

## Net Element Inc. (NASDAQ:NETE)

### Consumer Discretionary | Retail - E-Commerce Discretionary

- NETE has grown its North American Transactions Segment 28% yoy – largely attributed to its successes with the Unified Payments brand.
- Net Element recently launched, Netevia, its new product that is part of its decentralized blockchain technology solutions initiative.
- NETE completed a \$7.55mn restricted common stock and warrant private placement with an institutional investor to buttress growth with its blockchain initiatives.

### Company Description

Net Element, Inc. ("NETE") is a global financial technology and value-added group that supports electronic payments acceptance in a multi-channel environment including point-of-sale (POS), e-commerce and mobile devices in the U.S. and emerging markets. NETE has two primary business units, North American Transaction Solutions and International Transaction Solutions Segment. NETE is headquartered in Miami, FL and its website is netelement.com.

Key Data		Key Financials			
52-Week Range			FY15A	FY16A	FY17A
Shares Outstanding	3.85	Revenue	40.2	54.3	60.1
Market Cap	29.08	EBIT <sup>1</sup>	(10.5)	(8.8)	(8.6)
3-Months Avg Volume	821,708	EBITDA <sup>1</sup>	(8.0)	(5.4)	(6.1)
Total Cash	11.29	Earnings	(13.3)	(13.5)	(9.9)
Total Debt	7.02	CFF	6.6	4.4	17.5



<sup>1</sup> does not include non-operational expenses or revenue

## NETE's Application Suite Gaining Market Share in Rapidly Growing Payment Processing Industry

Net Element, Inc. ("NETE") is a global financial technology group in mobile commerce and payment processing in the U.S. and emerging markets. The company focuses on its omnichannel platform that brings together an application suite to provide consumers with a streamlined, integrated experience. The platform allows NETE to offer consumers a diverse set of payment solutions, customizing the experience from business-to-business.

The Company operates under two key segments, the burgeoning North American Transaction Solutions and the International Transaction Solutions that integrates NETE's transactional services, mobile solutions and online payment solutions.

Net Element offers its key products and services to both institutional and individual customers through its diverse portfolio of brands. In addition to organic research and development, NETE maximizes opportunities for its brands by vibrant and value-added acquisitions.

### Key Products and Services

#### PORTFOLIO OF BRANDS



**Unified Payments** is one of the leading providers of bankcard payment acceptance solutions in the US. It provides SMEs with POS equipment, transaction processing, merchant business analytics, risk management, fraud detection, and chargeback management services. It supports Visa, MasterCard, AMEX, Discover, debit and gift cards, Apple Pay with variety of EMV complaint POS solutions and terminals with NFC capability.

**Aptito** is a cloud-based payments platform designed for the hospitality industry. The platform's POS system increases efficiency and reduces friction in tableside transactions via its mobile POS app.

**Digital Provider** is a mobile payment processor and mobile commerce provider that facilitate the payment, aggregation and distribution of mobile transactions. It allows users to make purchases by charging payments to their mobile phone bill, as well as to project and create any kind of SMS or WAP services.

**PayOnline** is a fully-integrated online processing platform that simplifies complex enterprise online transactions with risk prevention and payment security via point-to-point encryption and tokenization solutions. In part, PayOnline is designed for the travel industry with its seamless integration with top-tier Global Distribution Systems such as Amadeus and Sabre. The PayOnline offices are in Russia, Kazakhstan and the Republic of Cyprus, and accordingly serves the European, Central Asian, and North American regions

NETE provides supplemental services with its other portfolio of brands, including Resto-active, Zero Pay, and Sale Central.

## Strong Organic Growth Results & Industry Recognition

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NETE has grown its North American Transactions Segment 28% yoy – largely attributed to its successes with the Unified Payments brand. Most importantly, the growth was organic and not pushed up via acquisition or other combinatory means.

In 2017, Deloitte ranked NETE as #418 on its Technology Fast 500 list, which consists of North American companies in the technology, media, telecommunications, life sciences and energy tech industries. This awards program recognizes the country's fast-growing technology companies that are disrupting the tech space.

## NETE Launched Blockchain-Enabled Product: Netevia

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Net Element recently launched, Netevia, its new product that is part of its decentralized blockchain technology solutions initiative. The product suite will leverage blockchain technology to connect merchants and consumers in myriad ways with an economically efficient transaction process. Netevia's API enables payments to be transacted via a single integration point from numerous sales channels.

Netevia's developer center provides an experimental workspace that includes a language-agnostic APIs, SDKs, and sandbox. Cross-application integration and connections are imperative for an omnichannel use case, and Netevia was developed in line with this concept. Its integrations with ubiquitous payments' platforms permit merchants to include its payment-acceptance functionality in a frictionless manner. Additionally, its smart payment terminals make it possible to transact in multiple currencies internationally. For fraud prevention and to augment security, the platform reduces the PCI DSS scope and

attenuate compliance with its 150+ risk monitoring filters, vaulting, tokenization and point-to-point encryption.

Other features include:

- up to 99.2% conversion rates supported by its payment conversion and smart-routing optimization;
- instant merchant onboarding;
- same-business-day settlement and funding;
- and gift and loyalty embedded solutions.

## NETE Raised \$7.55mn for Blockchain Initiative and Continued Growth

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NETE completed a \$7.55mn restricted common stock and warrant private placement with an institutional investor to buttress growth with its blockchain initiatives, general working capital and continued growth. The 5-year warrants were priced at \$11.245 per unit, with each unit equating to one common stock share and 60% of a warrant at an exercise price of NETE's consolidated closing bid price of \$11.12 on December 29, 2017.

## Net Element Joins the Enterprise Ethereum Alliance

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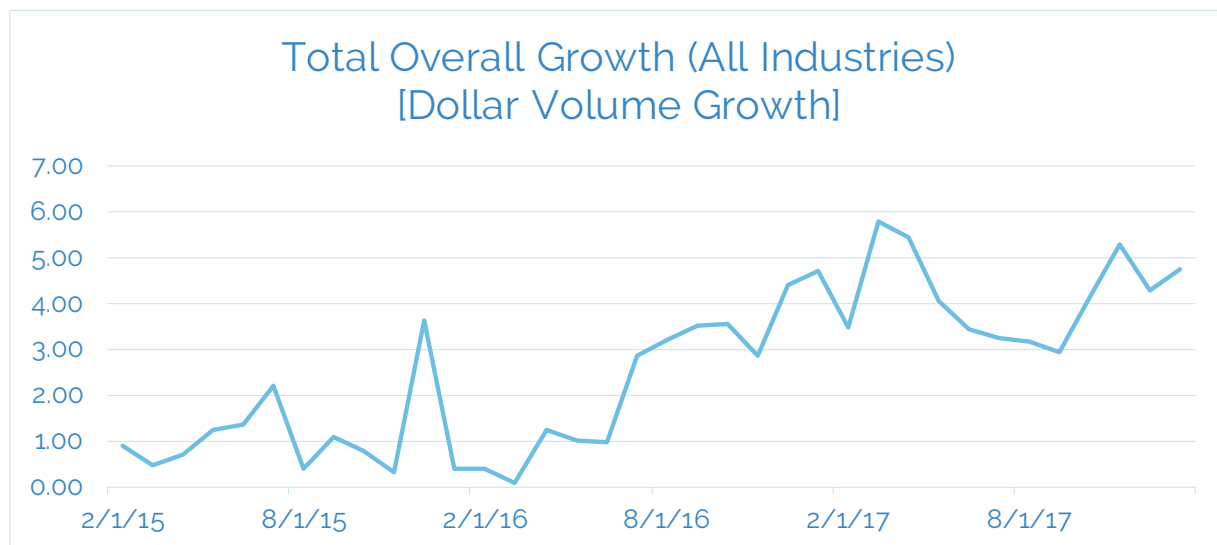
On February 21st, 2018, shortly after Net Element announced its blockchain technology solution, the company announced that it had joined the Enterprise Ethereum Alliance (EEA). This alliance was created to build, promote, and support Ethereum-based technologies, has over 250 members, and is the world's largest open-source blockchain initiative. The EEA has seen rapid growth recently and this growth represents how adoption and acceptance of Ethereum blockchain solutions is growing around the world.

Net Element's membership complements its development of the "VIA Protocol" - the blockchain solution which is the basis for the company's Netevia platform. The VIA Protocol will create new billing methods which are enabled by blockchain technology.

## Industry Analysis

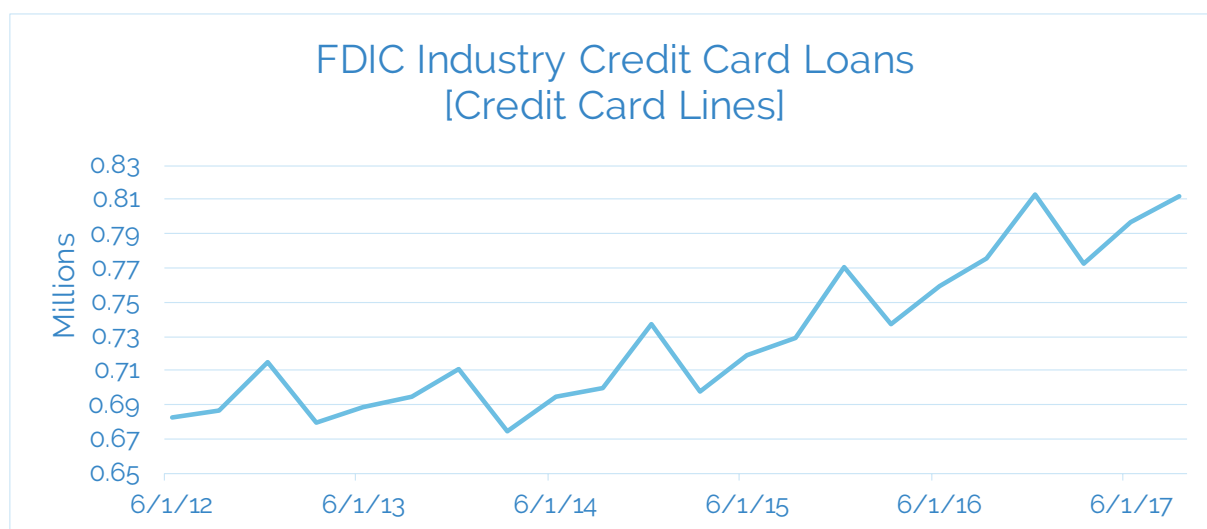
To analyze trends in NETE's industry, we primarily used 3 measures:

### First Data's SpendTrend POS Analyses



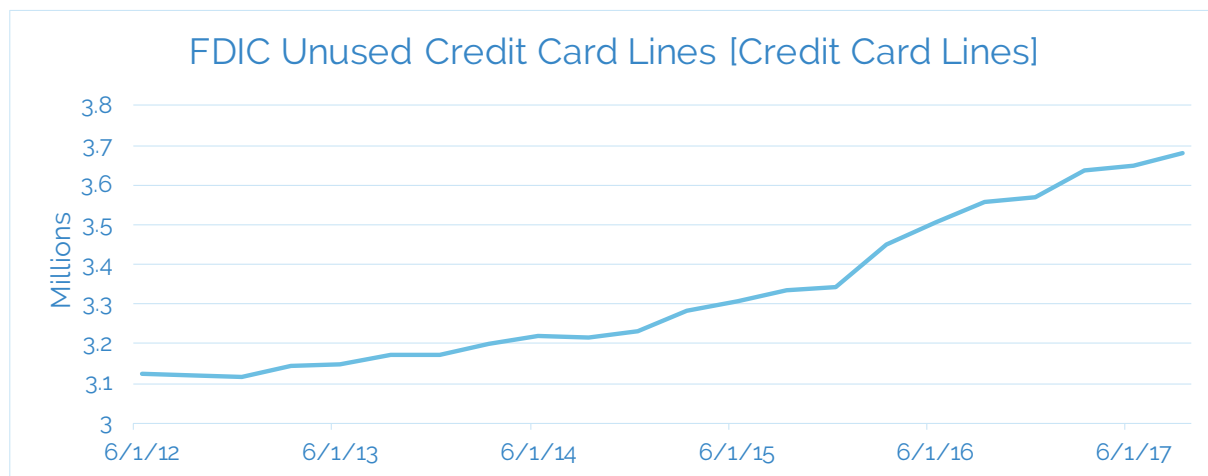
Procured by aggregating retail sales data from 4mn merchant locations to give a high-level view of transaction and dollar volume growth by payment type.

### FDIC Industry Credit Card Loans



An industry growth driver that consists of the amount of managed credit card loans, calculated by summing the FDIC Industry Credit Card Loans and the FDIC Industry Securitised Credit Card Loans.

## FDIC Unused Credit Card Lines



An industry growth driver that consists of tracked aggregate assets and liabilities of banks within an economy -- including private or commercial banks, central banks or both.

## Financial Analysis

On April 02, 2018, Net Element ("NETE" or the "Company") reported its FY17 financial results and presented updates on recent strategic initiatives. Revenues increased organically 11% yoy to US\$60.1 million where US accounted for 85% of total revenues and international accounted for 15%. Gross margin slightly decreased from 15.8% in 2016 to 14.7%, given increased business mix from North American Transaction Solutions and a decrease in Digital Provider business that had higher margins.

## Income Statement

Income Statement Summary	12/31/17	12/31/16	12/31/15	12/31/14
Revenue	60.1	54.3	40.2	21.2
Operating Income	-8.6	-8.8	-10.5	-7.2
Pretax Income	-10.0	-13.6	-13.3	-10.2
Income bef XO Items	-10.0	-13.6	-13.3	-10.2
Net Income	-9.9	-13.5	-13.3	-10.2
Basic EPS Before XO Items	-5.0	-10.3	-24.1	-28.9
Basic EPS	-5.0	-10.3	-23.2	-27.0
Diluted EPS Before XO Items	-5.0	-10.3	-24.1	-28.9
Diluted EPS	-5.0	-10.3	-23.2	-27.0
Dividends per Share	0.0	0.0	0.0	0.0
EBITDA	-6.1	-5.4	-8.0	-4.9
Return on Common Equity	-115.4	-210.2	-211.1	0.0

## Balance Sheet

Balance Sheet Summary	12/31/17	12/31/16	12/31/15	12/31/14
Total Current Assets	19.0	9.2	7.3	4.9
Total Long-Term Assets	13.3	14.0	15.6	9.4
Total Assets	32.3	23.2	22.9	14.3
Total Current Liabilities	14.7	15.5	10.4	5.6
Total Long-Term Liabilities	4.5	3.8	3.4	3.2
Total Liabilities	19.2	19.3	13.9	8.8
Total Shareholders' Equity	13.1	4.1	9.0	5.5
Shares Outstanding	3.9	1.5	1.1	0.5
Book Value per Share	3.4	26.0	7.9	11.4
Tangible Book Value / Sh	0.1	-60.2	-5.5	-8.6
Shareholder Equity/Total Liab	40.7	17.5	39.5	38.3

## Cash Flow Statement

Cash Flow Summary	12/31/17	12/31/16	12/31/15	12/31/14
Net Income	-9.9	-13.5	-13.3	-10.2
Depreciation and Amortization	2.5	3.5	2.5	2.4
Change in Working Capital	10.7	-3.2	-2.4	7.2
Cash - Operating Activities	-5.0	-3.3	-1.7	2.3
Capital Expenditures	-1.9	-1.3	-0.9	-1.0
Cash - Investing Activities	-1.8	-1.5	-4.4	-1.8
Cash - Financing Activities	17.6	4.4	6.5	0.1
Net Changes in Cash	10.7	-0.4	0.5	0.4
Free Cash Flow	-6.9	-4.6	-2.3	1.5
Free Cash Flow / Basic Sh	-3.5	-35.2	-3.6	4.0
Free Cash Flow / Diluted Sh	-3.5	-35.2	-3.6	4.0
Cashflow per Share	-2.6	-25.1	-2.6	6.1

## Capital Structure

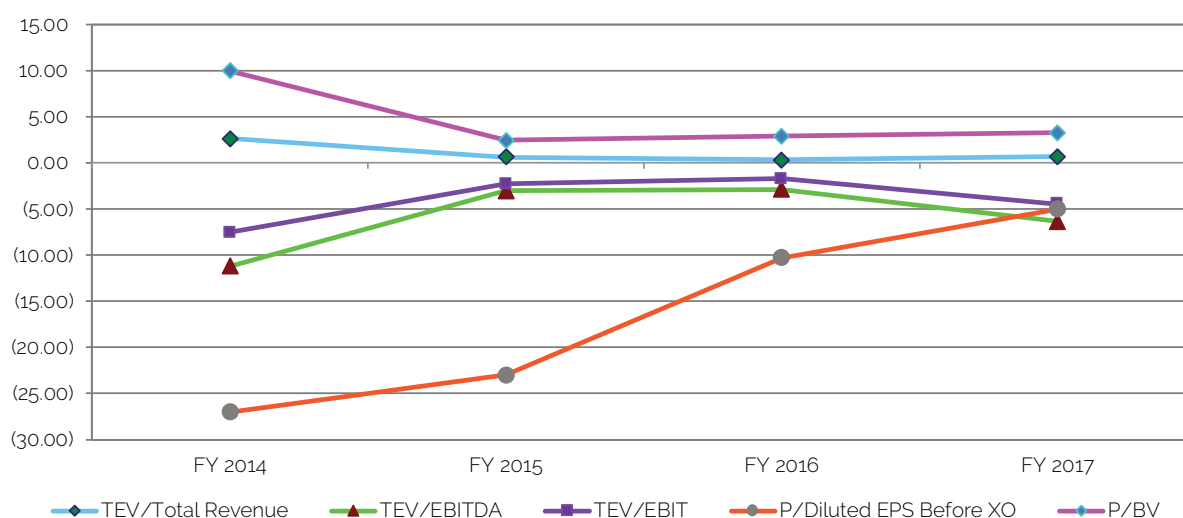
Current Capitalization (USD)	12/31/2018	Capitalization Chart	Current	ROE - Basic	USD
Share Price	7.5			<b>Profit Margin</b>	<b>-16.5</b>
x Shares Out.	3.9			Net Profit	-9.9
<b>- Market Capitalization</b>	<b>29.1</b>			Sales	60.1
- Cash and Equivalents	11.3			<b>x</b>	
+ Total Debt	7.0			<b>Asset Turnover</b>	<b>2.2</b>
+ Pref. Equity	0.0			Sales	60.1
+ Total Minority Interest	0.0			Assets	32.3
<b>- Total Enterprise Value (TEV)</b>	<b>24.8</b>			<b>x</b>	
Book Value of Common Equity	13.2			<b>Equity Multiplier</b>	<b>2.5</b>
+ Pref. Equity	0.0			Assets	32.3
+ Total Minority Interest	0.0			Equity	13.1
+ Total Debt	7.0			-	
<b>- Total Capital</b>	<b>20.2</b>			<b>ROE</b>	<b>-87.9</b>



## Valuation Analysis

### Valuation Multiples

For the Fiscal Period Ending	FY 2014	FY 2015	FY 2016	FY 2017
TEV/Total Revenue	2.59	0.60	0.29	0.64
TEV/EBITDA	(11.23)	(3.04)	(2.89)	(6.36)
TEV/EBIT	(7.58)	(2.31)	(1.76)	(4.49)
P/Diluted EPS Before XO	(27.00)	(23.00)	(10.30)	(5.04)
P/BV	9.94	2.39	2.89	3.25



### Relative Valuation Analysis

Company	Ticker	Mkt Cap	EV	P/S	P/E	P/FCF	EV/TTM EBITDA	EV/TTM EBIT
CIELO SA	CIEL3	\$16,723	\$18,805	4.78	13.68	10.99	11.86	16.37
WORLDPAY INC	WP	\$25,338	\$30,986	3.22	256.00	19.25	31.94	28.74
TOTAL SYSTEM SERVICES INC	TSS	\$15,416	\$18,239	3.16	33.98	19.80	15.79	22.85
GLOBAL PAYMENTS INC	GPN	\$17,395	\$21,525	4.24	43.27	51.05	18.87	29.24
EVERTEC INC	EVTC	\$1,179	\$1,748	2.90	18.75	8.77	9.85	15.50
QIWI PLC	QIWI	\$1,131	\$771	3.11	20.47	20.38	9.10	9.77
Median		\$16,069	\$18,522	3.19	27.23	19.52	13.82	19.61

## Management Overview

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### Oleg Firer - Chief Executive Officer / Director

Mr. Firer has been CEO and Director since 2013, after serving as Executive Chairman of Unified Payments from 2011 to its acquisition by NETE's subsidiary, TOT Group, Inc, in 2013. Prior to this role, Mr. Firer served as Executive Chairman of Unified Payments, leading the company to 23,646% revenue growth over a 3-year period and a #1 ranking for fastest-growing company by Inc. Magazine in 2012. From 2004 till 2012, Mr. Firer served as President, CEO, and Secretary of Acies Corporation -- an SMB payment processing provider. Prior to this, Mr. Firer served as President of GM Merchant Solution, Inc and Managing Partner of GMS Worldwide until its 2004 acquisition by Acies Corporation. Between 2002-2003, Mr. Firer served as COO of Digital Wireless Universe. From 1998 to 2001, Mr. Firer served as VP of SpeedUS Corp.

As of January 2018, Mr. Firer has been Chairman of Supervisory Board of Eastern Caribbean Blockchain Association. Also, Mr. Firer has been Chairman of the Board of Star Capital Management since 2011. Mr. Firer serves on various committees of the Electronic Transaction Association (ETA).

### Jonathan New - Chief Financial Officer

Mr. New has served as CFO since 2012 and was CFO of NETE's predecessor beginning 2008. Mr. New began his career with Accenture and has over 35 years of corporate accounting experience with companies including Haagen Dazs, RAI Credit Corporation, and Prudential of Florida. Mr. New earned his BS in Accounting from Florida State University and is a member of the Florida Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

### Steven Wolberg - Chief Legal Officer / Secretary

Mr. Wolberg has been Chief Legal Officer and Secretary since 2013. From 2009 until 2012, Mr. Wolberg served several roles at Acies Corporation.

## Risk Considerations

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**Rapidly increasing competition in the payments space and ever-changing landscape.**

In general, as technology evolves at an exponential pace, the competitive environment dynamically shifts. Aside from tech-based threats, financial services companies may pose an existential threat as the industry takes shape.

**Reliance on third-party processors and service providers.** NETE relies on its partnerships with numerous payment processing organizations to permit card authorization, data capture, settlement and merchant accounting services, etc. Given that many of these organizations are also competitors and long-term agreements are not in place, the relationship is vulnerable.

**Reliance on independent sales groups ("ISG") and similar non-bank sales groups to acquire merchant accounts is tenuous.** ISGs are companies that provide introductions to service providers and other key targets. These arrangements are typically non-exclusive and the ISGs are often contracted concurrently by competitors.

## JGR Capital Information

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## Disclosure

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