



August 8, 2018

SURGE HOLDINGS, INC.

(OTCQB – SURG)

Price Target: \$3.25

Rating: Speculative Buy

SURGE HOLDINGS, INC.

The Go-To Provider Set to Enjoy *Surge* in Revenue

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COMPANY SNAPSHOT

Surge Holdings, Inc., is a publicly traded company that wholly owns subsidiaries utilizing emerging technology to improve the quality of life for the unbanked, under-banked, and the overlooked. Current holdings include business verticals and offerings in Telecommunications, Blockchain/ Fintech Software as a Service (SaaS), Cryptocurrency Asset Mining, and Social Media Digital Marketing.

KEY STATISTICS

Price as of 8/7/18	\$0.3875
52 Week High – Low	\$1.45 - \$0.16
Est. Shares Outstanding	83.0M
Market Capitalization	\$32.1M
Average Volume	55,996
Exchange	OTCQB

COMPANY INFORMATION

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 4340 S. Valley View, Suite 230
 Las Vegas NV 89103

Web: www.SurgeHoldings.com
 Email: invest@surgeholdings.com
 Phone : 800.760.9689

INVESTMENT HIGHLIGHTS

Marrying a history of success in the space by its CEO with unique, compelling offerings, Surge Holdings, Inc. is primed to emerge as a leader in serving the value minded, underserved, unbanked and underbanked consumers. Surge is targeting the financial technology services and prepaid/no-contract wireless services segment, both multi-billion-dollar opportunities.

Based on industry estimates, the market is huge. Currently, 77M customers utilize prepaid wireless services, growing to 93M+ and hundreds of thousands of business are prime targets as Surge merchant and ISO network members.

Surge’s innovative integrated approach has already resulted in a tremendous deal that if fully deployed, could be worth as much as \$100M in annual revenue alone. Clearly, the Company’s Blockchain Fintech platform will attract similar arrangements with the purpose of delivering countless products to corner markets.

Our preliminary estimates could prove to be conservative as the timing and order of magnitude of business could result in exponential, sequential top-line growth. At present, we forecast \$25.3M in sales this year and \$65.5M in revenue next year with EPS of \$0.13.

In our view, the stock reflects legacy business only and the near-term bottom while even our muted forecast should generate major upside. Our \$3.25 target is based on 25x FY19E EPS and 4.2x our current FY19E sales.

COMPANY OVERVIEW

Surge Holdings, Inc. (OTC – SURG – Speculative Buy) not only represents multiple shots on goal via its highly targeted business lines serving the same, large, underserved markets, but it represents an unusual integrated approach. The Company is targeting the multi-billion dollar industry represented by 300,000+ corner store/bodega, convenience store, wireless dealer market with prepaid wireless, bill payment and related services to the underserved and underbanked markets. The prepaid/no-contract wireless market is slated to rise from 77 million subscribers to 82 million next year while the combined unbanked and underbanked markets represent 58 million consumers.

Surge is building a merchant network of independent stores catering to underserved consumers by providing them an all-in-one Blockchain-supported PoS and payment processing software application platform (SaaS model) whereby they offer low-income customers:

- *Loadable debit cards with Mastercard/ Visa logos*
- *Utility and telecom bill pay to all leading prepaid providers*
- *SurgePhone Wireless Service*
- *SurgePhone Androids*
- *Money Orders*
- *Pinless international calling cards*
- *Remittance and money transfers*

It is a win-win-win for all parties. **Merchants** get a profitable, scalable, blockchain-supported application that can easily bolt on new products and services. **Customers** truly have the ease of one-stop shopping and bill payment with the ability of earning rewards for transaction execution. **Surge** wins via revenue per store based on service fees, transaction fees, Surge exclusive products and services sales, etc.

A unique aspect of the software is the connection to the store Surge is making through its dealer portal. Surge will leverage this mutually profitable relationship to distribute other products including not only financial and technology products, but Surge is already negotiating offering products such as energy drinks, snacks and CBD oils. Surge has stated its goal is to become the one-stop portal for one-stop shopping. In essence, Surge is set to serve as an Amazon provider Prime to the corner markets (gain the door with aggressively priced prepaid products and services like Amazon using books to build the distribution gateway to our homes.)

The Company recently announced a landmark deal with the Oklahoma Grocers Association in what we believe is the first of many to come as part of a similar, and eventual national rollout. This July 2018 agreement calls for the Oklahoma Grocers Association to actively promote Surge products and services to its 2,000 retail member stores. Based on our estimates, once fully deployed, this deal could be worth \$96M annually.

Given their unique offerings and with the expectation that future deal such as the Oklahoma Grocers Association agreement are in the offing, we believe that these shares reflect only a fraction of their true worth. In fact, we believe the stock is absurdly low and essentially at bottom as it reflects only the True Wireless and KSIX Media businesses (2x revenue). Since the business model builds revenue growth both by further implementation

inside existing stores along with new deployments, Surge could enjoy swift, exponential and sequential top-line growth, depending upon sales timing and the order of magnitude of its initiatives. product deployment.

Thus, we preliminarily forecast \$25.3M in sales this this year and \$63.5M in 2019, with EPS of \$0.13. It should be noted that these projections could prove to be conservative given the exponential growth nature of the Company’s business model. Separately, we believe that Surge will emerge as an attractive takeover target by major payment processors and providers in the next 2-3 years. Against this backdrop, by employing a conservative 25x P/E on FY19E EPS, and a price/sales multiple of roughly 4.2x on FY19E revenue, we derive a price target of \$3.25. We rate these shares Speculative Buy.

INDUSTRY OVERVIEW: UNTAPPED DEMOGRAPHICS

Too often, businesses and investors focus on high-end technologies, narrow, high-end markets, or even the perceived “mass market”. In contrast, Surge Holdings’ multi-billion-dollar target market remains the underserved, underbanked consumer along with the businesses that, not coincidentally, are themselves underserved. Before we review each vertical market for the key company holdings, in the words of Jerry Seinfeld:

“Who are these people?”

The Consumers

Surge Holdings’ target market tends to skew towards low income consumers; some may be older or foreign-born and live in both rural and urban communities. Despite these variables, the purchase of goods and services, along with payment processing remain key common threads among this group. Typical characteristics of this demographic:

- Utilizes no contract wireless service providers
- May not have a checking account and/or credit card
- Conducts business (pays bills, buys goods/services) in the same retail location multiple times weekly



Business transacted via cash, money orders, prepaid debit cards, and decentralized, service provider-based systems. The numbers are staggering. There are an estimated **77 million* branded and non-branded prepaid wireless customers** in the U.S. today and that number is set to climb to 82 million next year.

(*The figure is based on our estimates and recent news: <https://www.prepaidphoneneeds.com/2018/05/first-quarter-2018-prepaid-mobile.html>).

Figure 1: SurgePhone and SurgePays Sign on Storefront
 Source: Surge Holdings

According to a May 2018 Federal Reserve report on *Economic Well-Being of U.S. Households*, an estimated **58 million unbanked and underbanked adults** reside in the U.S. today. (<https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf>). The “underbanked” is defined as those consumers lacking sufficient access to traditional financial services and products. **Make no mistake---there is considerable overlap between the unbanked/underbanked and no contract wireless subscribers.**

The Businesses

Quantifying the size of the retail opportunity for Surge is challenging—due to its sheer size, as each store could be worth \$2000 - \$4000 per month in revenue to the Company. Considering the company is largely targeting ISOs (independent sales organizations), which include corner/small grocers, ethnic stores, wireless businesses, convenience stores, gas stations and the like, the number is likely north of 300,000. Below is a high-level view of the market opportunity, at the business level.

Business Opportunity Snapshot

Convenience Stores: 154,535; 122,522 selling fuel (Source: 2017 NACS industry report)

Ethnic Stores: 44,751 (Source: 2017 IBISWorld industry report)

Wireless Dealers: 30,000 independents (Source: NWIDA)

Sub-Total:	229,286 (excludes other corner grocers/bodegas)
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Telecom Services

In the wireless communications world, we often think of iPhones, Android smartphones, high-end features and functionality. While these phones and post-paid (contract) services with the “Big 4” dominate our perceptions of the market, the 77 million users (and growing) beg to differ. These customers are cost-conscious and convenience-centric in their buying and paying habits. Thus, branding and a broad array of features beyond talk, text, and certain data levels are not key selling points.

These types of service offerings, along with phones, are sold at and via the sites noted above. Often, the phones, especially smartphones skew higher pricing-wise as the contract deals at the main providers include the sale of phones at a subsidized cost. Dozens of providers exist and utilize the backbone of one or more of the “Big 4” wireless providers. Some of the providers own no-contract, prepaid firms operating under *Boost Mobile*, *Cricket*, and others. The biggest player, Tracfone Wireless, with an estimated 22.7M subscribers is owned by America Movil, a Mexico-based firm. In addition to the stores above, we should note that major retailers such as Walmart (NYSE – WMT – NR) also offer no contract phone plans and phone.

Plans targeting seniors, the elderly, and ethnic markets are also not uncommon. Moreover, it should be noted that some firms, such as Surge’s True Wireless, offer Lifeline services. The FCC defines the program as follows:

Lifeline is the FCC's program to help make communications services more affordable for low-income consumers. Lifeline provides subscribers a discount on monthly telephone service purchased from participating providers in the marketplace. Subscribers can also purchase discounted broadband from participating providers. The discounts, which can be applied to stand-alone broadband, bundled voice-broadband packages - either fixed or mobile - and stand-alone voice service - will help ensure that low-income consumers can afford 21st-century broadband and the access it provides to jobs, education and opportunities.

Infrastructure

Much like the unbanked and underbanked are largely underserved by providers, the targeted businesses do not always have access to an integrated, broad-based PoS (point of sale) offering. As a result, they often use disparate systems for various merchant services such as bill payments, product purchases, etc. To this end, leading payment processing companies tend to dominate the space. However, they tend to be hardware-based and require multiple machines and systems, with varying fee structure. In our view, the market is actively seeking a comprehensive, all-encompassing, user-friendly offering that aids in product sales and service fees.

LEVERAGING OPPORTUNITY IN A HUGE UNDERSERVED MARKET

Background

The Surge Holdings of today is different from its predecessor firm. Moreover, management has done an enviable job of substantially improving the capital structure and dramatically changing its business opportunities and prospects. As a result, Surge offers investors great upside potential with markedly reduced risk, in our view. First, a brief history.

Surge completed a reverse merger with KSIX Media Holdings, Inc., a company we previously covered in early 2016. KSIX, a social media and digital marketing company remains a subsidiary of the Company today. While it was revenue-generating, KSIX was not profitable and over time had an overhang of convertible debt weighing in on the stock.

Fast forward to today, and Surge is diversified company with revenue expected to exceed \$25M this year, with meaningful profitability. Plus, the convertible debt has been eliminated and the stock has up-listed from the pink sheets to the OTCQB. Here is how this happened.

The Company formally changed its name to Surge Holdings, Inc. on December 21, 2017. On April 11, 2018, Surge Holdings, Inc., a Nevada corporation, True Wireless, Inc., an Oklahoma corporation ("TW") and TW Acquisition Corporation, a newly formed Nevada corporation (hereafter "Acquisition Sub"), completed the merger contemplated by the Agreement and Plan of Reorganization (hereafter the "Merger Agreement"). Pursuant to the terms of the Merger Agreement, TW merged into Acquisition Sub in a transaction where TW was the surviving company and become a wholly-owned subsidiary of the Company. The transaction was structured as a tax-free reverse triangular merger. In addition to the 12,000,000 shares of Company Common Stock and \$500,000 cash which was been previously paid to the shareholders of TW, at the closing of the merger transaction other considerations were paid, including common stock, a promissory note, and preferred shares.

True Wireless is a wireless company providing Lifeline services to 60,000 customers in a handful of states. The Company generated \$13.4M in 2017 and already \$3.4M in 1Q18, with an impressive 12% operating margin. In an innovative and shareholder-friendly post-merger event, the terms of the deal were changed. At the time of the original merger transaction in April 2018, the Company had 231.7M shares outstanding. Following an exchange of much of the common stock from the deal to roughly 600,000 of a new Series C Preferred Stock registration. Each share of Series C Preferred Stock is convertible into 250 shares of Company Common Stock (the same conversion rate utilized in the exchange transaction) but is only convertible on the first to occur of the Volume Weighted Average Price trading of the common is at least \$2.00, or June 30, 2019.

The upshot is that instead of a four-fold increase in common stock, the number of shares outstanding remained largely the same. In addition, the terms of the exchange demonstrate extreme confidence that these shares will dramatically exceed the \$2.00 mark in the next year, which is a big positive for new investors who have an opportunity to invest in the ground floor of the new and improved Surge Holdings.

The Big Picture

The Company's target markets represent large market opportunities. However, it is the integrated, multi-platform cross-sales approach to the same large, underserved market that makes it both unique and likely to achieve great success. Surge is building a merchant network of independent stores catering to underserved consumers by providing them an all-in-one PoS and payment processing software application (SaaS model) whereby they offer customers:

- *Loadable debit cards with Mastercard/ Visa logos*
- *Utility and telecom bill pay to all leading prepaid providers*
- *SurgePhone Wireless Service*
- *SurgePhone Androids*
- *Money Orders*
- *Pinless international calling cards*
- *Remittance and money transfers*

It is a win-win-win for all parties. **Merchants** get a profitable, scalable, blockchain-supported application that can easily bolt on new products and services. **Customers** truly have the ease of one-stop shopping and bill payment with the ability of earning rewards for transaction execution. **Surge** wins via revenue per store based on service fees, transaction fees, Surge products and services sales, etc. In addition to marketing to and through its merchant network, the Company will leverage its digital marketing subsidiary to promote its offerings and publicize specials to create urgency and generate business, along with providing similar services to other clients.

Surge Communications

Surge Communications operates via two business lines: *True Wireless* and *SurgePhone*.



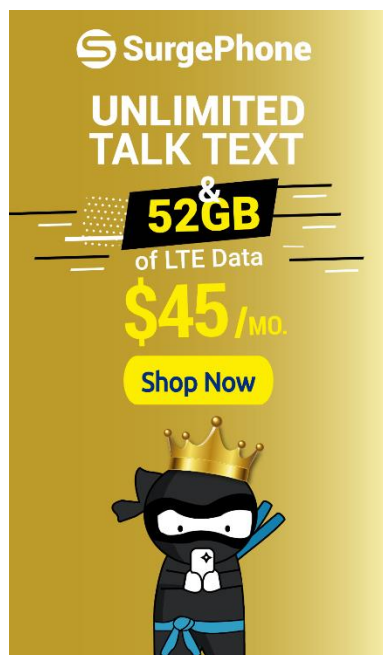
True Wireless LLC is a licensed ETC wireless carrier in 5 states, including Arkansas, Maryland, Rhode Island, Oklahoma, and Texas. Utilizing all 4 major U.S. wireless backbones, *True Wireless* provides subsidized wireless service

to over 60,000 veterans and other qualifying federal programs such as SNAP and Medicaid. Customers choose from a wide variety of phones, from simple feature phones to iPhones, while taking advantage of other services not offered by other lifeline companies. *True Wireless* offers customer service 7 days a week with the aid of Surge’s customer service center in El Salvador, led by over 100 bi-lingual contractors. Customers also have access to the VOOZ app, which provides unlimited talk and text.

In May 2018, the Company entered into an exclusive 20 state agreement to market the federally subsidized Lifeline telephone service, which should have a major impact on business beginning later this year. The agreement with TerraCom, Inc., an Oklahoma corporation, enables Surge to leverage its digital marketing subsidiary, *DigitizeIQ*, to drive enrollments through social media advertising. The package will consist of a free smartphone that comes with unlimited texting and a set number of minutes and data at no monthly cost to the customer.



Launched in April of this year, *SurgePhone* mined the data from hundreds of millions of dollars in network transactions to create the three most popular plans by demand in the U.S. By leveraging control of the marketing, distribution and payments, *SurgePhone* can offer standard and special plans at prices 15% – 40% lower than competitors. The Company just introduced 20,000 custom Android phones which provide an interesting advantage, going forward. Clearly, *SurgePhone* is positioning itself as the best bang for the buck as both a low-cost, and high-quality provider. Here are examples of some recent offerings:



SurgePhone
UNLIMITED TALK TEXT
 &
52GB
 of LTE Data
\$45 /MO.
 Shop Now



SurgePhone
UNLIMITED TALK & TEXT
52GB of LTE Data
 Only **\$45/MO**
 SHOP NOW

\$30 /MO	\$20 /MO	\$10 /MO
Unlimited Talk Unlimited Text Unlimited Data	1,500 MinTalk Unlimited Text 2GB LTE Data	1,000 MinTalk Unlimited Text 1GB LTE Data
SHOP NOW	SHOP NOW	SHOP NOW

The Company plans to offer new offerings for specific target markets, later this year. These include *Heart Mobile* (wireless service for those with disabilities and the elderly), and *Contigo Mobile* (Hispanic-centric wireless service). Proposed pricing is not available currently, but we believe that such targeted services tend to be popular with the underlying segments, even at higher than average fees.

SurgePays

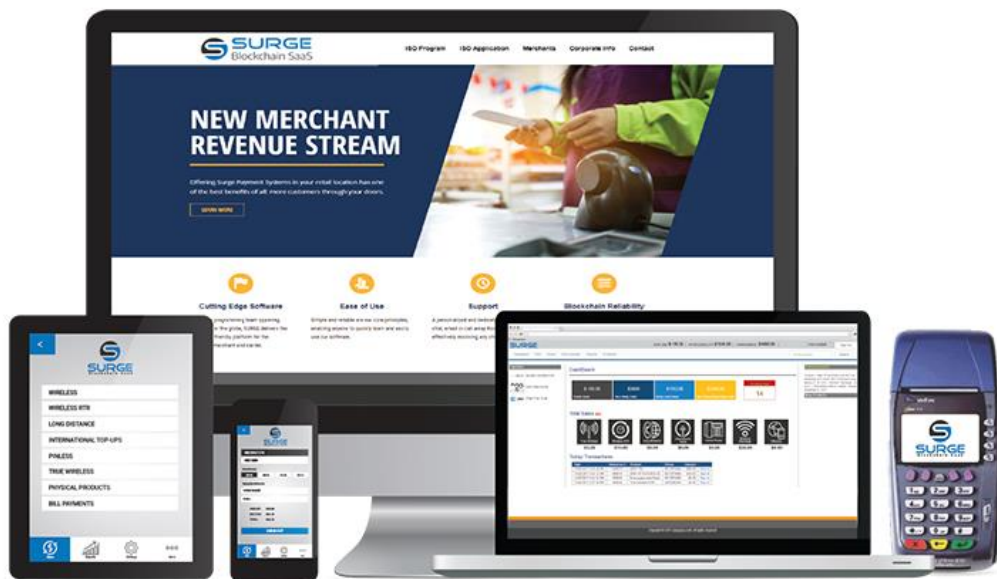
In our view, the Surge Blockchain Fintech line is the secret sauce that bring the merchant and customer together and is the tie that binds merchants with Surge today and could be the driver that leads to an acquisition in the next 2-3 years.



SurgePays is a high revenue product and service delivery software platform providing all forms of telecom products to corner stores, wireless stores, gas stations and ethnic stores. CEO Brian Cox grew a similar FinTech company from \$0 to over \$10mil/mo. and intends to lead the charge for the national network buildout. Surge signed with the state of Oklahoma as the preferred vendor to process rural utility payments with a goal of onboarding 10 towns by EOY 2018. The Blockchain FinTech Software as a Service (SaaS) launched in January 2018. Key features include:

- Cutting Edge Software
- Ease of Use
- Support
- Blockchain Reliability

The Company's all-in-one solution will keep clients connected with the top prepaid carriers and bill payment processing technologies with a SaaS offering that has no upfront costs. Moreover, it offers ease of use, functionality and useful reporting. To aid in ensuring Tier 1 service and dealer support, the Company has dedicated reps and decades of experience servicing merchants and ISOs with a keen understanding of the unbanked customer market.



Major Revenue Driver

The Company recently announced a landmark deal with the Oklahoma Grocers Association in what we believe is the first of many to come as part of a similar, and eventual national rollout. This July 2018 agreement calls for the Oklahoma Grocers Association to actively promote Surge products and services to its 2,000 retail member stores.

In our view, this huge deal was struck due to the January 2018 agreement to partner with the Oklahoma Municipal League (OML) in facilitating utility payments for up to 1.7 million households across the state. The Surge Blockchain software platform licensing technology assists residents of Oklahoma in making more convenient and timely payments and represents the first blockchain company to sign a deal with a government entity.

The Surge sales and support team will immediately begin setting up branded point of sale materials and training member stores for *SurgePays* Blockchain Platform (providing top-ups for all prepaid companies) and the *SurgePhone* discounted wireless service. Surge CEO believes that due to the foot traffic of independently owned supermarkets and convenience stores, these locations will be great points of distribution for not only their existing products, but additionally for their Surge Androids, accessories and other upcoming Fintech and physical products launching this year.

While meaningful revenue is not likely to be recorded until 4Q18, we believe that if all services are fully deployed in all 2000 locations, revenue of \$2000-4000/month per store is possible, as compared with half this figure for typical stores. Thus, this deal alone could be worth as much as \$96M in revenue per year—a figure investors have surely not yet realized, creating an unusual upside opportunity at current levels.

Looking Ahead

As noted earlier, the Company has a roadmap for new offerings and deployment. This includes cryptocurrency mining (its progress and strategy will be elucidated later this year) and third-party revenue growth from the former KSIX and DigitizeIQ businesses, now that the firm is on much greater financial footing.

With a CEO that has already engineered a strategic, tactical, and financial/capital structure turnaround and has a history of success in building companies in this space, Surge Holdings is on course to generate meaningful revenue this year with hockey-stick type top-line growth next year and in 2020. Considering the expectations of broad deployment and solid operating profitability, we believe that Surge could emerge as an attractive takeover target in the next 2-3 years.

SURGE HOLDINGS LEADERSHIP TEAM

Brian Cox, Chairman and Chief Executive Officer

Mr. Cox founded his first Telecom company from a spare bedroom in 2004. Leaning on a successful background in collegiate athletics, Brian grew the company organically and through acquisition to the largest privately-owned home phone company in the country. Transitioning to wireless and FinTech (financial technology), Brian has led multi-location organizations of over 1,400 people while achieving over \$100s million in revenue. Being a visionary that delivers, Brian led the efforts of selecting the management team with the specific goal of creating an industry leader.

Anthony Nuzzo, Chief Operating Officer

Mr. Nuzzo has founded and guided companies that have been recognized multiple times by Inc. 500 Fastest Growing Companies annual publication. As an expert in multi-location, multi-national business processing / call center management, Anthony has presided over companies with 100s of employees, millions in revenue while under extremely strict compliance. Mr. Nuzzo has a successful track record of using data to ensure operational excellence while scaling revenue without diminishing returns.

Brian Speck, Chief Financial Officer

Mr. Speck has over fifteen years of experience in accounting including eleven years in public accounting. Most recently, Brian has served as Brio Financials' Director of Financial Reporting in support of both public and private clients. Receiving his Master of Science in Accounting from Kean University, Mr. Speck has represented companies in various industries: Technology/Internet, Manufacturing, Oil and Gas, Food and Beverage, Bio-technology, Software, Medical Device, Entertainment, Hedge Funds and Insurance.

David Ansani, Chief Administrative Officer, Secretary

Mr. Ansani has a background in legal compliance, negotiation, finance, due diligence and audit. David is a corporate expert specializing in administrative back-office accountability while assisting in general business compliance aspects including mergers and acquisitions. He earned a Master of Business Administration in Strategic Management/Organizational & Managerial Behavior from the University of Chicago and Juris Doctor from IIT/Chicago-Kent School of Law.

Carter Matzinger, President, Media

Mr. Matzinger is a results-driven entrepreneur for over 20 years focusing on the online and mobile marketing industry. He holds a deep insight into the world of online marketing, including content development, emailing, social media, and performance-based marketing such as CPA, PPC, and CPI. Carter's main area of focus is driving revenue through affiliates, leads, Google, Facebook, Instagram and Snapchat marketing and other revenue growth and expansion in the online ad network sector.

Jack Colton, VP of Brand Management

Bringing to Surge Holdings nearly twenty years' experience in online marketing, conceptual start-ups, and branding, Jack serves as Surge Holdings' VP of Brand Management to style and communicate the rollout of our Blockchain transactions platform and telecom products. Mr. Colton is accredited as the founder and namesake of one of the most-visited Las Vegas tourism websites online and has worked extensively in marketing the hospitality sector, regularly having received media coverage, accolades, and serving as celebrity journalist Robin Leach's guest columnist for numerous publications. With a strong foundation in overseeing all aspects of digital start-ups, Jack looks forward to scaling each of our products all the way from concept to mass market with a constant eye towards innovation.

John Mott, VP of Blockchain Technology

Thirty plus years of software development experience which includes a diverse skillset including an early operating systems programming background in C/C++ and Assembler. For the last 15 years John has focused on web technologies, C#, .NET, MVC, MSSQL, PHP/MySQL, JavaScript, AJAX, JSON and JQuery with the most recent focus on Blockchain technologies, Ethereum, Cryptocurrency/Digital Assets and distributed ledgers with regards to real world applications.

Manny Flores, Independent Board Member

Mr. Flores currently sits on the government appointed Illinois Blockchain Taskforce. Manny has held various prominent financial regulatory positions including: Secretary - Illinois Department of Financial and Professional Regulation, Director - Illinois Department of Financial and Professional Regulation, Chairman - Illinois Commerce Commission, Alderman - City of Chicago, 1st Ward, and Congressional Aide - U.S. House of Representatives. Manny is a graduate of The George Washington University Law School.

Gary McCarter, Assistant to the Chairman of the Board

Versatile management veteran with Big Four audit experience (Deloitte) and extensive experience in driving revenue growth and bottom-line improvements through sound financial management and strategic business planning. While holding multiple CFO level positions with both public and private institutions domestic and international, Gary has a proven track record of strategic and financial planning, capital growth initiatives, mergers and acquisitions, business process improvement, P & L accountability and influencing actions for peak performance and profitability and negotiating solutions and applying best practices.

Margarita Elizondo, Strategic Social Responsibility

Drawing from experiences as an Accessibility Marketing Consultant, Public Relations Director and contributing writer for wheel-life.org, Maggie organizes and serves as a liaison for Surge Holdings to the membership of the disability communities with the goal of utilizing our corporate tools to protect and improve the quality of life for people with disabilities. Some of the significant awards Maggie has received are Ability Awareness Hero of the Year Award recognized by Union Bank and Channel KPBS, Ms. Wheelchair California, Shining Star Award of Excellence recognized by MWCC, Certificate of Recognition recognized by the City of Los Angeles and San Diego Certificate of Recognition recognized by Mayor Jerry Sanders.

FINANCIALS

It should be noted that our forecasts for Surge are preliminary at this time, as we believe we will be better able to gauge the order of magnitude of sales ramps for the varying “silos” later this year. As a result, our current projections could prove to be conservative.

Given the history and performance of just the True Wireless and digital media segments, investors should feel very comfortable with what view as a core, base revenue from which fast-growing top-line performance will occur. For 2017, True Wireless and Surge Holdings (digital media only) generated \$13.5M and \$1.4M in revenue respectively. For 1Q18, these segments recorded \$3.4M and \$440K in revenue, with True Wireless generating an impressive 12% operating margin for the period. Against this base, the Company will, for the first time, record combined results beginning in the 2Q18 period, since the combination occurred in April of this year.

Surge Holdings, Inc.									
Pro Forma Projected Statements of Income									
(\$, thousands)									
	True Wireless								
	<u>2017A</u>	<u>1Q18A</u>	<u>FY17A*</u>	<u>1Q18A*</u>	<u>2Q18E**</u>	<u>3Q18E</u>	<u>4Q18E</u>	<u>FY18E</u>	<u>FY19E</u>
Revenue									
Telecom	\$13,460	\$3,431	\$0	\$0	\$3,800	\$5,500	\$9,000	\$18,300	\$29,000
Blockchain/Fintech	\$0	\$0	\$0	\$0	\$0	\$800	\$4,000	\$4,800	\$30,000
Digital Marketing	\$0	\$0	\$1,430	\$440	\$475	\$525	\$800	\$2,240	\$4,500
TOTAL REVENUE	\$13,460	\$3,431	\$1,430	\$440	\$4,275	\$6,825	\$13,800	\$25,340	\$63,500
Cost of Sales	\$8,096	\$1,751	\$733	\$268	\$2,223	\$3,481	\$6,900	\$12,468	\$29,845
Gross Profit	\$5,364	\$1,680	\$697	\$172	\$2,052	\$3,344	\$6,900	\$12,872	\$33,655
<i>Gross Margin</i>	39.9%	49.0%	48.7%	39.1%	48.0%	49.0%	50.0%	50.8%	53.0%
Operating Expenses									
Depreciation & Amortization	\$7	\$1	\$119	\$18	\$20	\$22	\$25	\$85	\$400
SG&A	\$5,153	\$1,270	\$2,647	\$508	\$1,800	\$1,900	\$3,500	\$7,708	\$17,000
Total Operating Expenses	\$5,160	\$1,271	\$2,766	\$526	\$1,820	\$1,922	\$3,525	\$7,793	\$17,400
OPERATING INCOME (LOSS)	\$204	\$409	(\$2,069)	(\$354)	\$232	\$1,422	\$3,375	\$5,079	\$16,255
<i>Operating Margin</i>	1.5%	11.9%	-144.7%	-80.5%	5.4%	20.8%	24.5%	20.0%	25.6%
Interest Expense	\$24	\$8	\$407	\$14	\$25	\$30	\$32	\$101	\$800
Change in Value Der. Liab			\$504	(\$34)	(\$25)	(\$25)	(\$25)	(\$109)	(\$125)
Settlement Gains	(\$2,588)		(\$1,000)	(\$69)	(\$50)	(\$60)	(\$70)	(\$249)	(\$300)
PRETAX INCOME	\$2,768	\$401	(\$1,980)	(\$265)	\$282	\$1,477	\$3,438	\$4,932	\$15,880
Income Tax									\$4,764
NET INCOME	\$2,768	\$401	(\$1,980)	(\$265)	\$282	\$583	\$3,438	\$4,932	\$11,116
<i>Net Margin</i>									
EPS			(\$0.03)	\$0.00	\$0.00	\$0.01	\$0.04	\$0.06	\$0.13
Shares Outstanding			76,183	80,000	83,000	83,000	85,000	85,000	87,000
^ denotes "combined results									
*denotes just SURG									
** denotes beginning of new combined company									
Sources: Surge Holdings, Inc. and Goldman Small Cap Research									

For 2Q18 we project total revenue of \$4.3M with essentially no profitability. This is based upon our expectation that the bulk of energy was spent on the combination itself, rather than top-line growth. For the full year 2019, we forecast \$25.3M in sales and EPS of \$0.03 with growth leaping to \$65.5M and EPS of \$0.13 in 2019. Clearly, these forecasts assume a slow deployment ramp with the Oklahoma Grocers, along with other opportunities. However, it is possible that *SurgePays* alone could generate \$65M in the 4th quarter alone next year while *SurgePhone* records \$29M in the 4th quarter of 2019 as well. It all depends on the timing and magnitude of the sales ramps. The key determinants are the exponential and sequential growth organic and inorganic growth rates.

RISK FACTORS

In our view, SURG's biggest risks relate to timing and the order of magnitude of sales and deployment/implementation. Pricing in the space and the introduction of new or competing approaches and technologies could also adversely affect the value of the Company's IP and hinder its business model efforts. Still, these risks are typical future concerns and are also consistent with firms of SURG's size and standing.

Volatility and liquidity are typical concerns for microcap stocks that trade on the stock market, especially those that are in the early stages of new business implementation. Finally, the shares outstanding of this stock could increase due to potential capital needs or to execute future acquisitions. However, since the proceeds of any future funding would be used in large part to advance exploration and development efforts, we believe that any dilutive effect from such a funding would be more than offset by related increases in market value. Management has already demonstrated it is adept and prudent with respect to such transactions.

CONCLUSION

Marrying a history of success in the space by its CEO with unique, compelling offerings, Surge Holdings, Inc. is primed to emerge as a leader in serving small businesses and underserved, unbanked and underbanked consumers. Surge is targeting the bill payment and prepaid wireless services segment, a multi-billion-dollar opportunity. Based on industry estimates, the market is huge. Currently, 77 million customers utilize prepaid wireless services, growing to 93 million along with 58 million unbanked or underbanked. Plus, hundreds of thousands of business are prime targets as Surge merchant and ISO network members.

Surge's innovative integrated approach has already resulted in a tremendous deal with the Oklahoma Grocers Association that if fully deployed, could be worth as much as \$100M in annual revenue alone. Clearly, the Company's Blockchain Fintech platform will attract similar arrangements.

Our preliminary estimates could prove to be conservative as the timing and order of magnitude of business could result in exponential, sequential top-line growth. At present, we forecast \$25.3M in sales this year and \$65.5M in revenue next year with EPS of \$0.13. In our view, the stock reflects legacy business only and the near-term bottom while even our muted forecast should generate major upside. Our \$3.25 target is based on 25x FY19E EPS and 4.2x FY19E sales. We rate these shares Speculative Buy.

RECENT TRADING HISTORY FOR SURGE HOLDINGS, INC.

(Source: www.Stockta.com)



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Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. In addition to his work leading GSCR, Rob serves as the Director of Research for Marble Arch Research, Inc. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

ANALYST CERTIFICATION

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

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