

Surge Holdings: Poised for Massive Revenue Growth

- Surge Holdings has grown from \$1 million/month in revenues in late 2017 to an expected \$1.5/million/month in Q4/2018.
- Based on a recently announced MOU with Pastime Foods, company revenues are poised for explosive growth in 2019 and 2020.
- The company offers a portfolio of wireless and payment services products and services tailored to the 77 million people without cell phone contracts and the 51% of the US who are credit challenged.
- Surge rapidly scales revenue via the development of a network of convenience store operators serving lower income consumers.

Surge Holdings is a rapidly growing OTC: QB wireless and fintech payment services company engaged in servicing lower and lower-middle income consumer needs. The Surge plan is to become a financial hub for people without ready access to a bank or those who need to conduct their financial affairs with cash. The company generates revenue in three product verticals; Surge Pays Portal, the company's SaaS services payment and services management system, financial products (pre-paid debit cards, wallets, and money orders), and cell phones. With its suite of products, Surge becomes a major profit partner for its network of convenience stores, bodegas, and independent grocery stores with additional sales available online.

Surge Holdings has grown from a pace of \$1 million in revenue per month in 2017 to nearly \$1.5 million per month in late 2018. A recent research report completed by Goldman Small Cap Research stated the "The key metric for investors: an estimated \$1.5M in monthly revenue per 1,000 stores, which should be continually replicated with greater sales penetration over time."

Business Model

The company business model is simple; develop a portfolio of products and services that target the unbanked and lower income population, then expand through relationships with a network of convenience store operators. The anchor product is the company's payment services software called Surge Pays Portal. The Surge Pays system is sold on a SaaS basis to convenience store operators. The system offers 'top-off' payment services. Top-offs are payments accepted at the store and transmitted to cell phone companies for service. Surge accepts payments for many of the major cell phone companies and those with smaller market shares. Top-off services earn the store operator a service fee while providing the customer with an opportunity to make an in-store purchase.

The Surge Pays system does much more than just allow a customer to pay for cell phone services. The same technology permits payments for utility bills, tax bills, and other recurring payments. Surge Pays accepts payments, or is in the process of implementing payment agreements, for over 1,200 products and government agencies. The company's financial products allow the unbanked to have access to bank-like debit cards, wallets, and other products that the banked population currently accesses through a multitude of financial services companies. Surge is creating an analogous environment for those forced or those who choose to conduct their financial lives without the use of credit or banks. The Surge financial products require customers to have pre-paid. The convenience store, through the Surge Pays system, becomes the 'bank' for the unbanked.

Cell phones are the physical piece of the puzzle. Smart phones allow consumers to access their Surge debit card, wallets, and other cash accounts without the need to physically come to the convenience store. Using Surge Pays, a smart phone can become a personal financial operations center for those without bank accounts.

Company Revenue Outlook

The revenue components that make up the company's 2017 and 2018 financials are going to change going forward. In the second half of 2018, as monthly revenues average \$1.5 million/month, \$1 million of the \$1.5 million are True Wireless and SurgePhone revenues. The balance includes some payment revenues and legacy revenues from the company's prior marketing operations.

Going forward, Surge Pays will become the dominant revenue producer, with the financial services and cell phone lines becoming secondary and tertiary revenue producers beginning in 2019 and 2020.

Recent News

As of early October 2018, the company services roughly 1,000 convenience stores with pending agreements to rapidly increase this total. Earlier in the 2018, Surge Holdings announced a goal of 15,000 convenience stores by the end of 2019. In early October 2018, the company announced a Memorandum of Understanding ("MOU") to add 40,000 locations from Pastime Foods. The Pastime Foods stores will replace their existing payment portal with Surge Pays, guaranteeing Surge \$1,500 a store in revenue. Surge can upsell their wireless and financial services through these stores for additional revenue.



If one considers that 1,000 convenience stores provides more than \$1,500/month/store in revenues, 20,000 stores could be worth in excess of \$30 million/month by year end 2019. Most companies going \$20+ million/month in revenues are looking at a NASDAQ listing. That is a growth rate worthy of serious consideration.

Value Proposition and Competitive Advantage

Once installed at a retail location, Surge Pays provides digital access to the retailer as well as an ACH connection to their checking account for payment transfer. This allows a retail operator to order goods online through Surge. The Surge Pays system produces a purchase order. The PO is sent to the manufacturer along with the money transfer to initiate a drop ships of goods from the manufacturer's warehouse.

This simple process is expected to revolutionize the industry. What once required a manufacturer's rep to visit a store can now be handled through a message sent through the Surge system. Coupled with Surge's business relationships, the Surge Pays software creates recurring revenue for the company, its contract sales force, and its convenience store clients. Surge Pays' advanced generation merchant services software, and the companies that accept payments through Surge, creates a new paradigm for these underserved markets. The system also creates a significant barrier to change for the retailer. The retailer knows that selling a Surge participating \$20 wireless plan earns them \$2 per month. As the number of subscribers grows, so does the retailer's monthly revenue.

History

The predecessor to the current Surge Holdings was a similar business, but one using rented technology. The company had a similar focus on the unbanked and convenience stores. While successful for several years, the company behind the 3rd party system was unwilling to update the system to include the many services made possible by technology.

CEO Brian Cox identified the specifications for a system built for modern times. He provided the vision for an integrated package of products and services sold through convenience stores. He oversaw the system's development at a cost of nearly \$3 million over 4 years. In September 2018, the Surge Pays system became operational after a period of extensive testing.

Company Sales Force

The company engages independent service operators (ISOs) as revenue partners to work with convenience stores. An ISO is a manufacturer's rep who sells a number of non-competing lines to a specific type of business in a region. Once an ISO installs the Surge Pays Portal, they share in a small percentage of the revenue processed through the Surge platform at that location. While creating new revenue streams for the ISO, it also provides another barrier to change.

Pastime Foods works with an estimated 40,000 stores nationwide. It has relationships with many more. The company contracts with manufacturer's reps to service these locations on a regular basis. The proposed agreement entails training Pastime's sales force to serve as Surge Holdings' field staff in implementing and training convenience store operators on the Surge Pays system. Pastime Foods believes it can on-board 50 to 100 stores/day. Surge management believes its existing operations can quickly scale to handle \$100 million in annual revenues.

Payment Services

Surge Pays Portal is the company's block chain-based merchant POS portal for payment services and ordering products. The block chain technology offers security and speed over many older convenience store systems. Surge Holdings has shown success in selling this product as a replacement for existing store systems and as an initial system for new locations. Offered on a SaaS basis, the Surge Pays offering allows a store operator to manage payments on a terminal while reviewing store progress via an Android app.

The Surge Pays program accepts payments for the following cell phone services,



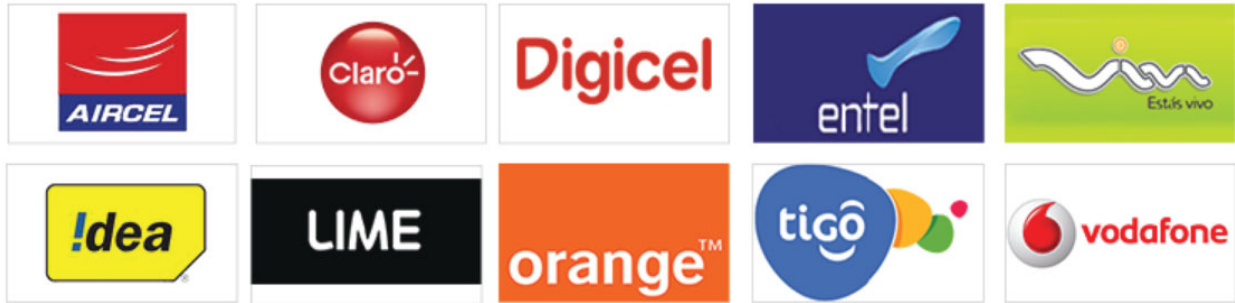
the following long-distance services,



pin-less services including the following;



and international top-offs including



The company anticipates it will accept payments for over 1,200 participating organizations in the coming months.

With the Surge Pays system, a local convenience store can serve as a financial services hub for people who are unbanked or otherwise need to pay cash for their purchases.

Financial Services and Products

Surge's financial services product line includes a pre-paid debit card, e-wallets, and money orders. The card is available with a MasterCard, Visa, or Discover logo. The same convenience stores that accept payments for other services through the Surge Pays software system will also sell and replenish the company's pre-paid debit card. This is a natural ancillary product to the merchant payment system.

The Surge Pays system will allow customers to purchase goods through the system in an Amazon Prime-like business model. Surge will work with companies to provide products on a drop-ship basis using the pre-paid card and other customer cash accounts for payment.

CEO Brian Cox commented on the future of e-commerce through Surge.

It is my belief that half of the country will never be candidates for the "Amazon Primes" of the world. These folks' goods and services will continue to be purchased at corner stores, markets, and bodegas near their homes. By building a distribution railway into these mom-n-pop stores across the USA, we intend to become the largest provider of telecom, fintech, and consumable products to these neighborhood stores. There are no limits to number of store locations, products and or revenue per month for Surge.

Mobile Phones

Surge offers government lifeline phones through True Wireless and traditional cell phone service through SurgePhone. The government lifeline phones are available to people with limited incomes. The phones offer 1,000 minutes and 1 GB of data per month. The US Government pays \$9.25/month for voice services per phone with funds collected through the Universal Service fee on all phone bills. The FCC pays an additional \$9.25/month for phones with broadband capability. In tribal territories, the company receives \$34.25/month. True Wireless is currently licensed to provide lifeline services in 5 states. Over 60,000 subscribers, including veterans and people of lower incomes, carry cell phones served by True Wireless. These phones are available for pick-up in local stores or they can be shipped to the customer.

Lifeline service payments for voice services are slated for termination by the FCC. Congress can change this phase out, but until it does, the industry will prepare for a transition to low cost paid services. Beginning in December 2019, the \$9.25 monthly voice fee begins a three-year phase out. The broadband support fee remains at \$9.25. If the phase out occurs, the company will market SurgePhone as a moderately priced replacement.

SurgePhone is a customer paid MVNO. It is available in all 50 states. The company's products are priced to offer discounts on the prices charged by the major cell phone companies. SurgePhone units will offer greater functionality than those offered by True. In all 50 states, if and when the lifeline service is terminated, SurgePhone will be positioned for the transition.

Conclusion

Surge Holdings is a story about offering an attractive portfolio of products that position the company as a preferred convenience store vendor. While other companies offer these services individually, Surge Holdings management believes that Surge offers the only integrated payment system targeted at convenience stores. The Surge Pays block chain-based payment system offers an advanced generation product for store owners and operators. The net results include greater revenues per convenience store to be shared by the store operator, the ISO, and the company. Additionally, the increased revenue yields a significant barrier to change once a store becomes a Surge Holdings client.

Company management's stated goal, prior to the Pastime Foods MOU, was 15,000 locations by year-end 2019. The anticipated Pastime Foods deal alone is sufficient to propel company revenues past \$60 million/month when fully implemented. Worst case, if the company completes implementation of only half the anticipated stores in two years, revenues will increase from \$1.5 million/month to \$30 million/month in just 27 months.

SURG traded for \$0.39 today (October 24). This is a company worth a long look as a growth holding for the coming years.