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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Boxlight Corporation

Speculative Buy

John Nobile
November 19, 2020

BOXL $1.49 — (NASDAQ)

	2018A	2019A	2020E	2021E
Revenues (millions)	$37.8	$32.7	$50.0	$130.0
Earnings (loss) per share	$(0.72)	$(0.92)	$(0.34)	$0.10

52-Week range	$4.65 – $0.33	Fiscal year ends:	December
Common shares out as of 11/13/20	51.2 million	Revenue per share (TTM)	$1.33
Approximate float	45.0 million	Price/Sales (TTM)	1.1X
Market capitalization	$76 million	Price/Sales (FY2021)E	0.6X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2021)E	14.9X

Boxlight Corporation, headquartered in Lawrenceville, Georgia, is a designer, producer, and distributor of interactive classroom technologies for the global education market.

Key investment considerations:

Reiterating Speculative Buy rating and maintaining our twelve-month price target of $3.00 per share.

The adverse impact from COVID-19 on Boxlight's sales in 2020 should start to diminish in 2021 as the effects from COVID-19 ease. In an effort to offset the diminished sales in 2020, the company reduced its annual operating budget by approximately $5 million starting in 2Q20. We project the cost reduction along with the recent acquisition of Sahara Presentation Systems should enable the company to generate significant cash earnings of $13.5 million in 2021, up from an estimated cash burn of $4.8 million in 2020.

In September 2020, Boxlight acquired Sahara Presentation Systems PLC, a distributer and manufacturer of AV solutions. This acquisition expands Boxlight's geographic reach, particularly in the EMEA region, and provides a significant increase in revenue. The combined companies should generate greater than $100 million in sales, which we project will result in bottom line profitability in 2021.

On November 19, 2020, Boxlight announced that Mark Starkey has been appointed as President. Starkey will lead global sales efforts.

For 2020, we project revenue to increase by 54.2% to $50 million with a loss of $(0.34) per share. We previously projected revenue of $30.5 million and a loss of $(0.16) per share. Our projections reflect 3Q20 results and the acquisition of Sahara.

For 2021, we project revenue to increase by 159.9% to $130 million and EPS of $0.10. We previously projected revenue of $41.5 million and a loss of $(0.04) per share. Our projections reflect a full year's contribution from the September 2020 acquisition of Sahara.

Boxlight reported (on 11/16/20) 3Q20 revenue decreased 16.2% to $9.5 million from $11.3 million. The company reported a loss of $(0.10) per share versus a loss of $(0.04) per share in 3Q19. Excluding special items, Boxlight would have reported a 3Q20 loss of $(0.05) per share compared to a loss of $(0.17) per share in 3Q19. We projected 3Q20 revenue of $11.5 million and a loss of $(0.00) per share.

****Please view our disclosures on pages 13 - 15.***

Recommendation and Valuation

We are reiterating our Speculative Buy rating on Boxlight Corporation and maintaining our twelve-month price target of $3.00 per share.

The adverse impact from COVID-19 on Boxlight's sales in 2020 should start to diminish in 2021 as the effects from COVID-19 ease. In an effort to offset the diminished sales in 2020 sales, the company reduced its annual operating budget by approximately $5 million starting in 2Q20. We project the cost reduction along with the acquisition of Sahara Presentation Systems in September 2020 should enable the company to generate significant cash earnings of $13.5 million in 2021.

The acquisition of Sahara expands Boxlight's geographic reach, particularly in the European, Middle East, and Africa (EMEA) region, and provides a significant increase in revenue. The combined companies should generate greater than $100 million in sales, which we project will result in bottom line profitability in 2021.

Shares of BOXL currently trade at a trailing-twelve-month multiple of 1.1X sales. With a projected increase in shareholder's equity and profitability forecasted for 2021, we believe the market will accord shares of BOXL a multiple of 1.3X sales. Applying a multiple of 1.3X to our projected sales of $2.54 per share for 2021, discounted for execution risk, we derive a year-ahead price target of approximately $3.00 per share.

Recent Developments

Mark Starkey Appointed as President - On November 19, 2020, Boxlight announced that Mark Starkey was appointed its President. Starkey will lead the company's global sales efforts.

Starkey spent 17 years with Logicalis in senior commercial management roles including COO and Managing Director before moving to EMC and Dell where he was initially responsible for the software business across the EMEA region before heading up the sales strategy for Western Europe. Starkey joined Sahara PLC as CEO in February 2020 and then joined Boxlight upon merging the companies in September 2020. Bachelor of Science, Economics at Brunel University London. Starkey qualified as a Chartered Accountant with EY before moving into the technology industry 22 years ago.

Boxlight Acquires Sahara Presentation Systems – In September 2020, Boxlight announced it acquired Sahara Presentation Systems PLC, a distributer and manufacturer of AV solutions. The total purchase price was GBP 74 million (approximately USD $94.9 million) in the form of GBP 52 million (approximately USD $66.7 million) cash and GBP 22 million (approximately USD $28.2 million) preferred stock.

The Sahara acquisition expands Boxlight's geographic reach - particularly in the EMEA region, provides significant revenue growth, results in immediate consolidated profitability, and adds global management. The combined companies should generate greater than USD $100 million in sales and be profitable.

Headquartered in the United Kingdom, Sahara is a distributer of AV products and a manufacturer of touchscreens and digital signage products, including the Clevertouch and Sedao brands.

Boxlight Acquires Screen Sharing Intellectual Property Portfolio – In September 2020, Boxlight announced the acquisition of three LAN based screen sharing patents and one pending patent application from Circle Technology, Inc.

The intellectual property allows Boxlight to expand its software strategy knowing its efforts in wireless screen sharing will be protected.

Boxlight Awarded STEM Contract in Colorado – In August 2020, Boxlight announced that Jeffco Public Schools in Denver, Colorado selected Boxlight as a provider of STEM solutions with partner DHE Computer Systems.

Under the contract, Jeffco Public Schools will acquire Boxlight's STEM solutions, including Robo3D Printers, MyStemKits K-12 curriculum, and 3D printable manipulatives. The course of the contract will include training, set-up and installation, and implementation. Jeffco Public Schools has over 155 schools and a student population of nearly 84,000.

Organizational History

In September 2014, Boxlight Corporation was incorporated in Nevada for the purpose of becoming a technology company that sells interactive educational products. The company was formed through several acquisitions that started in April 2016. A brief description can be seen in the table below:

April 2016	Boxlight acquired Mimio LLC, a designer, producer and distributer of a broad range of interactive classroom technology products primarily targeted at the global K-12 education market.
May 2016	Boxlight acquired Genesis Collaboration LLC, a provider of solutions that enhance interactive learning in the business, government, and education markets.
July 2016	Boxlight acquired the Boxlight Group, a seller and distributer of interactive projectors that suit the varying needs of instructors, teachers and presenters.
May 2018	Boxlight acquired Cohuborate, Ltd., a UK-based producer and distributer of interactive display panels designed to provide new learning and working experiences through in-room and room-to-room multi-device, multi-user collaboration.
June 2018	Boxlight acquired Qwizdom Inc., a developer of software and hardware solutions that are quick to implement and designed to increase participation, provide immediate data feedback, and, accelerate and improve comprehension and learning.
August 2018	Boxlight acquired EOSEDU, LLC, a provider of technology consulting, training, and professional development services that integrate technology with curriculum in K-12 schools and districts.
March 2019	Boxlight acquired Modern Robotics Inc., a company engaged in the business of developing, selling and distributing STEM, robotics and programming solutions to the education market globally.
April 2020	Boxlight acquired MyStemKits Inc., a company that develops, sells, and distributes 3D printable science, technology, engineering and math curriculums incorporating 3D printed project kits for education. MyStemKits owns the right to manufacture, market, and distribute Robo 3D branded printers and associated hardware for the global education market.
September 2020	Boxlight acquired Sahara Presentation Systems PLC, a UK-based distributer of AV products and a manufacturer of touchscreens and digital signage products.

The company completed an initial public offering of its common stock in November 2017 and began trading under the symbol BOXL.

Business

Boxlight Corporation, headquartered in Lawrenceville, Georgia, is a designer, producer, and distributor of interactive classroom technologies for the global education market.

Products that the company sells include flat panels (interactive flat panel pictured at right), projectors, whiteboards and peripherals. Boxlight also distributes science, technology, engineering and math (STEM) products, including its portable science lab. Besides providing hardware, engineering and manufacturing, software and content development to clients and customers, Boxlight offers services that include installation, training, consulting and maintenance.

The company has historically generated substantially all of its revenue from the sale of its software and interactive displays to the educational market.

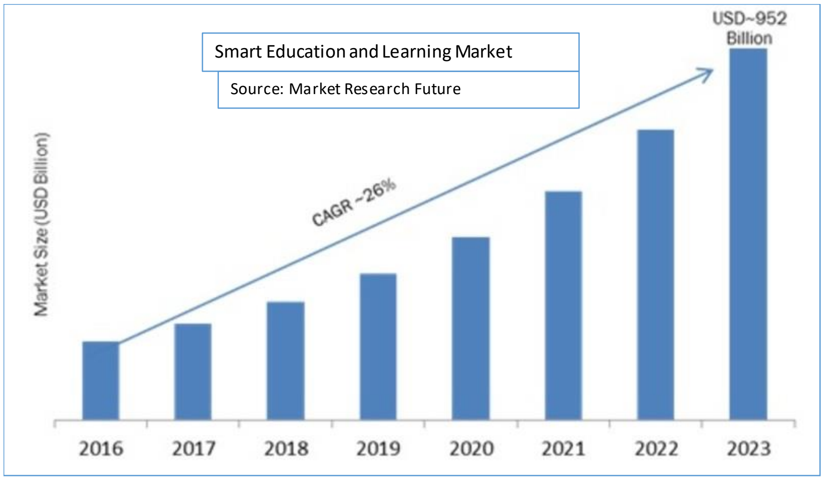
Boxlight does not manufacture any of the products it sells. Many of the company's products and components are manufactured by original design manufacturers (ODMs) and original equipment manufacturers (OEMs) located in the US, Taiwan, China, and Germany.

Boxlight's sales force and marketing teams are primarily focused on driving sales to school districts, throughout North, Central and South America, Europe, the Middle East and Asia. The company also markets its products through distributors and resellers providing them with training to become knowledgeable about its products. Boxlight currently has approximately 800 resellers.

Industry

The global education industry is undergoing a significant transition, as primary and secondary school districts, colleges and universities, as well as governments, corporations and individuals around the world are increasingly recognizing the importance of using technology to more effectively provide information to educate students and other users. Smart education denotes a range of technologies employed to enhance the delivery and administration of education across various segments such as K-12, higher education, enterprise, government and healthcare.

The global smart education market is projected to reach $952 billion by 2023 for a compound annual growth rate (CAGR) of 26% from 2017 to 2023 according to a September 2020 report by industry report publisher Market Research Future (see chart at right). The increase in educational institutions that are adopting advanced methods of teaching and tools, such as white boards, projectors and smart notebooks are anticipated to be key drivers in the smart education and learning market.



In October 2020, market research publisher ResearchandMarkets projected the global smart education and learning market to reach $680.1 billion by 2027 for a CAGR of 17.9% from 2020 to 2027. North America accounted for the largest market share in 2019 owing to its large consumer base for e-learning methods.

ResearchandMarkets attributes growing demand for smart educational practices to factors such as reducing expenses of online training and curbing geographic challenges in physically attending classes. Increasing demand for smart education and learning solutions is driven by benefits such as improved education quality and easy access to educational content. Increasing adoption of consumer electronics, such as smartphones, e-readers, laptops, and e-learning applications, has altered conventional education methodology and has enhanced the efficiency of an individual to learn.

According to a report by ResearchandMarkets, the COVID-19 outbreak has unlocked an opportunity for the market with an increasing number of states and countries closing educational facilities. For instance, over 90% of the world's students are not attending their schools due to this pandemic, as mentioned by UNESCO (The United Nations Educational, Scientific, and Cultural Organization). Commonwealth of Learning (COL), an intergovernmental organization of The Commonwealth (Canada), has supported educational institutions and governments in building robust distance education solutions for quality e-learning practices. However, lack of awareness among end-users about the latest technologies and inadequate amount of resources for delivering quality education in developing regions is anticipated to hinder market growth.

Competition

Boxlight operates in the highly competitive interactive education industry and faces substantial competition from developers, manufacturers and distributers of interactive learning products and solutions. The industry is characterized by frequent product introductions and rapid technological advances. Interactive whiteboards have evolved from a high-cost technology that involves multiple components, requiring professional installers, to a one-piece technology that is available at increasingly reduced price points and affords simple installations. Boxlight's ability to integrate its existing technologies and remain innovative in developing new technologies that are desired by customers will determine its ability to grow.

Strategy

Boxlight's growth strategy includes acquiring assets and technologies of companies that have products, technologies, industry specializations or geographic coverage that extend or complement its existing product portfolio for the smart education market.

Boxlight has implemented a comprehensive plan to reach profitability, which includes integrating products from acquired companies and cross training sales professionals to increase their offerings.

The company anticipates achieving significant costs savings by merging the operations of the companies it acquires and reducing costs through staff reductions (consolidating resources such as accounting, marketing and human resources), economies of scale (improved purchasing power with a greater ability to negotiate prices with suppliers), and improved market reach and industry visibility (increase in customer base and entry into new markets).

Economic Outlook

In October 2020, the International Monetary Fund (IMF) revised its global economic estimates to a decline of 4.4% for 2020 and growth of 5.2% for 2021. In June 2020, the IMF predicted a GDP decline of 5.2% for 2020 and growth of 5.4% for 2021. The 2020 upward revision primarily reflects better-than-anticipated 2Q20 GDP. The 2021 downward revision primarily reflects the more moderate downturn projected for 2020.

The IMF revised its economic growth estimate for the US to a decline of 4.3% for 2020 and growth of 3.1% for 2021. In June 2020, the IMF projected a decline in US growth of 8% for 2020 and growth of 4.5% for 2021.

The advance estimate of US GDP growth (released on October 29, 2020) showed the US economy increased at an annual rate of 33.1% in 3Q20, up from the 31.4% decline reported in 2Q20. The 3Q20 US GDP estimate primarily reflects increases in consumer spending, inventory investment, exports, business investment, and housing investment, partially offset by a decrease in government spending.

Projections

The adverse impact from COVID-19 on Boxlight's sales in 2020 should start to diminish in 2021 as the effects from COVID-19 ease. In an effort to offset the expected decline in 2020 sales, the company reduced its annual operating budget by approximately $5 million starting in 2Q20. We project the cost reduction along with the acquisition of Sahara Presentation Systems in September 2020 should enable the company to generate cash earnings of $13.5 million in 2021, up from an estimated cash burn of $4.8 million in 2020.

The acquisition of Sahara expands Boxlight's geographic reach, particularly in the EMEA region, and provides a significant increase in revenue. We anticipate the combined companies generating greater than $100 million in sales, which should result in bottom line profitability in 2021.

2020 – We project revenue to increase by 54.2% to $50 million and a net loss of $10.6 million or $(0.34) per share. We previously projected revenue of $30.5 million and a net loss of $5.3 million or $(0.16) per share. Our projections reflect 3Q20 results and the September 2020 acquisition of Sahara.

We project a 30.1% increase in gross profit to $11 million from $8.5 million and gross margins declining to 22.1% from 26.1% in 2019.

We anticipate general and administrative expenses increasing to $17.1 million from $15.8 million due to the acquisition of Sahara offset in part by a reduction in the company's operating budget that started in 2Q20. R&D expenses are projected to be nearly $1.6 million, up from $1.2 million in 2019.

Interest expense should increase to $2.2 million from $1.8 million due to higher average debt levels. We project the company paying no taxes due to its large amount of net operating loss carryforwards ($19.6 million as of December 31, 2019).

We project a cash loss of $4.8 million and an increase in working capital of $2.8 million resulting in cash used in operations of $7.6 million. We project $57.7 million cash from financing due primarily to proceeds from the issuance of common stock and a net increase in debt offset in part by cash paid for acquisitions. We project a $4.9 million increase in cash to $6 million at December 31, 2020.

2021 – We project revenue to increase by 159.9% to $130 million and net income of $5 million or $0.10 per share. We previously projected revenue of $41.5 million and a net loss of $1.8 million or $(0.04) per share. Our projections reflect a full year's contribution from the September 2020 acquisition of Sahara.

We project a more than tripling of gross profit to $35.8 million from $11 million with blended gross margins of 27.5%.

We anticipate general and administrative expenses increasing to $26.8 million from our projected $17.1 million in 2019 due to inclusion of a full year from Sahara's operations. R&D expenses are projected to increase to $2 million from $1.6 million.

Interest expense should approximate $2.1 million in 2021 based on our average debt level forecast. We project the company paying no taxes.

We project cash earnings of $13.5 million and an increase in working capital of $4.9 million resulting in cash provided by operations of $8.6 million. We project the company paying down $12 million in debt, decreasing cash by $3.4 million to $2.7 million at December 31, 2021.

3Q20 and 9M20 Financial Results

3Q20 **-** Revenue decreased 16.2% to $9.5 million from $11.3 million. The company reported a net loss of $4.2 million or $(0.10) per share versus a loss of $472,000 or $(0.04) per share in 3Q19. Included in the net loss for 3Q20 was a $194,000 loss related to the change in fair value of derivative liabilities and a $1.7 million loss from the settlement of liabilities. Included in the net loss for 3Q19 was a $1.4 million gain related to the change in fair value of derivative liabilities. Excluding these items, Boxlight would have reported a 3Q20 net loss of $2.3 million or $(0.05) per share compared to a loss of $1.8 million or $(0.17) per share in 3Q19. We projected 3Q20 revenue of $11.5 million and a net loss of $110,000 or $(0.00) per share.

The decrease in revenue reflects school closures as a result of the COVID-19 pandemic. Gross profit decreased 37.4% to $2 million and gross margins decreased to 21.4% in 3Q20 from 28.6% in 3Q19. The decrease in gross margins was primarily due to changes in the product mix.

General and administrative expenses decreased 21.8% to $3.3 million while research and development expenses increased to $471,000 from $351,000. Interest expense increased to $531,000 from $517,000 as a result of increased debt.

9M20 - Revenue decreased 15% to $23 million from $27.1 million. The company reported a net loss of $7.6 million or $(0.31) per share versus a loss of $6.5 million or $(0.62) per share in 9M19. Included in the net loss for 9M20 was a $239,000 loss related to the change in fair value of derivative liabilities and a $579,000 loss from the settlement of liabilities. Included in the net loss for 9M19 was a $527,000 loss related to the change in fair value of derivative liabilities and a $146,000 gain from the settlement of liabilities. Excluding these items, Boxlight would have reported a 9M20 net loss of $6.8 million or $(0.27) per share and a loss of $6.1 million or $(0.58) per share in 9M19.

The decrease in revenue is primarily due to the COVID-19 pandemic. Gross profit decreased 20.1% to $6.3 million and gross margins decreased to 27.4% in 9M20 versus 29.1% in 9M19. The decrease in gross margins was primarily due to changes in the product mix.

General and administrative expenses decreased 12.2% to $10.4 million while research and development expenses increased to $1.1 million from $911,000. Interest expense increased to $1.6 million from $1.3 million as a result of increased debt.

	9M Ended (in thousands $)	
	2020A	2019A
Revenue	23,028	27,099
Cost of revenue	16,722	19,204
Gross profit	6,306	7,895
General and administrative	10,444	11,893
Research and development	1,073	911
Operating income (loss)	(5,211)	(4,909)
Interest expense	(1,618)	(1,277)
Other income (expense)	61	66
Changes in fair value of derivative liabilites	(239)	(527)
Gain from settlement of liabilites	(579)	146
Income before taxes	(7,586)	(6,501)
Income tax	-	-
Net Income / (loss)	(7,586)	(6,501)
EPS	(0.31)	(0.62)
Shares Outstanding	24,853	10,533
Margin Analysis		
Gross margin	27.4%	29.1%
General and administartive	45.4%	43.9%
Research and development	4.7%	3.4%
Operating margin	(22.6)%	(18.1)%
Year / Year Growth		
Total Revenues	(15.0)%	
Net Income	NMF	
EPS	NMF	
Source: Company filings		

Liquidity – At September 30, 2020, Boxlight had $9.6 million in cash and $22.3 million of debt ($11.4 million short-term) consisting of $21.3 million of notes payable at rates ranging from 4% (for $21 million) to 7% (for $350,000), and $1 million from the paycheck protection program (PPP) at a rate of 1%. The PPP loan is forgivable to the extent the borrower uses the loan for eligible purposes, including payroll, benefits, rent and utilities.

In 9M20, cash used in operations was $7 million consisting of a $4 million cash loss and a $3 million increase in working capital. The increase in working capital was primarily due to an increase in receivables and inventory. Cash used in investing consisted of cash paid for acquisitions. Cash provided by financing of $60.7 million consisted primarily of proceeds from the issuance of common stock and proceeds from convertible notes. Cash increased by $8.4 million to $9.6 million at September 30, 2020.

Risks

In our view, these are the principal risks underlying the stock.

Pandemic concerns – As a result of the ongoing COVID-19 pandemic, there is a risk that modification of the traditional classroom setting may result in reduced demand for the company's classroom solutions, including reduced demand for interactive displays due to extended or indefinite distance and digital learning. The pandemic may also cause customers to suspend their decisions on using the company's products and services and make it impossible to attend or sponsor trade shows or other conferences in which BOXL's products and services are presented to customers and potential customers. These events could have a material adverse impact on the company's operations.

Competition – Boxlight operates in the highly competitive interactive education industry. The company faces substantial competition from developers, manufacturers and distributors of interactive learning products and solutions. Many of these competitors have significantly greater financial and other resources than Boxlight does and have spent significant amounts of resources to try to enter or expand their presence in the market. Increased competition or other competitive pressures may continue to result in price reductions, reduced margins or loss of market share.

Technological obsolescence - The market for interactive learning and collaboration solutions is still emerging and evolving and is characterized by rapid technological change and frequent new product introductions. There can be no assurance that Boxlight's products will not suffer from technological obsolescence in the future.

Reliance on third party suppliers – The company does not manufacture any of the products it sells and distributes but relies on third party suppliers. Boxlight's suppliers may not be able to always supply components or products on a timely basis and on favorable terms, and as a result, the company's dependency on third party suppliers could adversely affect its revenue.

Reliance on resellers - Substantially all of Boxlight's sales are made through resellers and distributors. Such resellers and distributors may no longer sell the company's products, or may reduce efforts to sell its products.

Reliance on government funding for schools - Decreases in the spending policies or budget priorities for government funding of schools, colleges, universities, other education providers or government agencies may have a material adverse effect on the company's revenue.

Ineffective disclosure controls and procedures – As of September 30, 2020, the company's disclosure controls and procedures were deemed not effective due to insufficient written policies and procedures over accounting transaction processing, capital transactions and period end financial disclosure.

Liquidity risk - Shares of Boxlight Corporation have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 45 million shares in the float and the average daily volume is approximately 4.3 million shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	2017A	2018A	2019A	9/20A	2020E	2021E
Cash and cash equivalents	2,010	901	1,173	9,610	6,046	2,694
Receivables	3,090	3,635	3,665	21,096	20,845	23,472
Inventories	4,626	4,214	3,319	21,572	20,524	22,176
Prepaid expenses	388	1,214	1,766	4,051	4,051	4,051
Total current assets	10,114	9,964	9,923	56,329	51,466	52,393
Net property and equipment	30	227	207	383	377	364
Intangible assets	6,127	6,352	5,559	54,013	52,763	47,763
Goodwill	4,182	4,724	4,724	13,429	13,429	13,429
Other assets	-	-	56	71	71	71
Total assets	**20,453**	**21,267**	**20,469**	**124,225**	**118,106**	**114,020**
Accounts payable and accrued expenses	6,895	7,893	9,753	13,333	12,999	14,399
Warranty reserve	492	580	13	17	17	17
Short-term debt	807	2,684	4,905	11,374	8,390	2,390
Earn-out payable	-	137	387	119	119	119
Convertible notes payable	50	-	-	-	-	-
Deferred revenue	1,127	938	1,972	4,917	4,917	4,917
Derivative liabilities	1,857	326	147	386	386	386
Other short-term liabilities	-	5	31	1,127	1,127	1,127
Total current liabilities	11,228	12,563	17,208	31,273	27,955	23,355
Long-term debt	-	328	1,309	10,950	10,950	4,950
Earn-out payable	-	273	-	-	-	-
Other long-term liabilities	-	-	17	6	6	6
Deferred revenue	175	135	2,583	8,802	8,802	8,802
Total liabilities	**11,403**	**13,299**	**21,117**	**51,031**	**47,713**	**37,113**
Mezzanine equity	**-**	**-**	**-**	**28,871**	**28,871**	**28,871**
Total stockholders' equity	**9,050**	**7,968**	**(648)**	**44,323**	**41,523**	**48,036**
Total liabilities & stockholders' equity	**20,453**	**21,267**	**20,469**	**124,225**	**118,106**	**114,020**

*2020 includes $8.5 million additional paid-in capital primarily for conversion of payables
Source: Company filings and Taglich Brothers' estimates

Boxlight Corporation

Income Statements for the Fiscal Years Ended
(in thousands $)

	2017A	2018A	2019A	2020E	2021E
Revenue	25,744	37,841	32,437	50,028	130,000
Cost of revenue	19,330	29,188	23,960	38,996	94,250
Gross profit	6,414	8,653	8,477	11,032	35,750
General and administrative	13,190	14,977	15,745	17,144	26,800
Research and development	466	672	1,229	1,573	2,000
Operating income (loss)	(7,242)	(6,996)	(8,497)	(7,685)	6,950
Interest expense	(635)	(841)	(1,794)	(2,168)	(2,076)
Gain on settlement of liabilites	276	165	118	(579)	-
Change in fair value of derivative liabilites	861	426	245	(241)	-
Other income (expense)	201	69	88	86	100
Income before taxes	(6,539)	(7,177)	(9,840)	(10,587)	4,974
Income tax	-	-	-	-	-
Net Income / (loss)	(6,539)	(7,177)	(9,840)	(10,587)	4,974
EPS	(1.20)	(0.72)	(0.92)	(0.34)	0.10
Shares Outstanding	5,455	9,922	10,689	31,387	51,200
Margin Analysis					
Gross margin	24.9%	22.9%	26.1%	22.1%	27.5%
General and administrative	51.2%	39.6%	48.5%	34.3%	20.6%
Research and development	1.8%	1.8%	3.8%	3.1%	1.5%
Operating margin	(28.1)%	(18.5)%	(26.2)%	(15.4)%	5.3%
Year / Year Growth					
Total Revenues	26.4%	47.0%	(14.3)%	54.2%	159.9%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2019A - 2021E
(in thousands $)

	3/19A	6/19A	9/19A	12/19A	2019A	3/20A	6/20A	9/20A	12/20E	2020E	3/21E	6/21E	9/21E	12/21E	2021E
Revenue	4,993	10,801	11,305	5,338	32,437	5,723	7,828	9,477	27,000	50,028	19,500	37,000	45,500	28,000	130,000
Cost of revenue	3,321	7,812	8,071	4,756	23,960	4,132	5,137	7,452	22,275	38,996	14,138	26,825	32,988	20,300	94,250
Gross profit	1,672	2,989	3,234	582	8,477	1,591	2,691	2,025	4,725	11,032	5,363	10,175	12,513	7,700	35,750
General and administrative	3,766	3,896	4,230	3,853	15,745	3,937	3,200	3,307	6,700	17,144	6,700	6,700	6,700	6,700	26,800
Research and development	236	325	351	317	1,229	317	285	471	500	1,573	500	500	500	500	2,000
Operating income (loss)	(2,330)	(1,232)	(1,347)	(3,588)	(8,497)	(2,663)	(794)	(1,753)	(2,475)	(7,685)	(1,838)	2,975	5,313	500	6,950
Interest expense	(281)	(479)	(517)	(517)	(1,794)	(459)	(628)	(531)	(550)	(2,168)	(538)	(525)	(513)	(500)	(2,076)
Gain on settlement of liabilites	146	-	-	(28)	118	1,086	53	(1,718)	-	(579)	-	-	-	-	-
Change in fair value of derivative liabilites	(2,162)	263	1,372	772	245	28	(75)	(194)	-	(241)	-	-	-	-	-
Other income (expense)	21	24	21	22	88	58	18	(15)	25	86	25	25	25	25	100
Income before taxes	(4,606)	(1,424)	(471)	(3,339)	(9,840)	(1,950)	(1,426)	(4,211)	(3,000)	(10,587)	(2,351)	2,475	4,825	25	4,974
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income / (loss)	(4,606)	(1,424)	(471)	(3,339)	(9,840)	(1,950)	(1,426)	(4,211)	(3,000)	(10,587)	(2,351)	2,475	4,825	25	4,974
EPS	(0.45)	(0.13)	(0.04)	(0.30)	(0.92)	(0.16)	(0.08)	(0.10)	(0.06)	(0.34)	(0.05)	0.05	0.09	0.00	0.10
Shares Outstanding	10,256	10,590	10,746	11,165	10,689	12,494	17,637	44,215	51,200	31,387	51,200	51,200	51,200	51,200	51,200
<u>Margin Analysis</u>															
Gross margin	33.5%	27.7%	28.6%	10.9%	26.1%	27.8%	34.4%	21.4%	17.5%	22.1%	27.5%	27.5%	27.5%	27.5%	27.5%
General and administrative	75.4%	36.1%	37.4%	72.2%	48.5%	68.8%	40.9%	34.9%	24.8%	34.3%	34.4%	18.1%	14.7%	23.9%	20.6%
Research and development	4.7%	3.0%	3.1%	5.9%	3.8%	5.5%	3.6%	5.0%	1.9%	3.1%	2.6%	1.4%	1.1%	1.8%	1.5%
Operating margin	(46.7)%	(11.4)%	(11.9)%	(67.2)%	(26.2)%	(46.5)%	(10.1)%	(18.5)%	(9.2)%	(15.4)%	(9.4)%	8.0%	11.7%	1.8%	5.3%
<u>Year / Year Growth</u>															
Total Revenues	(16.7)%	11.8%	10.9%	(55.5)%	(14.3)%	14.6%	(27.5)%	(16.2)%	405.8%	54.2%	240.7%	372.7%	380.1%	3.7%	159.9%

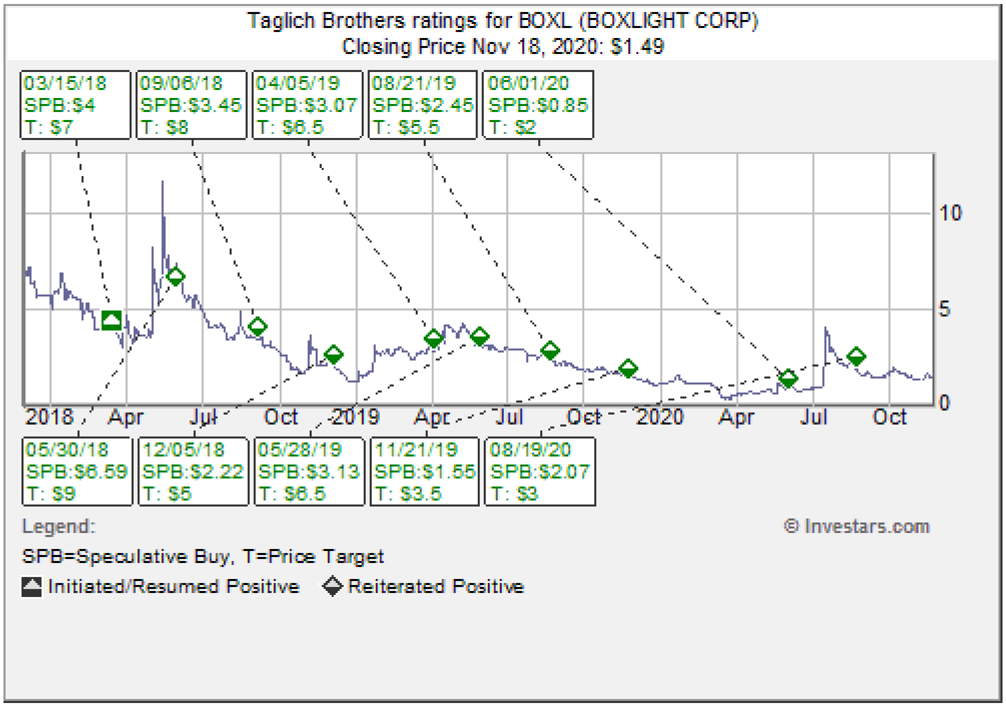
Source: Company filings and Taglich Brothers' estimates

Statement of Cash Flows for the Periods Ended
(in thousands $)

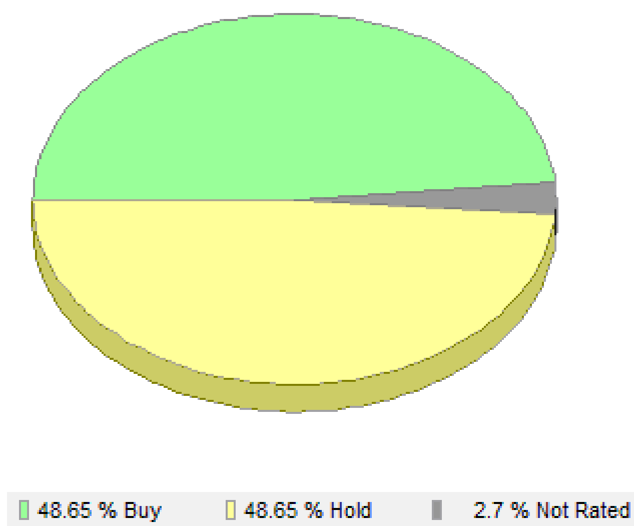
	2017A	2018A	2019A	9M20A	2020E	2021E
Net income (loss)	(6,539)	(7,178)	(9,840)	(7,587)	(10,587)	4,974
Bad debt expense	(89)	76	82	168	168	-
Change in allowance for sales returns	408	191	(248)	(91)	(91)	-
Change in inventory reserve	134	34	(13)	35	35	-
Change in fair value of derivative liability	-	(427)	(245)	239	239	-
Shares issued for interest payable on notes payable	-	-	-	247	329	329
Stock compensation expense	4,344	1,985	1,138	866	1,200	1,200
Other share-based payments	-	36	126	8	10	10
Depreciation & amortization	747	886	909	758	2,261	6,009
Loss on disposal of other assets	7	-	-	-	-	-
Amortization of debt discount	-	66	496	768	1,024	1,024
Gain on settlement of liabilities	(276)	-	(118)	579	579	-
Gain on settlement of accounts payable	-	(62)	-	-	-	-
Gain on settlement of derivative liabilities	(861)	(104)	-	-	-	-
Cash earnings (loss)	(2,125)	(4,497)	(7,713)	(4,010)	(4,833)	13,546
Changes in assets and liabilities						
Receivables	(465)	(73)	142	(1,442)	(1,191)	(2,627)
Inventories	(596)	836	1,295	(996)	52	(1,652)
Prepaid expenses and other	79	(805)	(462)	224	224	-
Other assets	-	-	-	(14)	(14)	-
Warranty reserve	-	-	(61)	4	4	-
Accounts payable and accrued expenses	1,152	989	1,878	(1,304)	(2,359)	(509)
Deferred revenues	614	(225)	177	(271)	(271)	(110)
Other short-term liabilities	(2)	-	43	802	802	-
Other liabilites	-	-	-	(11)	(11)	-
Accrued interest on long-term debt	-	-	-	-	-	-
(Increase) decrease in working capital	782	722	3,012	(3,008)	(2,764)	(4,898)
Net cash provided by (used in) operations	**(1,343)**	**(3,775)**	**(4,701)**	**(7,018)**	**(7,597)**	**8,648**
Cash acquired through acquisitions	-	1,310	10	6,050	6,050	-
Cash paid for acquisitions	-	(410)	-	(51,003)	(51,003)	-
Cash paid for patents	-	-	-	(100)	(100)	-
Cash paid for furniture and fixtures	-	-	(3)	-	-	-
Payment made for purchase of intangible assets	(10)	-	-	-	-	-
Proceeds from sales of property, equipment and other	-	-	-	-	-	-
Net cash provided by (used in) investing	**(10)**	**900**	**7**	**(45,053)**	**(45,053)**	**-**
Proceeds from short-term debt	10,215	23,861	22,775	5,667	5,667	-
Proceeds from convertible note payable	-	-	5,250	20,750	20,750	-
Proceeds from payment protection plan	-	-	-	1,008	1,008	-
Debt issuance costs	-	-	(214)	(461)	(461)	-
Principal payments on short-term debt	(12,966)	(22,499)	(23,328)	(8,953)	(11,937)	(12,000)
Other	-	-	(23)	-	-	-
Proceeds from the issuance of common stock	5,679	420	-	42,719	42,719	-
Net cash provided by (used in) financing	**2,928**	**1,782**	**4,460**	**60,730**	**57,746**	**(12,000)**
Effect of currency exchange rates	(21)	(16)	68	(223)	(223)	-
Net change in cash	**1,554**	**(1,109)**	**(166)**	**8,437**	**4,873**	**(3,352)**
Cash - beginning of period	**456**	**2,010**	**901**	**1,173**	**1,173**	**6,046**
Cash - end of period	**2,010**	**901**	**735**	**9,610**	**6,046**	**2,694**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**3**	**15**
Hold		
Sell		
Not Rated		

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Apple Computer (NASDAQ: AAPL)
Moovly Media Inc. (OTC: MVVYF)
Unisys (NYSE: UIS)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.