500	\$850	\$1,000
Pre-Tax Income (Loss)	(\$1,459)	(\$3,981)	\$3,488	\$30,344	\$75,980
Income Taxes	\$82	\$0	\$0	\$5,158	\$22,794
<i>Tax Rate</i>	-5.6%	0.0%	0.0%	17.0%	30.0%
NET INCOME (LOSS)	(\$1,541)	(\$3,981)	\$3,488	\$25,186	\$53,186
EARNINGS (LOSS) PER SHARE	(\$0.02)	(\$0.04)	\$0.03	\$0.23	\$0.47
Wtd Avg. Current Shares Outstanding	81,567	99,000	105,000	108,000	112,000

*Denotes Preliminary

^ For 2018, Surge did not break out Surge Logics revenue.

Sources: Surge Holdings, Inc. and Goldman Small Cap Research

Table III. Surge Holdings, Inc.

Balance Sheet: 9/30/19

(\$ USD, 000)

Current Assets	
Cash & Equivalents	\$144
Accts Receiv (net allowances)	\$5,370
Note Receivable	\$222
Lifeline Rev from USAC	\$232
Customer Phone Supply	\$1
Prepaid Expenses	\$111
Total Current Assets	\$6,081
Non-Current Assets	
Property & Equip (less dep)	\$241
Intang Assets (less amort)	\$5,038
Goodwill	\$867
Inv in Centercom	\$249
Other long term assets	\$256
Total Non Current Assets	\$6,651
TOTAL ASSETS	\$12,733
Current Liabilities	
Accts Pay, accrued exp	\$5,305
Accts Pay, accrued exp (other)	\$453
Credit card liability	\$561
Loss contingency	\$40
Deferred Revenue	\$0
Derivative Liability	\$19
Operatng Lease Liab	\$20
Line of credit	\$913
Adv from related party	\$0
Notes payable, curr LT debt	\$513
Total Current Liabilities	\$7,823
Non-Current Liabilities	
Long term debt less current	\$1,322
Operating lease liab, net	\$176
Trade payables, long term	\$864
Conv Prom Notes, payable	\$4,233
Total Non Current Liabilities	\$6,595
TOTAL LIABILITIES	\$14,418
SHAREHOLDER'S EQUITY	
Preferred Stock	13
Common Stock	101
Retained Earnings	(\$7,693)
Treasury Stock	\$0
Capital Surplus	\$5,893
Other shareholder's equity	\$0
TOTAL EQUITY	(\$1,684)
TOTAL LIABILITIES & EQUITY	\$12,733

Sources: Surge Holdings, Inc. and Goldman Small Cap Research

RECENT TRADING HISTORY FOR SURGE HOLDINGS, INC.

(Source: www.Stockta.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. 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.

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