

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Siyata Mobile Inc. (TSXV: SIM) – Washing Their Hands Clean of Weak 3G Sales, Moving Forward with Flagship Product Launch

Sector/Industry: Special Situations

www.siyatamobile.com

Market Data (as of May 3, 2019)

Current Price	C\$0.42
Fair Value	C\$1.23
Rating*	BUY
Risk*	4
52 Week Range	C\$0.33 - C\$0.60
Shares O/S	116,265,891
Market Cap	\$48.83 M
Current Yield	N/A
P/E (forward)	N/A
P/B	5.41x
YoY Return	21.62%
YoY TSXV	-22.04%

*see back of report for rating and risk definitions

**\$ denotes C\$ unless otherwise specified.



Highlights

- Although Siyata's share price ran up to a high of \$0.58 since our initiating report, it has since dropped to \$0.42. **Given the company's strong growth prospects, we believe this may be a good entry point for investors.**
- Siyata Mobile Inc. ("Siyata", "company") reported year-end financials for 2018, with weak sales and deepening losses souring an otherwise bright period since our initiating report, marked by positive news flow regarding the roll-out of the Uniden® UV350 in North America.
- **YoY Sales Decline Does Not Tarnish Our Forward Guidance:** The company reported 2018 revenue of \$14.22 million, a YoY decline of 19.90%. The company missed our 2018 revenue forecast of \$15.28 million, but we acknowledge that approximately \$1 million in sales made in Q4-2018 were pushed to Q1-2019. We are maintaining our 2019 revenue forecast of \$27.58 million and introducing our 2020 revenue forecast of \$40.21 million.
- **Substantial Net Loss:** Siyata's 2018 net loss of \$11.53 million (EPS: -\$0.12) was significantly higher than our forecast of \$3.99 million (EPS: -\$0.03). We are revising our 2019 net earnings forecast of -\$1.47 million (EPS: -\$0.01) to -\$1.72 million (EPS: -\$0.01) and introducing our 2020 net earnings forecast of \$1.44 million (EPS: \$0.01).
- **Tier 1 Carriers to Propel Siyata's Growth:** We see 2018's lackluster financials as the fall-out from the company's transition from 3G legacy products to their new 4G/ LTE products, spearheaded by the Uniden® UV350. With AT&T Inc. (NYSE: T) and another undisclosed Tier 1 carrier to launch the Uniden® UV350 in the coming months, we expect revenue to grow significantly in 2019.
- **We are maintaining our BUY rating and revising our previous fair value estimate of \$1.27 to \$1.23 per share.**

Key Financial Data (FYE - DEC 31)

(C\$)	2017	2018	2019E	2020E
Cash	\$ 4,384,596	\$ 2,420,205	\$ 279,161	\$ 218,903
Working Capital	\$ 9,652,702	\$ 4,565,215	\$ 7,287,512	\$ 10,947,512
Assets	\$ 21,877,613	\$ 17,784,342	\$ 21,227,990	\$ 26,840,752
Total Debt	\$ 3,553,901	\$ 4,134,831	\$ 3,904,831	\$ 143,113
Revenues	\$ 17,753,006	\$ 14,220,542	\$ 27,576,499	\$ 40,212,974
Net Income	\$ -5,058,495	\$ -11,527,981	\$ -1,718,806	\$ 1,437,351
EPS (basic)	\$ -0.06	\$ -0.12	\$ -0.01	\$ 0.01

Financials

The company reported revenues of \$14.22 million in 2018 (year ended December 31, 2018), down 19.90% YoY from \$17.75 million in 2017. The decline in revenues came as sales of the company’s 3G legacy products diminished due to lower demand for 3G/ outdated products internationally. However, as we pointed out in our initiating report, the company is moving to a 4G/ LTE dominant product portfolio, with both the Uniden® UV350 and 4G/ LTE variants of the company’s legacy product families expected to dominate the company’s sales in 2019. As a result, we expect a significant reversal in the current trend of revenue decline.

The company’s 2018 revenue of \$14.22 million missed our previous 2018 revenue forecast of \$15.28 million. However, based on management’s commentary during their earnings call, approximately \$1 million in Israeli sales made during Q4-2018 were pushed to invoicing in Q1-2019, due to external issues with the client’s infrastructure. Had these sales been invoiced in Q4-2018, Siyata’s full-year 2018 revenues would have been in line with our forecasts. **Based on expectations of the Uniden® UV350’s performance upon initiation of sales through major carrier channels, as well as the introduction of 4G/ LTE product lines to replace legacy 3G products, we are maintaining our 2019 revenue forecast of \$27.58 million and introducing our 2020 revenue forecast of \$40.21 million.**

With regards to segmented revenues, the following table provides a geographical breakdown of the company’s different sources of sales.

External Revenues (in thousands)	December 31, 2018	December 31, 2017
Israel	\$ 10,181	\$ 13,125
Europe	394	-
New Zealand	52	-
Canada	2,219	3,091
USA	1,375	1,537
Total	\$ 14,221	\$ 17,753

Source: Company Financials

The table below outlines the company’s consolidated income statements during the period:

STATEMENTS OF OPERATIONS		
(in C\$) - YE Dec 31st	2017	2018
Revenue	17,753,006	14,220,542
COGS	13,874,261	12,161,044
Gross Profit	3,878,745	2,059,498
EXPENSES		
SG&A Expense	6,194,423	8,378,308
Share-based Compensation	1,070,464	1,102,313
EBITDA	(3,386,142)	(7,421,123)
Depreciation & Amortization	302,273	704,749
EBIT	(3,688,415)	(8,125,872)
Financing Costs	164,098	975,468
EBT	(3,852,513)	(9,101,340)
Non-Recurring Expenses	1,239,982	2,426,641
Taxes	-34,000	
Net Profit (Loss)	(5,058,495)	(11,527,981)
FOREX Translation Adj.	-159,809	869,082
Comprehensive Net Profit (Loss)	(5,218,304)	(10,658,899)
Shares outstanding	80,380,048	95,375,747
EPS	\$ -0.06	\$ -0.12

Source: FRC, Financial Statements

Gross margins decreased YoY from 21.85% in 2017, to 14.48% in 2018, which was significantly lower than our forecasted gross margin of 28.02%. According to the company, the decrease in gross margin was largely due to the sale of the company's legacy 3G products at lower margins (or even at below cost) relative to the previous year. Management commented that this was to clean out existing 3G product inventory as Siyata transitions to a 4G/ LTE dominant product portfolio. The company has maintained its gross margin forecast of between 30% and 35% for 2019, and 35% for 2020. **Our gross margin forecasts for 2019 and 2020 (same as in our initiating report) are 32.25% and 34.95%, respectively.**

Margins	2017	2018
Gross	21.85%	14.48%
EBITDA	-19.07%	-52.19%
EBIT	-20.78%	-57.14%
Net	-28.49%	-81.07%

Source: FRC, Financial Statements

Selling, General and Administrative ("SG&A") expenses grew significantly YoY to \$8.38 million in 2018, versus \$6.19 million in 2017, and against our forecast of \$6.44 million. This caused EBITDA to deteriorate to -\$7.42 million in 2018, versus -\$3.39 million in 2017. According to the company, the large increase in SG&A expenses was attributable to product trial and sample expenses, marketing costs associated with introducing new products into the

North American market, and consulting fees. According to management, approximately \$0.90 million of the increase in SG&A is expected to be one-time/ non-recurring.

The company reported a net loss of \$11.53 million (EPS: -\$0.12) in 2018, compared to a net loss of \$5.06 million (EPS: -\$0.06) in the 2017. The company's 2018 net loss was substantially higher than our 2018 net loss forecast of \$3.99 million (EPS: -\$0.03). This was due to substantial non-recurring expenses, higher than expected operating expenses and COGS, and lower than expected revenue. **We are revising our previous 2019 net loss forecast of \$1.47 million (EPS: -\$0.01) to \$1.72 million (EPS: -\$0.01), and introducing our 2020 net earnings forecast of \$1.44 million (EPS: \$0.01).**

Free cash flows ("FCF") improved on a YoY basis despite the increase in net loss due to a substantial amount of cash being tied up in working capital during 2017. Furthermore, 2018 featured a large amount of non-cash expenses, including an intangible asset impairment charge (related to the legacy products) that we had not expected.

Summary of Cash Flows		
(\$, mm)	2017	2018
Operating	-\$5.78	-\$3.00
Investing	-\$3.20	-\$2.88
Financing	\$12.73	\$3.81
Effects of Exchange Rate	\$0.37	\$0.10
Net	\$4.13	-\$1.96
Free Cash Flows to Firm (FCF)	-\$8.98	-\$5.88

Source: FRC, Financial Statements

At the end of 2018, the company had a cash position of \$2.42 million and working capital of \$4.57 million, as well as a current ratio of 1.98x. The company also maintains a debt position of \$4.13 million, the majority of which are unsecured convertible debentures with an interest rate of 10.50% per annum (conversion price - \$0.60 per share).

(in C\$) - YE Dec 31st			
Liquidity & Capital Structure		2017	2018
Cash	\$	4,384,596	\$ 2,420,205
Working Capital	\$	9,652,702	\$ 4,565,215
Current Ratio		3.71	1.98
LT Debt	\$	3,553,901	\$ 4,100,831
Total Debt	\$	3,553,901	\$ 4,134,831
LT Debt / Capital		0.20	0.31
Total Debt / Capital		0.20	0.31
Total Invested Capital	\$	13,802,644	\$ 10,744,694

Source: FRC, Financial Statements

Stock Options and Warrants: We estimate that the company has 11.60 million stock options (weighted average exercise price of \$0.45), and 9.22 million warrants (weighted average exercise price of \$0.65) outstanding. We estimate that 4.61 million options and none of the

Valuation

warrants are currently in the money. We estimate that the company will be able to raise up to \$1.47 million if all these in the money options are exercised.

Discounted Cash Flow Valuation

Our DCF valuation on Siyata’s shares has been updated from \$1.21 per share to \$1.14 per share. The slight drop is due to a higher diluted share count than in our initiating report, which was due to 11.73 million warrants being exercised.

DCF Model	2019E	2020E	2021E	2022E	Terminal
EBIT(1-tax)	\$ -1,223,306	\$ 1,254,275	\$ 6,340,352	\$ 17,586,611	
Non-Cash Expenses	\$ 1,739,215	\$ 2,700,571	\$ 2,034,854	\$ 2,227,964	
Investment in WC	\$ -4,829,341	\$ -3,720,257	\$ -1,783,340	\$ -2,867,489	
CFO	\$ -4,313,432	\$ 234,589	\$ 6,591,866	\$ 16,947,086	
CAPEX	\$ -798,112	\$ -877,923	\$ -1,009,611	\$ -1,161,053	
FCF	\$ -5,111,544	\$ -643,334	\$ 5,582,255	\$ 15,786,033	\$ 16,259,614
PV	\$ -4,784,556	\$ -537,660	\$ 4,165,461	\$ 10,517,401	\$ 120,365,810
Discount Rate	12%				
Terminal Growth Rate	3%				
Total PV	\$ 129,726,457				
Cash - Debt	\$ 4,148,119				
Equity Value	\$ 133,874,576				
Shares O/S (dil)	117,377,320				
Fair Value	\$ 1.14				

Source: FRC

Comparables Valuation

Our updated comparables valuation model is outlined below:

Comparables Valuation			
2022 Forecast (Gross Revenues)	\$ 106,731,658	2022 Forecast (EBITDA)	\$ 25,141,975
Average EV/ Revenue	1.72	Average EV/ EBITDA	10.00
Expected EV (C\$)	\$ 183,578,451	Expected EV (C\$)	\$ 251,419,745
Discounted EV (C\$)	\$ 122,308,635	Discounted EV (C\$)	\$ 167,507,710
Expected Market Cap (C\$)	\$ 126,456,754	Expected Market Cap (C\$)	\$ 171,655,829
Value per Share (C\$)	\$ 1.08	Value per Share (C\$)	\$ 1.46

Source: FRC

We are revising our fair value estimate on Siyata’s shares from \$1.27 per share to \$1.23 per share. This is the average of all three of our valuations outlined above.

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- Valuation is highly dependent on penetration of the North American commercial vehicle and first responder vehicle markets. Failure to enter these markets may lead to stagnant growth.

- Whilst the company is currently the only provider of an “all in-one”, in-vehicle integrated PoC communications platform, success in their field could attract rivals and competitors. Furthermore, as they are only manufacturers of the hardware, competitors with lower costs could potentially enter the market.
- Partner risk associated with distributors that work with Siyata, as Siyata does not sell their product to end consumers.
- Upgrade cycles and constant need for innovation: whilst the company are well positioned to take advantage of the LMR to PoC upgrade cycle, there is no guarantee that they will be prepared for the next upgrade cycle or will have a competitive business model in the long-run.
- Access to capital and share dilution.
- Liquidity risk.
- Exchange rate risk.

We are maintaining our risk rating of 4 (Speculative).

Appendix

STATEMENTS OF OPERATIONS				
(in CS) - YE Dec 31st	2017	2018	2019E	2020E
Revenue	17,753,006	14,220,542	27,576,499	40,212,974
COGS	13,874,261	12,161,044	18,682,374	26,159,730
Gross Profit	3,878,745	2,059,498	8,894,125	14,053,243
EXPENSES				
SG&A Expense	6,194,423	8,378,308	8,378,216	10,472,770
Share-based Compensation	1,070,464	1,102,313	1,016,942	1,067,789
EBITDA	(3,386,142)	(7,421,123)	(501,033)	2,512,685
Depreciation & Amortization	302,273	704,749	722,273	794,500
EBIT	(3,688,415)	(8,125,872)	(1,223,306)	1,718,185
Financing Costs	164,098	975,468	495,500	280,833
EBT	(3,852,513)	(9,101,340)	(1,718,806)	1,437,351
Non-Recurring Expenses	1,239,982	2,426,641		
Taxes	-34,000			
Net Profit (Loss)	(5,058,495)	(11,527,981)	(1,718,806)	1,437,351
FOREX Translation Adj.	-159,809	869,082		
Comprehensive Net Profit (Loss)	(5,218,304)	(10,658,899)	(1,718,806)	1,437,351
Shares outstanding	80,380,048	95,375,747	116,265,891	116,265,891
EPS	\$ -0.06	\$ -0.12	\$ -0.01	\$ 0.01

BALANCE SHEET				
(in CS) - YE Dec 31st				
	2017	2018	2019E	2020E
ASSETS				
CURRENT				
Cash and Cash Equiv.	4,384,596	2,420,205	279,161	218,903
A/R	1,955,050	925,355	4,136,475	6,031,946
Inventory	4,161,406	4,981,467	4,963,770	8,042,595
Prepays	497,910	413,114	965,177	1,206,389
Advance to Suppliers	1,437,261	478,517	2,241,885	2,615,973
Related Parties	776,000			
Total Current Assets	13,212,223	9,218,658	12,586,468	18,115,806
PPE	65,191	54,392	61,615	69,560
Intangibles	7,577,930	7,489,023	7,557,639	7,633,116
Goodwill	1,022,269	1,022,269	1,022,269	1,022,269
Total Assets	21,877,613	17,784,342	21,227,990	26,840,752
LIABILITIES				
CURRENT				
A/P	2,604,592	3,991,081	4,670,594	6,539,933
Other Payables				
Related Parties		198,362	198,362	198,362
Future Purchase Consideration	954,929	430,000	430,000	430,000
Current Portion of LT Debt		34,000		
Total Current Liabilities	3,559,521	4,653,443	5,298,956	7,168,295
Future Purchase Consideration	130,852			
LT Debt		196,000	196,000	196,000
Convertible Debt	3,553,901	3,904,831	3,904,831	143,113
Total Liabilities	7,244,274	8,754,274	9,399,787	7,507,408
SHAREHOLDERS EQUITY				
Share Capital	23,336,596	27,638,100	31,138,100	36,138,100
Reserves	2,996,875	3,750,999	4,767,941	5,835,730
AOCI	(608,945)	260,137	260,137	260,137
Deficit	(11,091,187)	(22,619,168)	(24,337,974)	(22,900,623)
Total shareholders' equity (deficiency)	14,633,339	9,030,068	11,828,204	19,333,344
Total Liabilities and Shareholders Equity	21,877,613	17,784,342	21,227,990	26,840,752

STATEMENTS OF CASH FLOWS

(in C\$) - YE Dec 31st

	2017	2018	2019E	2020E
OPERATING ACTIVITIES				
Net Profit for the Year	(5,058,495)	(11,527,981)	(1,718,806)	1,437,351
Adjusted for items not involving cash:				
Amortization	302,273	704,749	722,273	794,500
Share-based Compensation	1,070,464	1,102,313	1,016,942	1,067,789
Finance Fees		350,930		838,282
Accretion of Future Purchase Consideration	479,522	519,148		
Recovery of Deferred Tax	(34,000)			
Impairment of Intangibles		1,954,000		
Unrealized FOREX				
Funds From Operations	(3,240,236)	(6,896,841)	20,409	4,137,922
Change in working capital				
A/R	(1,159,440)	2,211,552	(3,211,120)	(1,895,471)
Inventory	(1,702,867)	(481,223)	17,697	(3,078,825)
A/P	735,005	1,195,915	679,513	1,869,339
Prepays			(552,063)	(241,212)
Deferred Charges				
Advances to Suppliers			(1,763,368)	(374,088)
Related Parties	(411,570)	974,362	-	-
NET CASH USED IN OPERATING ACTIVITIES	(5,779,108)	(2,996,235)	(4,808,932)	417,665
INVESTING ACTIVITIES				
PPE	(33,707)	(4,264)	(43,336)	(47,670)
Acquisition Costs	(150,000)	(804,929)		
Intangibles	(3,014,725)	(2,070,000)	(754,775)	(830,253)
NET CASH USED IN INVESTING ACTIVITIES	(3,198,432)	(2,879,193)	(798,112)	(877,923)
FINANCING ACTIVITIES				
Equity Issue	5,134,000	2,080,710	3,500,000	5,000,000
Issue Costs	(1,200,465)	(375,423)		
ST Loans			(34,000)	
Loans	4,286,024	230,000		(4,600,000)
Exercise of Options	205,000	410,000		
Exercise of Warrants	3,921,107	1,324,464		
Exercise of Agent's Options	387,542	143,564		
NET CASH FROM FINANCING ACTIVITIES	12,733,208	3,813,315	3,466,000	400,000
Foreign Exchange / Others	370,874	97,722		
INCREASE IN CASH FOR THE YEAR	4,126,542	(1,964,391)	(2,141,044)	(60,257)
CASH, BEGINNING OF THE YEAR	258,054	4,384,596	2,420,205	279,161
CASH, END OF THE YEAR	4,384,596	2,420,205	279,161	218,903

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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