



October 27, 2020

IQSTEL, INC.

(OTC – IQST)



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Entry into New, High Growth Markets Prompts Major Increase in Value

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IQSTEL, INC. (OTC – IQST - \$0.067)

Industry: Communications, FinTech Services

6-Mo. Price Target: \$0.54

COMPANY SNAPSHOT

iQSTEL, Inc. is a US-based, Next Generation Communications and Fintech Services company with a presence in 13 countries. The Company offers a wide range of cloud-based, enhanced services to Tier-1 and Tier-2 carriers, corporate, enterprise customers and the retail market. Through its subsidiaries iQSTEL offers "one-stop-shopping". These offerings include international and domestic VoIP services, IP-PBX services, SMS exchange for A2P and P2P, OmniChannel Marketing, Internet of Things (IoT) applications, 4G/5G international infrastructure connectivity, and diversified blockchain-based platforms.

KEY STATISTICS

Price as of 10/26/20	\$0.067
52 Week High – Low	\$1.10 - \$0.03
Est. Shares Outstanding	78.2M
Market Capitalization	\$5.2M
Average Volume	608,234
Exchange	OTCPK

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

Based on its current valuation relative to its peer group and its entry into new, complementary high growth markets, IQST offers huge upside potential with limited downside risk. Recently launched offerings, new M&A and initiatives, and debt reduction should drive substantial interest and value in the stock.

IQST is a burgeoning leader in VoIP and SMS services in fast-growing emerging markets. Building its business largely through M&A, new Blockchain, IoT, and Fintech offerings should serve as major profit centers and revenue growth drivers.

IQST's business model is innovative and the Company is the beneficiary of current trends. These include 5G deployment, and the introduction of new iPhone. Plus, the global pandemic has prompted increases in SMS usage along with B2C fintech expansion.

Revenue is projected to reach \$42M in 2020, up from \$18M last year, with sales hitting \$60M in 2021 and \$80.7M in 2022. EPS of \$0.04 and \$0.13 are expected in 2021 and 2022, respectively.

Our price target of \$0.54, or nearly 10x the current price reflects a compelling valuation given that IQST trades at a substantial discount to its peer group. Our target reflects only 1x 2020E sales and 0.7x 2021E revenue and upside to our targets and metrics are in the cards.

COMPANY OVERVIEW

In our view, Florida-based **iQSTEL, Inc. (OTC – IQST)** may offer the greatest upside potential with the lowest downside risk of virtually any low-priced technology stock. Tracing its roots to 2008, the Company is evolving from a traditional telecom services holding company specializing in VoIP (Voice over Internet Protocol) services to a diversified Nex-Gen Communications and Fintech service provider. Recently launched offerings, new M&A and initiatives, and major debt reduction should drive substantial interest and value in the stock, given the compelling current valuation as compared with the expected revenue and EBITDA growth.

The View From 30,000 Feet

IQST essentially acts as a holding company for a number of subsidiaries offering in-demand, cloud-based, enhanced telecommunications and pioneering fintech services on behalf of carriers, corporate and enterprise customers, and the retail market. The Company focuses its efforts on the high growth emerging markets in Latin America, Africa, and Asia. IQST has grown virtually overnight through a series of majority-share acquisitions, adding high-growth, high-value capabilities for its targeted markets. Given its nimble structure and approach, IQST can grow these businesses and generate meaningful profit at the expense of larger players whose bloated infrastructures prevent their successes. Plus, IQST remains vertically integrated to foster tactical M&A of smaller firms that match its technology and customer roadmaps. This current environment has prompted industry divestitures and sales---a trend we believe will continue.

Today, the Company operates in 13 countries with roughly 55% of revenue generated from SMS (Short Message Service) and 45% from VoIP (Voice over Internet Protocol) services. Interestingly, by year-end, 6,000M messages will be sent and over 500M voice minutes will be terminated through or by 350 telecom operators, many of which are household Tier 1 and Tier 2 names, and key VARs (Value Added Integrators).

A Three-Headed Monster

While growing its core telecom services business via acquisition and organic growth, management had the foresight to take the next steps in the evolution of the industry: IoT (Internet of Things) and Fintech solutions. Judging by the Tier 1 players' early moves in these directions thus far, it is clear that we are in the early innings of a technology and fintech evolution. Going forward, these categories should dramatically increase IQST's revenue and profit, given the inherently higher gross margins.

On the IoT front, the Company has a subsidiary that offers an IoT Smart Gas Platform that offers the first automated (IoT) platform for smart management of LPG truck refills. Plus, IQST has a logistics solution for various industry segments that offers significant cross-sale potential. In Fintech, IQST has a blockchain technology and application platform enabling telecom customers to operate with greater efficiency and prevent fraud via its Mobile Number Portability Application (MNPA) and Settlement & Payment Marketplace. Most recently, IQST launched a FinTech Division with a B2C focus on the large and lucrative 272 million migrants market. Future offerings include a VISA Debit Card, remittance applications, bill payment and third-party funds disbursement, sending money via SMS, and more. All in all, IQST benefits from the current growth in e-commerce and mobile remittances due to the global COVID-19 pandemic, as well as the favorability of the telecom space given the attention paid to 5G deployment and the introduction of the new iPhone.

The Numbers and...

Leveraging its early 2020 acquisition of a SMS-centric entity folded into a new IQST-led firm, 2Q20 results illustrated huge sequential top-line growth along with meaningful net profit. For the full year, we project revenue will reach \$42 million, more than double the \$18 million recorded in 2019, and driven by the SMS business. At present we anticipate essentially breakeven operating results with a slight loss for the year of (\$0.03). We estimate revenue will jump to \$60.4 million in 2021 a roughly 44% rise, led by big SMS gains, along with the introduction of IoT and Fintech business. These new lines should double gross margin and result in net to IQST shareholders well in excess of \$2 million, or an EPS of \$0.04. For 2022, top line is forecast to reach \$80.7 million with EPS of \$0.13. It should be noted that these figures exclude any contribution from potential M&A in its core business or other technology and Fintech offerings.

...the Valuation

It doesn't take a rocket scientist to figure out that a company generating \$42 million in sales yet trading at a \$5 million market cap is a tremendous value. The kicker is that it offers substantial upside, not just value. Many of IQST's telecom service provider peers, including those dabbling in Fintech or IoT and other related verticals, trade at low price/revenue multiple. This is due to the underlying low top-line growth of the peers and firms with limited presence in the higher growth emerging markets. It should be noted that we believe IQST should trade at a premium to the multiples assigned its peer group due to its much higher growth rates (30-45% versus single digits), opportunity for inorganic growth, and ever-increasing profit margins due to the new product mix. Moreover, with a significant debt reduction executed in 3Q20, a meaningful reduction in common shares outstanding will have a positive incremental impact on the stock.

As illustrated in our Peer table on page 14, the price/revenue multiples for 2020 and 2021 are 1.2x and 1.1x, respectively. As part of our valuation analysis, we assigned a 1.0x price/revenue multiple for 2020 and 0.7x price/revenue multiple for 2021. By assigning a discount to the peer group multiples (due to the relative size of ISQT and focus on more volatile emerging markets), we arrive at a six-month price target of \$0.54. Our target valuation is affirmed by applying a 20x P/E multiple on the 2021 EPS forecast of \$0.04 which actually reflects an increase of 10% from our valuation forecast and excludes potential contribution from a reduction in the share count.

As attractive as this target may be, there is room for additional upside. This potential could be realized via an equivalent price/revenue multiple with the peer group, thus negating the valuation discount. In this scenario, a revised target of \$0.64 would be in the cards. Looking further out, if management achieves its goals, a share price in excess of \$1.00 in the next 12-18 months could be in the cards. Separately, we should note that industry events such as 5G deployment and the introduction of the Apple 12 iPhone are representative of underlying catalysts that bring attention and investment dollars to the telecom space. Clearly, IQST serves as a beneficiary of these trends.

THE IQSTEL EVOLUTION

As this report is more focused on new initiatives and positioning, along with valuation, we have elected to engage in a high-level view of the Company’s structure and service offering, with a more detailed overview of the key segments in future publications.

Initially a VoIP wholesale provider for Tier 1 and Tier 2 carriers, through a series of acquisitions, the Company is now 21st century cloud-based service provider now offering SMS, valued-added SMS services, IoT services, blockchain carrier payment solutions, and B2C fintech products and applications. Each of these offerings represents multi-billion-dollar market opportunities. Today, SMS and value-added SMS accounts for the largest segment of business and also carries a higher gross margin than the VoIP wholesale services. The major entrance into this segment occurred in the first half of 2020 with the acquisitions and full integrations of Global SMS and the SMS division of IoT Labs which provide SMS wholesale exchange services as well as A2P platforms services for carriers and corporate use.

The company is currently finalizing its IoT, Blockchain payment and Fintech solutions and expects to fully launch the businesses around the turn of the year and during 1Q21. It should be noted that the migration to a cloud-based system improves the integration of new clients and the addition of new client groups from any potential acquisitions.

By the Numbers

Today, the Company operates in 13 countries including Mexico, Panama, Colombia, Venezuela, Bolivia, Argentina, Spain, Italy, Austria, Switzerland, Armenia, and India. At present, an estimated 55% of revenue will be generated from SMS (Short Message Service) and 45% from VoIP (Voice over Internet Protocol) services in 2020. Interestingly, by year-end, 6,000M messages will be sent and over 500M voice minutes will be terminated through or by 350 telecom operators, many of which are household Tier 1 and Tier 2 names, and key VARs (Value Added Integrators). Importantly, 60% of all revenue is prepaid, aiding cash flow.



Figure 1: Sample IQST Customers
 Source: www.IQSTEL.com

VoIP

According to TeleGeography, the International Long-Distance traffic market size is estimated at \$13 Billion in annual revenue, with 552 Billion Minutes exchanged yearly. It is estimated that Wholesale Carriers have a 68% total market share, carrying over 375 Billion Minutes per year. In general, this segment is enduring some shrinkage in terms of pricing and usage due to the proliferation of apps such as WhatsApp, Facebook Messenger, and others. However, emerging markets remain robust. For example, Africa accounted for approximately 10% of wholesale traffic, but 33% of wholesale revenues.



Etelix.com USA LLC is a wholly owned subsidiary of ISQT that provides domestic and international long distance (ILD) services via VoIP to Latin America, Africa, Asia; 4G/5G International Submarine Fiberoptic connectivity, and IP-PBX services in US and Latam. Etelix provides International Long-Distance voice termination in the ILD Wholesale market through over 150 interconnections with the most important telecom players in the industry.

SwissLink Carrier AG is owned 51% by ISQT and the subsidiary provides domestic and international long distance via VoIP in Europe. One of Company's strategic line of actions is to expand the participation on the Asian and African traffic. Africa is currently the market representing a higher contribution to gross profit while Asia accounts for one-third of the termination traffic in the industry. Estimates conclude that 56% of the traffic terminating in Africa is originated from customers in Europe; while the corresponding percentage of traffic terminated in Asia is 37%. Based on these numbers the goal to expand the participation in the Asian and African traffic goes through establishing a strong presence in Europe.

In addition to focusing its efforts on strengthening its business in Latam, Africa, and Asia, management hopes to build deeper relationships with corporations and enterprises by offering unified communication and managed service programs, which are common in more developed markets. Unified communication represents a single platform for voice, messaging and other applications and is offered as a cloud service. Managed service programs enable customers to remotely monitor and service servers, desktops, and mobile devices, thus offering flexibility to implement new resources efficiently and inexpensively. Managed Services market is expected to grow from \$180.5 billion in 2018 to \$282 billion by 2023 according to Markets and Markets Research. Separately, a managed security service provider (MSSP) provides outsourced monitoring and management of security devices and systems. Common services include managed firewall, intrusion detection, virtual private network, vulnerability scanning and anti-viral services. Managed security services in the US market alone is expected to exceed \$45 billion by 2022. Thus, the Company seeks to expand its reach in key high growth markets via these new advanced applications and offerings. It is possible that future M&A could occur in these segments.

SMS



QGlobal SMS LLC is a 51%-owned subsidiary of IQST specializing in international and domestic SMS termination, with an emphasis on Applications to Person (A2P) and Person to Person (P2P) for the Wholesale Carrier, Government, Corporate, Enterprise, and SMBs markets. QGlobal SMS has a commercial presence in Europe, the US, and Latin America, with robust international interconnection with Tier-1 SMS Aggregators, ensuring its customers with high quality and low termination rates in 100+ countries.

According to a recent report by Transparency Market Research, the A2P (Application-to-Person) SMS industry is expected to surpass \$100 billion by 2030. The space is expected to experience continued noteworthy adoption in years to come, with 1.243 billion messages projected for year 2020. The ubiquitous nature of SMS ensuring maximum reach to customers has prompted marketers to switch to this communication channel. The steady inclination towards using SMS for marketing and other allied activities has been very effective and consequently been adopted by various industry verticals. Apart from that, SMS has also been adopted for security authentication purposes proving to be of high worth to BFSI vertical. Banks and financial institutions, as well as **Facebook (NASDAQ – FB)**, **Google (NASDAQ – GOOG)**, **Microsoft (NASDAQ – MSFT)**, and **Netflix (NASDAQ – NFLX)** among thousands of other uses SMS for security authentication purposes.

With the 2020 acquisition of QGlobal SMS IQST has quickly began to cross-sell services to the Company's existing client base. This business enjoys a gross margin of approximately 25% which will surely boost profit for IQST. It should be noted that this segment's Austin, Texas location specializes in the SMS traffic exchange between US and Mexico, while the Miami location is focused on the development of Latin America and the rest of the world.

As an example of the type of new business QGlobal SMS can land, recent deals with **China Mobile (NYSE – CHL)** and **Telefonica (Movistar) (NYSE – TEF)** are great examples. QGlobal SMS recently completed months long systems and network integration with these customers and more than 35 other carriers which provides insight into 2020/2021 business. Management noted that it expects to process over 550 million SMS messages monthly and that the completion of China Mobile and Telefonica integrations pushes SMS business to over 65% of revenues in the near term.

SMSdirectos is a Colombia based OmniChannel Marketing Service Provider for government, enterprises, small and medium business, as well as end-users. A great deal of cross-sale opportunities exists using SMS and other applications for marketing campaigns and promotions in the region and outside of Latin America.

IoT



IoT Labs is an IoT (“Internet of things”) value-enhanced developer. The company develops specialized proprietary and OEM devices for different industries that wish to use IoT and AI solutions for their assets. In addition to an inhouse software and hardware world-class development team, IoT Labs has agreements with 4G and Low-Power-WAN providers to offer world-wide connectivity for devices developed for its clients. Thus, it can provide a turn-key-solution via either an OEM agreement for devices and software, or a month-to-month service agreement. The company currently develops for end-users through direct solutions for corporate use, as well as white labels.

Its first product to market is a patented-pending LP gas tank measuring device called SmartGas®. This device is geared for US retail households using traditional LP gas tanks who wish to never again find out they ran out of gas by stepping into a cold shower or by not being able to turn on their stove before a meal and are dissatisfied with the current alternative of climbing onto their roof to check the meter. The Company’s product is a sensor and control chip that you mount on your gas tank in less than 30 seconds that converts your gas tank into an IoT connected device through The Company’s proprietary web portal and phone apps, allowing for constant monitoring, alerting, and refilling through The Company’s gas partners. This device can also be distributed via gas-tank manufacturers, distributors and even LP gas tank providers such as ConEd etc.

Unlike traditional gas monitoring services, The Company’s patent pending device works anywhere there is a radio signal and/or cellular connection, and once connected to the tank, can be left unattended for over 2 years without needing replacement.

In addition to the SmartGas product, IoT Labs MX is a full service IoT logistics solution, powerful enough to support the most sophisticated business operations, and affordable enough to empower virtually any application. This disruptive solution could be deployed worldwide and in a variety of industries utilizing varied applications. For example, a combination of IoT, SMS, geo-location, and blockchain or fintech solutions could be developed in the labs where we believe a number of innovations will be introduced in the coming quarters.

Blockchain Platforms



itsBchain LLC is a 75% owned subsidiary of iQSTEL Inc. and is in the final stage of development of a series of blockchain solutions aimed at using the blockchain ledger and smart contract solutions to enable more efficiency, quickness in execution and fraud-prevention in the telco industry. Specifically, the company is developing the Mobile Number Portability Application (MNPA) a solution that will enable users and carriers to transfer mobile phone numbers with just a few clicks, allowing users and carriers the ability to transfer retail users from one mobile carrier to another instantly.

Additionally, the company is finalizing a carrier-grade marketplace solution, Settlement & Payment Marketplace to procure payments between carriers for cross-traffic of VoIP, SMS, and data in real time as traffic is crossed between various carriers. This marketplace will allow for instant payment settlement as well as fraud prevention between carriers.

It should be noted that Tier 1 and Tier 2 carriers are exploring how to leverage and utilize blockchain ledger platforms, along with fintech solutions. A leading-edge 21st Century Enhanced Telecommunications Service Provider is pleased to report major progress continues with subsidiary itsBchain's blockchain-based Settlement and Payment Marketplace Platform. Cynopia developers have completed the initial blueprint phase of the Settlement and Payment Marketplace Platform are knee deep in Phase 1 which includes the smart contracts and preliminary clearinghouse for the platform. Once completed, the platform will go live concurrent with Phase 2 development ramp up in 1Q21.

Fintech

Separately, the proliferation of cryptocurrency transactions on leading platforms such as **Paypal (NASDAQ – PYPL)**, CashApp, and others, is setting the stage for a convergence of cloud-based telco services with blockchain and fintech. After all, the backbone is in the cloud, where all of these applications' databases and execution capabilities reside.

While the bulk of the Company's direct Blockchain efforts are on the B2B sector, its recent announcement regarding the formation of a new B2C Fintech division could serve as a major catalyst and value driver for IQST. According to Global X and Mauro F. Romaldini (TopTal), the Fintech industry is growing at an almost exponential rate with over \$500B in annual remittances and over \$1.5T in annual mobile payments.

This division is targeting the 272 million-strong migrant workers, which leadership knows well given its focus on emerging markets. Management has stated that the knowledge gathered over the years through its Telco

Division, along with strong customer relations with the large mobile operators around the world, has positioned IQSTEL to be the 'point man' between the immigrant end-user population and global telecommunications systems.

Migrants have specific financial management criteria that often cannot be met by the ordinary and readily available fintech products such as PayPal and Venmo. Even opening a bank account in a new country can be a challenge as many are often paid in cash.

New features will include remittance, such as the ability to send money domestically and internationally with low fees or via SMS using a customized SMS service. Bill pay will also likely serve as an early feature.

Just last week, IQST announced that it entered into a letter of intent (LOI) agreement with Payment Virtual Mobile Solutions LLC (PayVMS) to build a VISA Prepaid Debit Card service to enable IQSTEL clients to make purchases in stores and online, make cash withdrawals at ATMs or get cash-back when making a purchase, recharge prepaid mobile phone service (domestic and international), send money domestically or internationally, deposit funds into bank accounts, earn rewards and Digital Gift Cards, or complete Bill Payments and Remote Deposit Capture (RDC) by mobile phone.

PayVMS (Payment Virtual Mobile Solutions) is a software development and technology company founded by engineers to exclusively focus on the financial service industry to include e-commerce. PayVMS has worked with Visa, MasterCard, FIS Global, ACI, Mifos X, 3CInteractive, Transfer-To, Uniteller, TIGO, Stripe, Authorize.Net, Control Case, Asterisk, Cisco, A2Billing and Twillio. PayVMS uses a blend of industry expertise to provides both turn-key and fully customizable innovative payment solutions designed to meet the needs of retail and telecommunications companies providing access to the fastest growing segments in the financial technology (FinTech) industry.

Clearly, a great deal of cross-sale opportunities exist as IQST's business evolves away from pure telecom services.

EXECUTIVE LEADERSHIP TEAM

The Company's executive management team brings together more than 50 years of experience in the world of telecommunications.

Leandro Iglesias, Chairman, President, Chief Executive Officer

Before founding Etelix in year 2008, where he has acted as President and CEO; Mr. Iglesias was the International Business Manager at CANTV/Movilnet (the Venezuelan biggest telecommunications services provider). He held this position between January 2003 and July 2008, while the company was under the control of Verizon. Previous to his position in CANTV/Movilnet Mr. Iglesias was Executive Vice President and responsible of the Latin America marketing division of American Internet Communications (August 1998 – December 2002). Leandro Iglesias has developed a carrier for more than 20 years in the telecommunications industry with a particular emphasis in the international long-distance traffic business, submarine cables, satellite communications and international roaming services. He is Electronic Engineer graduate from Universidad Simon Bolivar and graduated from the

Management Program at IESA Business School. He also holds an MBA from Universidad Nororiental Gran Mariscal de Ayacucho.

Alvaro Quintana Cardona, Chief Financial Officer

Alvaro Quintana has developed a career of more than twenty years of experience in the telecommunication industry with particular focus on regulatory affairs, strategic planning, value added services and international interconnection agreements. Before joining Etelix in year 2013 as Chief Operation Officer and Chief Financial Officer, Mr. Quintana acted between June 2004 and May 2013 as Interconnection and Value-Added Services Manager at Digitel (a mobile service provider in Venezuela, formerly a Telecom Italia Mobile subsidiary). He holds a Bachelor's Degree in Business Administration and a Specialist Degree in Economics, both from the Universidad Catolica Andres Bello. He also holds a Master in Telecommunications from the EOI Business School in Spain.

Juan Carlos Lopez Silva, Chief Executive Officer, Chief Operating Officer: Etelix.com USA LLC

Juan Carlos Lopez Silva is an Engineer graduated from Universidad de Los Andes, with a Master's Degree in Project Management from the Pontificia Universidad Javeriana; and MBA from EADA Business School; with more than 20 years of experience in project management, negotiation, business development and management on international companies. Previous to joining Etelix in August 2011 as Chief Commercial Officer, Juan Carlos was International Carrier Relations Manager at Colombia Telecomunicaciones S.A. Esp. a subsidiary of Telefonica of Spain, between September 2003 and June 2011.

FINANCIALS SNAPSHOT

On the heels of the \$18 million in revenue recorded in 2019, and a solid first quarter this year, 2Q20 results demonstrated huge sequential and year-over-year top-line growth along with meaningful net profit. Revenue of \$11.1 million was a 164% increase over 1Q19, while net of \$1.3 million, or \$0.02 was substantially greater than the \$484,000 or (\$0.03) loss for the corresponding period in 2019.

For the full year 2020, we project revenue will reach \$42 million, more than double the \$18 million recorded in 2019, and driven by the SMS business, as illustrated in Table I below. At present we anticipate essentially breakeven operating results with a slight loss for the year of (\$0.03). Although higher margin SMS business will have a positive impact on results this year, the true bump in gross profit should occur next year as Blockchain and Fintech offerings begin to generate early market penetration.

We estimate revenue will jump to \$60.4 million in 2021 a roughly 44% rise, led by big SMS gains. The introduction of the IoT, Blockchain and Fintech businesses should drive a big increase in gross profit margin to 11.1%, more than double the projected 5% in 2020. Moreover, while the sales forecasts for these new lines are conservative, they should still result in net to IQST shareholders well in excess of \$2 million, or an EPS of \$0.04. For 2022, top line is forecast to reach \$80.7 million with EPS of \$0.13. It should be noted that these figures exclude any contribution from potential M&A in its core business or other technology and Fintech offerings.

Separately, IQST settled convertible debt during 3Q20, which should prompt a drop in the share count which will have a positive effect on EPS. Interestingly, the settlement included an exchange at a price of \$0.11 per share, a premium to the market at that time and nearly a double from present market levels, settling the debts in full.

Table I. iQSTEL, Inc.
 Projected Revenue by Category
 (\$, 000)

Category	<u>CY19A</u>	<u>CY20E</u>	<u>CY21E</u>	<u>CY22E</u>
VoiP	\$18,046	\$19,000	\$22,500	\$28,000
SMS	\$0	\$23,000	\$33,000	\$35,000
Blockchain	\$0	\$0	\$600	\$5,000
IoT	\$0	\$0	\$3,200	\$6,500
Fintech	\$0	\$0	\$1,100	\$6,200
TOTAL REVENUE	\$18,046	\$42,000	\$60,400	\$80,700

Sources: iQSTEL, Goldman Small Cap Research

RISK FACTORS

In our view, the Company's biggest risk is related to the timing and magnitude of the sales and marketing ramp of the new initiatives, and subsequent broad implementation/utilization of the upgraded SMS and other capabilities. Other risks include potential interconnect issues with carrier partners or global economy issues thanks to the current COVID-19 pandemic that limit early growth prospects. Separately, building out multiple new offerings, converging different business lines into unified solutions, and the contemplation of new M&A could be too much on management's plate. Favorable M&A opportunities may also not become available.

Competitive risks include lower pricing, more effective sales/marketing, greater efficacy, or new technologies/approaches, along with new regulations harming small to medium sized players. The aforementioned risks could come from larger competitors, existing firms, or new entrants. Still, these future concerns are consistent with firms of IQST's size and standing. Moreover, we believe that IQST's deep and seasoned management team is prepared to overcome these hurdles and generate significant top-line growth and consistent social media management implementations.

Volatility and liquidity are typical concerns for microcap stocks that trade on the over the counter (OTC) stock market. We note that it is possible that the share count could increase due to future fundraises to substantially expand the Company's business and reach and reduce debt obligations. However, an overriding financial benefit as a public company is the favorable access to and the availability of capital to fund platform and product launches, consistent marketing campaigns and other initiatives. Since the proceeds of any future funding would be used in large part to advance major business development and sales, we believe that any dilutive effect from

such a funding could be offset by related increases in market value. Moreover, we believe that management would not execute such a transaction unless the stock price was materially greater than the current stock price. For example, during 3Q20, the Company announced that two existing debt holders, agreed to an exchange at a price of \$0.11 per share, a premium to the market at that time and nearly a double from present market levels, settling the debts in full.

VALUATION

The bottom line is that a company generating \$42 million in sales yet trading at a \$5 million market cap is a tremendous value. What is even more important is that it offers substantial upside, not just value. Many of IQST's telecom service provider peers, including those dabbling in Fintech or IoT and other related verticals, trade at low price/revenue multiple. This is due to the underlying low top-line growth of the peers and firms with limited presence in the higher growth emerging markets. It should be noted that we believe IQST should trade at a premium to the multiples assigned its peer group due to its much higher growth rates (30-45% versus single digits), opportunity for inorganic growth, and ever-increasing profit margins due to the new product mix. Moreover, with a significant debt reduction executed in 3Q20, a meaningful reduction in common shares outstanding will have a positive incremental impact on the stock.

As illustrated in our Peer table, the price/revenue multiples for 2020 and 2021 are 1.2x and 1.1x, respectively. As part of our valuation analysis, we assigned a 1.0x price/revenue multiple for 2020 and 0.7x price/revenue multiple for 2021. By assigning a discount to the peer group multiples (due to the relative size of ISQT and focus on more volatile emerging markets), we arrive at a six-month price target of \$0.54. Our target valuation is affirmed by applying a 20x P/E multiple on the 2021 EPS forecast of \$0.04 which actually reflects an increase of 10% from our valuation forecast and excludes potential contribution from a reduction in the share count.

As attractive as this target may be, there is room for additional upside. This potential could be realized via an equivalent price/revenue multiple with the peer group, thus negating the valuation discount. In this scenario, a revised target of \$0.64 would be in the cards. Looking further out, if management achieves its goals, a share price in excess of \$1.00 in the next 12-18 months could be in the cards. Separately, we should note that industry events such as 5G deployment and the introduction of the Apple 12 iPhone are representative of underlying catalysts that bring attention and investment dollars to the telecom space. Clearly, IQST serves as a beneficiary of these trends.

Table II. IQSTEL Publicly-Traded Peer Group

Company Name	Symbol	10/23/2020	Mkt Cap (mil)	FY20E Revs (mil)	FY21E Revs (mil)	FY22E Revs (mil)	2020E Price/Revs	2021E Price/Revs	2022E Price/Revs
Millicom Int'l Cell	TIGO	\$32.88	\$3,327	\$6,300	\$6,510		0.5	0.5	
PLDT	PLDT	\$27.11	\$5,948	\$3,975	\$4,253		1.5	1.4	
SK Telecom	SKM	\$23.17	\$15,353	\$17,084	\$18,109		0.9	0.8	
Turkcell	TKC	\$5.13	\$4,559	\$3,711	\$3,970		1.2	1.1	
ATN Int'l	ATNI	\$46.10	\$736	\$446	\$486		1.7	1.5	
Average			\$5,985	\$6,303	\$6,666		1.2	1.1	
IQST (today)	IQST	\$0.06	\$5.0	\$42	\$60	\$81	0.12	0.08	0.06
IQST (6 mo target)	IQST	\$0.54	\$42.0	\$42	\$60		1.0	0.70	0.52

Sources: www.Yahoo!Finance.com, Company websites, Goldman Small Cap Research

CONCLUSION

Based on its current valuation relative to its peer group and its entry into new, complementary high growth markets, IQST offers huge upside potential with limited downside risk. Recently launched offerings, new M&A and initiatives, and debt reduction should drive substantial interest and value in the stock. IQST is a burgeoning leader in VoIP and SMS services in fast-growing emerging markets. Building its business largely through M&A, new Blockchain, IoT, and Fintech offerings should serve as major profit centers and revenue growth drivers.

IQST's business model is innovative and the Company is the beneficiary of current trends. These include 5G deployment, and the introduction of new iPhone. Plus, the global pandemic has prompted increases in SMS usage along with B2C fintech expansion.

Revenue is projected to reach \$42M in 2020, up from \$18M last year, with sales hitting \$60M in 2021 and \$80.7M in 2022. EPS of \$0.04 and \$0.13 are expected in 2021 and 2022, respectively. Our price target of \$0.54, or nearly 10x the current price reflects a compelling valuation given that IQST trades at a substantial discount to its peer group. Our target reflects only 1x 2020E sales and 0.7x 2021E revenue and upside to our targets and metrics are in the cards.

Table III. IQSTEL, Inc.
Pro Forma Projected Statements of Income
(\$,000)

	<u>CY19A</u>	<u>CY20E</u>	<u>CY21E</u>	<u>CY22E</u>
TOTAL REVENUE	\$18,032	\$42,000	\$60,400	\$80,700
Cost of Sales	<u>\$17,251</u>	<u>\$39,900</u>	<u>\$53,696</u>	<u>\$66,174</u>
Gross Profit	\$781	\$2,100	\$6,704	\$14,526
<i>Gross Margin</i>	4%	5%	11.1%	18.0%
General & Admin	\$1,450	\$2,100	\$3,020	\$6,053
Total Operating Expenses	\$1,450	\$2,100	\$3,020	\$1,900
Operating Income	(\$669)	\$0	\$3,684	\$12,626
<i>Operating Income Margin</i>	-3.7%	0.0%	6.1%	15.6%
Other income	\$3	\$50	\$50	\$50
Other expenses	(\$11)	(\$25)	(\$25)	(\$25)
Interest Expense	(\$2,654)	(\$2,200)	(\$120)	(\$120)
Change in FV of Deriv Liab	(\$2,112)	(\$250)	\$0	\$0
Gain on Debt Settlement	\$0	\$300	\$0	\$0
Total Other Income (Expense)	(\$4,774)	(\$2,125)	(\$95)	(\$95)
Pre-Tax Income (Loss)	(\$5,443)	(\$2,125)	\$3,589	\$12,531
Income Taxes	\$0	\$0	\$538	\$1,880
<i>Tax Rate</i>	N/A	N/A	15.0%	15.0%
Net Income	(\$5,443)	(\$2,125)	\$3,051	\$10,651
Less: attrib. to non-controlling int.	\$15	\$25	\$1,254	\$2,506
Net to IQST Shareholders	(\$5,458)	(\$2,150)	\$2,335	\$10,025
Foreign Currency Adjustment	(\$0.35)	(\$1)	(\$1)	(\$1)
Total Comprehensive Income (Loss)	(\$5,458)	(\$2,151)	\$2,334	\$10,024
Less attrib. to non-controlling int.	\$15	\$15	\$1,254	\$2,506
Net Comp Inc to IQST shareholders	(\$5,458)	(\$2,151)	\$2,334	\$10,024
Diluted Earnings Per Share	(\$0.35)	(\$0.03)	\$0.04	\$0.13
Wtd. Est. Shares Outstanding	15,685	72,391	75,000	80,000

Sources: IQST, OTC Markets, and Goldman Small Cap Research

RECENT TRADING HISTORY FOR IQST

(Source: www.StockCharts.com)



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Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 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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