

## Gopher Protocol Inc. (OTC: GOPH, Target Price: \$4.84)

We initiate coverage on Gopher Protocol Inc. (OTC: GOPH, \$2.21) with a price target of \$4.84. GOPH is a development stage company focused on creating IoT and AI enabled mobile technology based on its proprietary platform, GopherInsight™. The platform offers a variety of uses in the IoT ecosystem which is estimated to be a multibillion dollar market. In lieu of this opportunity, GOPH has launched its first IoT enabled technologies into tracking devices for pets (Guardian Orb), cars (Guardian Patch) and adults/children (Guardian Bracelet). GOPH plans upon full development (if at all) to install the GopherInsight™ based microchip to a majority of worldwide mobile devices by 2020. Last year's acquisition of RWJ Advance Marketing is a step towards that goal as it brings significant capabilities with respect to distribution reach. The recent (March 2018) acquisition of ECS Prepaid LLC further validates management's commitment to increasing its distribution reach. GOPH intends to capitalize on the marketing infrastructure of RWJ and ECS to roll out its line of proprietary products and technology. The RWJ acquisition will potentially provide a fillip to the topline by adding ~\$67 million in annual revenues. The entry into new verticals such as the autonomous driving market and Fintech should further boost growth. GopherInsight™ has a variety of uses in the IoT/AI ecosystem and represents one of the pure-plays in this space. GOPH boasts an experienced management team of seasoned industry leaders who bring an ideal mix of product distribution, technology and early stage company expertise to the business. Specifically, GOPH's CTO Dr. Rittman has been a pioneer in software and integrated circuit technology. We see GOPH as a speculative play on the burgeoning IoT/AI/Fintech markets. The company has made considerable progress toward commercializing its proprietary GopherInsight™ technology. Going forward, we expect GOPH to increase revenues and earnings via new product launches, aggressive marketing initiatives and entry into new regions and verticals.

### INVESTMENT HIGHLIGHTS

#### Proprietary GopherInsight™ technology offers competitive proprietary advantage

GopherInsight™ is a real-time AI enabled mobile technology which offers multiple use cases with the primary use in developing tracking devices. GopherInsight™ based devices are far more secure, accurate and reliable than the traditional GPS tracking devices. The GPS technology is undergoing massive innovation and disruption and in our view superior technologies such as GopherInsight™ will take away market share from traditional GPS device market, especially when it comes to self-driving machine. GOPH has already commercially launched tracking devices for cars, pets and adults, even demonstrated potential implantation into Drones by releasing a video named as dDrnoe. According to ABI Research, the personal device tracking market could reach \$2 billion by 2021.

#### Entry into new verticals to fuel growth

Apart from personal tracking devices, GOPH is also targeting the autonomous driving market (all kinds of vehicle potentially even aircrafts) as well as the fintech space for further expansion (as GopherInsight™ chip upon development can be potentially placed on any credit card the fintech division will sell). It is focusing on autonomous car safety research using its proprietary tracking technology and has already conducted successful tests. According to Variant Market Research, the global self-driving car market is expected to reach \$20 billion by 2024. GOPH also entered the fintech space with 50% acquisition of payment service provider, Spare CS Inc. The acquisition adds international crypto currencies and fiat currency transfer capability to the GOPH network. The recent partnership with Allied Wallet, a payment processing provider, will further enhance GOPH's international fiat currency transfer capabilities. GOPH also formed a JV with Lara Group to pursue AI-blockchain based smart contracts in Latin America. We believe entry into different verticals diversifies the revenue mix and lowers risk.

#### Acquisition to expand geographical reach

The acquisition of RWJ Advanced Marketing and ECS Prepaid LLC including the Electronic Check Services and Central State Legal acquisition, together with prior acquisition of SPARE and signing reseller agreements with Allied Wallet, can potentially boost GOPH's geographical reach beyond reasonable conservative expectation. In particular, these latest acquisitions upon integration may provide Gopher with a wide distribution network which spans more than 21,000 locations in the United States, processing currently about 14,000-15,000 transactions a day. The company intends to begin selling its products through these locations. As indicated by CEO references on PRs and interview, it is fair to assume that Gopher will keep acquiring assets/Companies "to fill a void in the market created by Pay-Pal's abrupt termination of their services in November 2017". With an average weekly footfall of ~2,000 per week per location, the Gopher products could reach ~30 million consumers per week. The ECS platform generated ~\$32 million in annual revenues in FY17. ECS Prepaid LLC's retail network provides GOPH with a large customer reach to further expand its footprint. GOPH intends to capitalize on the

marketing infrastructure of acquired assets to roll out its key program 'Horizon 20/20' which aims to install GopherInsight™ technology in a majority of mobile devices by 2020.

#### Initiate coverage with a price target of \$4.84

We see GOPH as a high risk and high reward play on the burgeoning IoT market. The company with its unique and proprietary platform. GopherInsight™ enjoys significant competitive advantage. The target of \$4.84 assumes successful execution of its expansion plans which revolve around new product launches, entry in new verticals as well as new geographies. Key risks include lack of acceptance of GopherInsight™ in the market that could materially affect company growth prospects.

#### Stock Details (6/8/2018)

OTC:	GOPH
Sector / Industry	Technology / IoT
<b>Price target</b>	<b>\$4.84</b>
Recent share price	\$2.21
Shares o/s (mn)	130.9
Market cap (in \$m)	289.4
52-week high	\$4.85

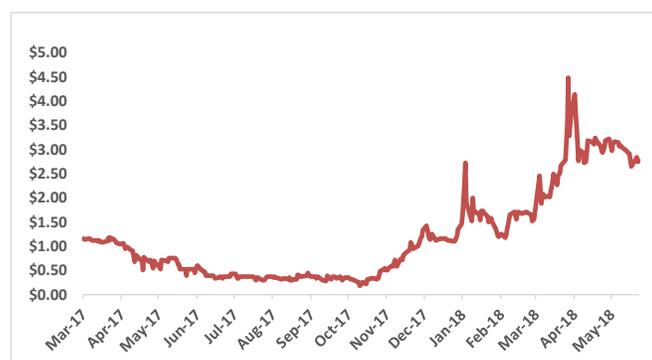
#### Key Financials

In 000s	F2018E	F2019E	F2020E
Revenues	\$83,833.6	\$166,748.0	\$255,064.8
EBITDA	(\$3,682.1)	\$833.7	\$22,955.8
EBIT	(\$3,933.6)	\$500.2	\$22,496.7
Net Income	(\$6,937.8)	(\$2,504.0)	\$15,453.3
EPS (\$)	(\$0.05)	(\$0.02)	\$0.12

#### Key Ratios

	F2018E	F2019E	F2020E
EBIT (%)	(4.7)	0.3	8.8
EBITDA (%)	(4.4)	0.5	9.0
Net margin (%)	(8.3)	(1.5)	6.1
P/Revenue (x)	3.5	1.7	1.1
EV/Revenue (x)	3.5	1.8	1.1

#### LTM Performance



## SUMMARY TABLE

**Exhibit 1. Summary Table (Pricing data as of June 8, 2018)**

Share data		Balance Sheet (1Q: F18A) – in \$ mn		Key personnel:	
Recent price:	\$2.21	Total assets:	\$12.7	CEO/CMO	Mansour Khatib
Price target:	\$4.84	Total debt:	\$5.1	CTO	Danny Rittman
52-week range:	0.16 – 4.85	Equity:	\$6.1	CFO	Kevin Pickard
Average volume:*	541,498	W/C:	(\$2.0)		
Market cap:	\$289.4	ROE:	-228%		
Book value/share:	\$0.05	ROA:	-111%		
Cash/share	\$0.01	Current ratio:	0.5x		
Dividend yield:	N/A	Asset turnover:	0.6x		
Risk profile:	High / Speculative	Debt/Cap:	45%		

\* 30-day average volume (number of shares)

FY December	Estimates				Valuation	
	Rev (\$000)	EBITDA (\$000)	EPS (\$)	EV/Rev (x)	P/Rev (x)	P/E (x)
2018E	83,833.6	(3,682.1)	(0.05)	3.5x	3.5x	NM
2019E	166,748.0	833.7	(0.02)	1.8x	1.7x	NM
2020E	255,064.8	22,955.8	0.12	1.2x	1.1x	18.7x
2021E	347,121.4	45,125.8	0.25	0.8x	0.8x	8.8x

Source: SeeThruEquity Research

## INVESTMENT THESIS

We initiate coverage on Gopher Protocol Inc. (OTC: GOPH, \$2.21) with a price target of \$4.84. GOPH is a development stage company focused on creating IoT and AI enabled mobile technology based on its proprietary platform, GopherInsight™. The platform offers a variety of uses in the IoT ecosystem which is estimated to be multi-billion-dollar market. In lieu of this opportunity, GOPH has launched IoT enabled tracking devices for pets (Guardian Orb), cars (Guardian Patch) and adults/children (Guardian Bracelet). GOPH plans to install the GopherInsight™ based microchip to a majority of worldwide mobile devices by 2020. Last year's acquisition of RWJ Advance Marketing and the March 2018 acquisition of ECS is a step towards that goal as it brings significant capabilities with respect to distribution reach. The recent (March 2018) acquisition of ECS Prepaid LLC further validates management's commitment to increasing its distribution reach. GOPH intends to capitalize on the marketing infrastructure of RWJ and ECS to roll out its line of proprietary products and technology. The RWJ acquisition will provide a fillip to the topline by adding ~\$67 million in annual revenues. The entry into new verticals such as the autonomous driving market and Fintech should further boost growth. GopherInsight™ has a variety of uses in the IoT ecosystem and represents one of the pure-plays in this space. GOPH boasts an experienced management team of seasoned industry leaders who bring an ideal mix of product distribution, technology and early stage company expertise to the business. Specifically, GOPH's CTO Dr. Rittman has been a pioneer in software and integrated circuit technology. We see GOPH as a speculative play on the burgeoning IoT market. The company has made considerable progress toward commercializing its proprietary GopherInsight™ technology. Going forward, we expect GOPH to increase revenues and earnings via new product launches, aggressive marketing initiatives and entry into new regions and verticals.

## Company History

GOPH is a development-stage company which specializes in the creation of Internet of Things (IoT) and Artificial Intelligence enabled mobile technology. Its technology consists of a smart microchip, mobile application software and supporting software. The company's product offerings include: 1) Guardian Patch - is a "stick-on" device that provides its users with the capability to protect and track objects; 2) Guardian Orb – tracking device for pets; 3) Guardian Bracelet – is a personal tracking device for adults and children; and 4) Web apps – such as Guardian Pack (for family/group tracking) and Guardian Fleet (for vehicles/equipment tracking).

Gopher Protocol Inc. was founded in 2009 and is headquartered in Santa Monica, California. The company is led by CEO Mansour Khatib. His expertise includes experience with big-box retailers, social media, and crowdfunding. He is well supported by an experienced management team which includes Chief Technology Officer, Dr. Rittman who has over 20 years of experience in software and integrated circuit (IC) technology. In April 2018, GOPH appointed Kevin Pickard as its new CFO. Mr. Pickard has significant experience in due diligence, corporate restructuring and accounting.

## Business Analysis

### Proprietary Technology - GopherInsight™

GopherInsight™ is a patented real time AI based mobile technology. It consists of a smart microchip, mobile application software, and supporting software. The technology is designed to be fitted to mobile devices and, in turn, to allow GOPH to create its own private mesh based communication network. The Mesh refers to a network of interconnected devices or nodes. As per the company's proprietary technology, all devices which are part of the Mesh will be able to share information with each other seamlessly. When implemented, one device in the Mesh send a signal about its location it is passed on to all other devices connected to the network. In this way, as more devices become part of the Mesh, the coverage area will increase and the technology will become more useful.



### GopherInsight™ technology offers many IoT use cases

GopherInsight™ has a variety of uses in the IoT ecosystem and GOPH has so far focused on developing tracking devices based on the technology. It has commercialized three products so far – Guardian Patch, Guardian Pet Tracker (Guardian Sphere or Guardian Orb) and Guardian Bracelet.

**Guardian Pet Tracker** - It is designed for tracking pets. It comes in the form of a patch that can be stuck to a pet, and it starts emitting a signal that can be tracked using a proprietary mobile device application. Gopher has launched the sales and marketing campaign through Indiegogo for pet lovers looking for the next innovative product in pet security. It is being marketed under the brand name, Guardian Orb. The company has appointed a manufacturer, VQ Global USA Inc. for production of the device. The company has commenced design of three models which include the Orb Sphere shape – Mobile Unit, Portable Gateway and the Static Gateway Unit.



The first step includes the launch of the Guardian Orb, initially through presales on Indiegogo as Arrow Certified Technology which mean that Arrow has reviewed this campaign's electronic and/or software design and verified that it is feasible for manufacturing, followed by Internet sales. Once the initial production is complete, Gopher intends to begin selling the Guardian Orb through its 21,000 convenience store locations operating under the Gopher's wholly owned subsidiary, UGopherServices.

**Entry into new verticals – Autonomous Vehicles and Fintech**

GOPH is also targeting the autonomous driving market as well as fintech space for further expansion. It is focusing on autonomous car safety research using its proprietary tracking technology and has already conducted successful tests.

**Autonomous driving tracking & safety** - GOPH is testing its MESH network technology for use in autonomous driving tracking and safety applications. The MESH technology is based on AI and deep learning methodology which will allow cars to learn on their own and communicate with other vehicles. This includes sharing road conditions, obstacles, weather and other safety information among cars. The MESH technology allows information to be shared among all vehicles that are part of the network thereby enabling real-time decision making. The company believes its tracking technology is superior to the current GPS technology. The current GPS technology relies on satellite geometry, URE (User Range Error), atmospheric conditions, signal blockages due to terrain and more. GPS technology, as a stand-alone system cannot provide an exact pin-pointed location at all times.

GOPH's proprietary tracking technology provides an exact pin-point location of the object without relying on only GPS data. Gopher has tested the tracking technology using its private, secured communication protocol and has successfully performed safe, autonomous vehicle driving experiments.

**Fintech** - GOPH also entered the fintech space with a 50% acquisition of payment service provider, Spare CS Inc. The acquisition adds international cryptocurrencies and fiat currency transfer capability to the GOPH network. The company believes that the recent partnership with Allied Wallet, a payment processing provider, will further enhance GOPH's international fiat currency transfer capabilities. Allied Wallet operates in 196 countries and supports 164 currencies globally. We believe GOPH can leverage Allied Wallet's wide geographic reach and merchant network to cross-sell Spare CS technology. Besides this, GOPH is actively pursuing opportunities in the blockchain space. It announced a JV with Lara Group to tap into AI-blockchain based smart contracts in Latin America.

**Horizon 20/20 – Embedding GopherInsight in majority of mobile devices by 2020**

Management noted that it is working to integrate GopherInsight™ technology to majority of worldwide mobile devices by 2020. The acquisitions of RWJ Advance Marketing and ECS Prepaid LLC are a step towards that goal as they bring significant capabilities with respect to distribution reach.

The RWJ acquisition, which closed last year, provides Gopher with a wide distribution network which spans more than 15,000 locations in the United States. The ECS acquisition further added 6,000 locations bringing the total to 21,000 locations in the US. The company intends to begin selling its products through these locations. With an average weekly footfall of ~2,000 per week per location, the Gopher products could reach ~30 million consumers per week. The acquisition added ~\$66.6 million in annual revenues in FY16. GOPH will capitalize on the marketing infrastructure of RWJ to roll out its proprietary products and technologies.

GOPH has rebranded the RWJ stores as 'UGO HUB'. These stores will offer several prepaid and cellular services as well as act as a launching pad for branded UGO accessory product line for consumers. UGO HUB will be generating revenues as a retail partner of the major telecoms through the distribution of financial products as well as cellular "top-off" cards. We believe this acquisition may be a game changer for GOPH as it significantly boosts the topline and positions GOPH on the path to becoming a cash flow positive company.

The recent (March 2018) acquisition of ECS Prepaid LLC followed by the April 2018 Acquisition of Electronic Check Services further validates management's commitment to increasing its distribution reach. ECS Prepaid LLC provides products and services such as sim card activation, POS terminals, domestic and international top-ups, prepaid credit cards and loyalty and gift cards. GOPH acquired ECS's assets for ~\$1.1 million, of which \$100,000 was paid on the closing date of the transaction (March 16, 2018). GOPH is required to make ten equal additional payments of \$100,000 commencing on April 15, 2018. ECS PrePaid's core operating system currently operates over 9,000 terminals in retail locations throughout the United States. These terminals process over 14,000 transactions a day and have capacity to entertain at least three times its current volume, without further software expense. This platform generated ~\$32 million in revenue

for the year ended December 31, 2017. GOPH will leverage ECS's retail network and large customer reach to further market its products. We believe these acquisitions will uniquely position Gopher to establish its mesh network and connect with consumers.

**Exhibit 2: UGO HUB: A network of 21,000 store locations across the US**



Source: Company data

**Exhibit 3: Pro forma consolidated income statement for FY 2016 factoring in RWJ acquisition**

in \$ 000	Gopher Protocol (historical)	RWJ (now UGopherServices) historical	Pro forma Adjustments	Pro forma Consolidated
<b>Sales</b>	<b>165.0</b>	<b>66,610.8</b>	-	<b>66,775.8</b>
COGS	-	63,497.7	-	63,497.7
Gross Profit	165.0	3,113.1	-	3,278.1
G&A	1,401.3	3,489.2	-	4,890.5
Marketing expenses	126.8	-	-	126.8
<b>Operating income</b>	<b>-1,363.2</b>	<b>-376.0</b>	-	<b>-1,739.2</b>
Other income (expense)	-223.1	-29.3	-91.0	-343.4
Pre-tax income	-1,586.2	-405.4	-91.0	-2,082.6
<b>Net income</b>	<b>-1,586.2</b>	<b>-405.4</b>	<b>-91.0</b>	<b>-2,082.6</b>

Source: Company data

**Experienced management team**

GOPH boasts of an experienced management team of seasoned industry leaders who bring an ideal mix of product distribution, technology and early stage company expertise to the business. Mansour Khatib, GOPH's CEO, combines his experience with big-box retailers, social media, and crowdfunding, which provides GOPH a competitive edge in sales and marketing. Mr. Khatib has developed and marketed numerous consumer websites including EagleRider and Leisurelink. The company's Chief Technology Officer, Dr. Rittman is a semiconductor designer with over 20 years of experience with companies such as Intel, DEC, IBM, and Qualcomm. He has worked on many prestigious Integrated Circuits projects; among them the Intel's Pentium Pro, DEC's Alpha chip, and others. He was the founder and CTO of BindKey Technologies, an EDA corporation that was acquired by DuPont Photomasks. He worked at developing AI at several large companies before bringing his expertise to Gopher Protocol.

## INDUSTRY OVERVIEW

GOPH is a pure play on the Internet of Things (IoT) technology and AI. The IoT market has significant potential and offers a multibillion dollar market opportunity. The IoT is a network of physical devices embedded with sensors and software which enables these devices to connect and share data. GOPH is a play on the entire IoT ecosystem: its use cases include pet wearables, GPS personal tracking and autonomous vehicles.

**GPS Tracking Device Market:** ABI Research forecasts that the GPS tracking device market will surpass \$3.5 billion by 2019. The tracking device market encompasses all devices ranging from tracking cars, phones, pets, and adults/children. In terms of volume, the GPS personal tracking device shipments are expected to double to 25 million by 2021 according to ABI Research. GPS tracking market is evolving at a rapid pace and new technologies such as GopherInsight which management believes are superior in regards with security, reliability and accuracy than conventional GPS technology may grab more market share in the coming years.

**Pet Wearable Market:** According to Grand View Research, the global pet wearable market is expected to reach ~\$2.3 billion by 2022. According to a National Humane Society report, nearly 10 million pets are lost each year in the US alone. Growing pet ownership (~65% American households own pets as per American Pet Products Association) coupled with increasing per capita expenditure on pets is expected to drive pet wearables demand over the forecast period. Identification and tracking applications account for majority of the pet wearable market. It is estimated that by 2024, owners will increase their spending on pets by 55% in countries such as the US and UK.

The company believes that its GopherInsight technology tracks pets further than any other existing tracking technology in the market. In field tests conducted by the company, Guardian Pet Tracker has been able to locate pets within a 50-mile radius. Further, Guardian Pet Tracker is one of the most affordable in the market for consumers, with no monthly fees.

**Autonomous Driving Market:** IoT has many use cases in the autonomous driving market. Cars equipped with IoT sensors will be able to connect and exchange data with other devices and cars on the road. This includes sharing road conditions, obstacles, weather and other safety information amongst cars. GOPH has already conducted successful tests of its proprietary technology implementation in the autonomous driving ecosystem. According to Variant Market Research, the global self-driving car market is expected to reach \$20 billion by 2024.

## FINANCIALS AND FUTURE OUTLOOK

### Recent Results

GOPH reported results for the first quarter ending March 31, 2018. Sales for the 1Q18 were \$7.9 million compared to \$45,000 for the same period in 2017. The increase is primarily due to the acquisition of assets from RWJ and ECS. We note that the company closed the acquisition of RWJ Advance Marketing on September 1, 2017 and that of ECS in the first quarter of 2018. The results reflect the impact of acquisition from the transaction closing date. The gross margins for 1Q18 were 2.6% as compared to 100.0% for the same period in 2017. The decrease is due to the sales generated by the RWJ and ECS assets that have a much lower gross margin. Operating expenses for 1Q18 were \$14.1 million compared to \$227,177 for the same period in 2017. The increase is due to including the operating cost for the newly acquired acquisition.

Net loss for the three months ended March 31, 2018 was \$14.1 million compared to a loss of \$183,9182 for the same period in 2017.

### Financial Outlook

We model revenue of \$83.8 million for 2018, up 78.1% compared to \$47.0 million in 2017. As noted above, the acquisition of RWJ Advance Marketing (now UGopherServices Inc.) and ECS is the primarily reason for higher sales growth. According to the company, ECS platform generated sales of ~\$32 million in 2017. We expect GOPH to deliver gross margins of ~4.9% in F2018. We model operating loss of ~\$3.9 million for F2018. For F2019, we forecast revenues of ~\$166.7 million, up ~98.9% YOY primarily driven by the launch of new products, entry in new verticals (autonomous vehicles and Fintech) and expansion in new regions (incorporated a new subsidiary in UK). Last year acquisition of RWJ Advance Marketing and the March 2p018 acquisition of ECS brings significant capabilities with respect to distribution reach and provide fillip to the topline. We also expect GopherInsight™ based devices to gain market share from traditional GPS tracking devices, which should aid sales momentum. We expect GOPH to deliver gross margins of ~10% in F2019. We model operating income of ~\$500,244 for F2019.

For F2020, we expect the sales momentum to continue as increased distribution reach coupled with higher marketing spend should yield strong order flow. We model revenues at ~\$255 million for F2020. We expect the gross margins to expand as revenue mix shifts to high margin GopherInsight™ based products compared to low margin UGO HUB. We model gross margins of 20% and expect the company to deliver operating income of \$22.4 million (margin 8.8%) for F2020. We note that our forecast assumes that the company is able to successfully launch new products.

**Exhibit 4: Estimated Forecast F2018E-F2021E**

(in 000s)	F2018E	F2019E	F2020E	F2021E	F2022E
Revenues	\$83,834	\$166,748	\$255,065	\$347,121	\$449,908
Y/Y Growth	78.1%	98.9%	53.0%	36.1%	29.6%
Gross Profit	\$4,134	\$16,675	\$51,013	\$86,780	\$134,972
Margin (%)	4.9%	10.0%	20.0%	25.0%	30.0%
EBIT	-\$3,934	\$500	\$22,497	\$44,605	\$80,444
Margin (%)	-4.7%	0.3%	8.8%	12.9%	17.9%
EBITDA	-\$3,682	\$834	\$22,956	\$45,126	\$80,983
Margin (%)	-4.4%	0.5%	9.0%	13.0%	18.0%
Net Income	-\$6,938	-\$2,504	\$15,453	\$32,865	\$61,177
Margin (%)	-8.3%	-1.5%	6.1%	9.5%	13.6%

Source: SeeThruEquity Research

### Balance Sheet & Financial Liquidity

We see the availability of liquidity as a key area to watch for GOPH as the company continues to focus on aggressive expansion strategy. GOPH, in the past, has issued new equity and raised debt to fund its operations. GOPH ended 1QF18 with cash and cash equivalent of \$894,819 and \$3.9 million in current liabilities. GOPH has not generated any significant profits to date and the activities have been limited to developing the business and financial plans. The company's strategic moves are not yet complete, as GOPH has stated that it has plans to aggressively spend on marketing, new product launches and enter in new regions as well. Given the fact that company is in expansion mode, more capital raising cannot be ruled out in the near term. The management indicated cash flow from operations of recent acquisitions and cash received from recent convertible debt and equity capital should be sufficient to meet obligations for the next 12 months. Going forward, company's ability to generate positive cash flows remains a key area to focus on.

## VALUATION

We evaluate multiple valuation methods as part of determining a price target for GOPH. The primary valuation method considered was discounted cash flow analysis (DCF), although we also included an analysis of companies in the industry examining revenues.

### DCF

The DCF analysis runs through the end of fiscal 2023E (December 2023E). Key assumptions to the model include: 1) that revenue accelerates beginning in F2018E primarily driven by new product launches and strategic partnerships; and 2) operating leverage and higher gross margin dollars will help drive profitability going forward.

The valuation model assumes the company will start to generate FCFE starting in F2019E and will continue through F2023E. We assume that the company starts paying taxes from F2019E and the company uses working capital on balance in our forecast, reflecting an assumption of high growth. We assumed a weighted average cost of capital (WACC) of 13.1%, a terminal growth rate of 3%, share count of 130.9 million, arriving at a target of \$4.84 using this analysis, as illustrated in the tables below.

#### Exhibit 5: Discounted Cash Flow Analysis

\$ In Thousands	F2018E	F2019E	F2020E	F2021E	F2022E	F2023E
EBIT	(3,933.6)	500.2	22,496.7	44,605.1	80,443.6	130,510.8
Less: Tax	0.0	0.0	4,039.2	8,736.2	16,262.3	26,776.4
<b>NOPLAT</b>	<b>(3,933.6)</b>	<b>500.2</b>	<b>18,457.5</b>	<b>35,868.9</b>	<b>64,181.3</b>	<b>103,734.4</b>
Changes in working capital	(56.2)	(171.3)	(539.5)	(1,168.9)	(1,883.0)	(1,919.9)
Depreciation & Amortization	251.5	333.5	459.1	520.7	539.9	569.9
Capex	(250.0)	(250.0)	(500.0)	(500.0)	(500.0)	(500.0)
<b>FCFF</b>	<b>(3,988.3)</b>	<b>412.4</b>	<b>17,877.1</b>	<b>34,720.7</b>	<b>62,338.2</b>	<b>101,884.5</b>
Discount factor	0.9	0.8	0.7	0.6	0.6	0.5
PV of FCFE	(3,711.2)	339.2	12,997.3	22,312.9	35,410.8	51,156.7
Sum of PV of FCFE						118,505.7
Terminal cash flow						1,035,702.3
PV of terminal cash flow						520,031.5
<b>Enterprise value</b>						<b>638,537.3</b>
Less: Debt						5,072
Add: Cash						895
<b>Equity value</b>						<b>634,359.7</b>
Shares Outstanding (mn)						130.9
<b>Fair value per share (\$)</b>						<b>4.84</b>

Source: SeeThruEquity Research

**Exhibit 6: DCF Assumptions & Conclusions**

Summary Conclusions		Key Assumptions	
DCF FV (\$ per share)	4.84	Beta	1.5
Recent price (\$ per share)	2.21	Cost of equity	13.4%
Upside (downside)	119.0%	Cost of debt (post tax)	2.8%
WACC	13.1%	Terminal Growth Rate	3.0%

**Exhibit 7: Sensitivity of Valuation – WACC vs. Terminal Growth Rate**

		WACC (%)				
		12.1%	12.6%	13.1%	13.6%	14.1%
Terminal growth rate (%)	2.00%	\$5.04	\$4.73	\$4.45	\$4.20	\$3.96
	2.50%	\$5.28	\$4.94	\$4.64	\$4.36	\$4.11
	3.00%	\$5.54	\$5.17	<b>\$4.84</b>	\$4.55	\$4.28
	3.50%	\$5.83	\$5.43	\$5.07	\$4.75	\$4.46
	4.00%	\$6.16	\$5.72	\$5.32	\$4.97	\$4.65
	4.50%	\$6.53	\$6.04	\$5.60	\$5.22	\$4.87

**Peer Group Analysis**

We also evaluated GOPH using a relative valuation analysis with its peer group. When comparing GOPH to its peer group we examined price-to-sales (P/S) and Enterprise Value-to-Sales (EV/S) ratios. We also note that the ratios are calculated using LTM sales as the forward estimates for majority of these firms are not available. Given the broader focus of GOPH on IoT ecosystem (personal tracking devices, pet tracker), we have considered companies involved in the same. Our peer group focuses on companies which are involved in developing IoT enabled solutions in particular tracking devices and wearables.

With regards to pet trackers, Dogness Corporation (DOGZ) is a pure-play which focuses only on products for pets including IoT enabled devices. DOGZ trades at ~5.5x LTM EV to sales, significant premium to GOPH. Some of the other well known names in the personal, pet and car tracking products include companies such as Garmin.

We have also taken into account companies which provide the IoT platform which includes chipset solutions and IoT modules specifically for wearables. This includes companies such as Sequans Communications, Skyworks Solutions and Qualcomm.

As illustrated in Exhibit 8 below, broader peer group trades almost at par with GOPH, both on a trailing P/S sales basis and on an EV/Sales basis. Given the expectation of robust growth as well as margin expansion, we believe GOPH should trade towards higher end of the peer group range.

**Exhibit 8: Peer Analysis**

		In million						
TICKER	Name	Price	Shares	Market Cap	EV	Previous Year	Price/Sales	EV/Sales
IRDM	Iridium Communications Inc	\$ 14.95	110.4	\$ 1,650.5	\$ 3,253.4	\$ 462.8	3.6x	7.0x
ITRN	Ituran Location & Control	\$ 32.60	21.0	\$ 684.6	\$ 652.8	\$ 241.7	2.8x	2.7x
GRMN	Garmin Ltd.	\$ 60.90	188.5	\$ 11,479.7	\$ 10,414.3	\$ 3,156.4	3.6x	3.3x
DOGZ	Dogness Corporation	\$ 4.49	25.9	\$ 116.3	\$ 120.7	\$ 21.2	5.5x	5.7x
ORBC	ORBComm	\$ 9.65	78.4	\$ 756.6	\$ 976.4	\$ 270.3	2.8x	3.6x
SQNS	Sequans Communications	\$ 1.94	183.2	\$ 355.4	\$ 191.7	\$ 47.1	7.5x	4.1x
SWKS	Skyworks Solutions	\$ 99.78	182.1	\$ 18,169.9	\$ 16,286.1	\$ 3,850.7	4.7x	4.2x
QCOM	Qualcomm Inc.	\$ 58.39	1,482.6	\$ 86,569.0	\$ 70,093.3	\$ 22,605.0	3.8x	3.1x
<b>Peer Group Average</b>							<b>4.3x</b>	<b>4.2x</b>
GOPH	Gopher Protocol Inc	\$ 2.21	130.9	\$ 289.29	\$ 360.20	\$ 83.8	3.5x	4.3x
<b>Peer Group Average</b>							<b>-19.8%</b>	<b>1.9%</b>

Source: Capital IQ

## RISK CONSIDERATIONS

### Limited operating history

GOPH has only recently started operations in the current line of business in 2015. It has a limited operating history in a rapidly evolving industry. The Company is still devoting substantially all of its efforts on establishing the business. The business plan is speculative and unproven. There is no assurance that GOPH will be successful in executing its business plan or that even if it successfully implements the business plan, it will become profitable in the future.

### Dependence on success of its proprietary technology

The company is heavily dependent on the success of its GopherInsight™ technology. If the demand for its proprietary technology does not develop as expected or a better competing technology comes to the marketplace, it may materially damage the business prospects.

### Loss making

GOPH's operations have not resulted in profitability yet and there is no guarantee that it will be able to achieve profitability going forward. It is also yet to achieve positive cash flow and the ability to generate positive cash flow is uncertain. If GOPH is unable to generate sufficient cash flow from operations, the business and future prospects will be adversely affected and it could be forced to suspend or discontinue operations.

### Dilution Risk

GOPH intends to continue to make investments to support its business growth and will require additional funds to respond to business challenges. For this, it may need to engage in equity or debt financings to secure additional funds. If it raises additional funds through future issuances of equity or convertible debt securities, the existing stockholders could suffer significant dilution.

### Dependence on few key personnel

GOPH's success depends on its ability to attract and retain key personnel including Dr. Danny Rittman who is the inventor behind all its proprietary technologies. The loss of qualified personnel could have a material and adverse effect on the business operations.

### Competitive industry

GOPH is basically a pure-play on the IoT industry which is a highly competitive sector where it may compete with numerous other companies who offer alternative methods or approaches, who may have far greater resources, more experience, and personnel perhaps more qualified than the company does. Such resources may give GOPH's competitors an advantage in developing and marketing products similar to it. There can be no assurance that GOPH will be able to successfully compete against these other entities.

## Management Team

### **Mansour Khatib, Chief Executive Officer and Chief Marketing Officer**

Mr. Mansour combines his experience with big-box retailers, social media, and crowdfunding, which provides GOPH a competitive edge in sales and marketing. Mr. Mansour has developed and marketed numerous consumer websites including EagleRider and Leisurelink. Additionally, he built distribution and marketing systems for Expedia, Orbitz, Saber, Amadeus and Hotels.com. Having studied Economics at the HS Wuppertal, Mr. Mansour also holds a degree in Electrical Engineering from the Technical University of Aachen, Germany.

### **Danny Rittman, Chief Technology Officer**

Dr. Rittman is the Director and Chief Technology Officer of GOPH. He is a software architect and an integrated circuit technology expert; he is also a semiconductor designer with over 20 years of experience with leading global tech companies including Intel, DEC, IBM, and Qualcomm. Dr. Rittman has worked on many prestigious integrated circuits projects (Intel's Pentium Pro, DEC's Alpha chip, and others), and was the founder and CTO of BindKey Technologies, an EDA corporation that was acquired by DuPont Photo masks. Dr. Rittman is a key figure in the EDA (electronic design automation) arena and has led numerous global software and hardware teams in the field. Currently, he serves also as a Senior Integrated Circuit Consultant for Qualcomm/Max Linear; prior to GOPH, he was the Founder and CTO of Micrologic Design Automation. Dr. Rittman's early career was spent as a Software Senior Consultant at IBM, after having founded Bindkey Technologies. He received his PhD and MSc in Computer Science from La Salle University.

### **Kevin Pickard, Chief Financial Officer**

Mr. Pickard is the Chief Financial Officer of GOPH. He brings almost 30 years of accounting experience to Gopher. He is a licensed CPA with extensive experience in working with public companies. Mr. Pickard's experience in performing due diligence on potential acquisition candidates, preparing projections and business plans and assisting with corporate restructurings will be potentially very useful for GOPH. Prior to opening his own CPA firm in 1998, he was a partner with Singer Lewak LLP, where he is co-managed the firm's securities practice group. Mr. Pickard earned his Bachelor of Science in Accounting and Master of Accountancy from Brigham Young University.

### **Derron Winfrey, Chief Operating Officer**

Mr. Winfrey is the Chief Operating Officer at GOPH. The company extended his position for a period of one year beginning March 2018. He also serves as the President at ECS Prepaid LLC and a President & Director at Electronic Check Services, Inc. He is on the Board of Directors at Electronic Check Services, Inc. He received his undergraduate degree from Wichita State University.

### **Robert Yaspan, Chairman of Board of Directors**

Mr. Yaspan was appointed as the Chairman of the Board of Directors in May 2018. Mr. Yaspan has owned and operated Law Offices of Robert M. Yaspan since 1997 where he has focused his practice on business reorganizations and real property law. Mr. Yaspan received a Bachelor of Arts degree in History from the University of Chicago in 1968 and a Juris Doctorate from University of Southern California in 1971. Mr. Yaspan is the manager of REKO Holdings LLC, a significant shareholder of GOPH.

### **Judit Nagypal, Independent Director**

Ms. Nagypal was appointed as the Independent Director of GOPH in May 2018. Ms. Nagypal has extensive experience in human resources and business development. Since 2013, Ms. Nagypal has held various

positions in Microsoft including HRD Leadership Development and Talent Management, Independent Software Vendor Acquisition Lead and Independent Software Vendor Go-To-Market Lead. Prior to Microsoft, Ms. Nagypal held positions with Kraft Biscuits and Danone Group as well as The Coca-Cola Company. Ms. Nagypal received a Postgraduate Diploma in Human Resources Management from Middlesex University in 2002, a Law Degree from Eotvos Lorand University in 1998 and a Masters in Economic Sciences from Budapest University of Economics in 1994.

**Ambassador Ned Siegel, Independent Director**

Mr. Siegel was appointed as the Independent Director of GOPH in May 2018. He has had a long and distinguished career as a senior US government official and businessman. He was appointed by then President George W. Bush as the US Ambassador to the Commonwealth of the Bahamas from October 2007 to January 2009. Besides this, he has served in a number of senior government positions. In addition to his public service, Ambassador Siegel has over 30 years of entrepreneurial successes. He graduated Phi Beta Kappa from the University of Connecticut in 1973 and received a juris doctorate from the Dickinson School of Law in 1976.

**Muhammed Khilji, Independent Director**

Mr. Khilji was appointed as the Independent Director of GOPH in April 2018. Since 2005, Mr. Khilji has owned and operated Muhammad Khilji, CPA, a business accounting and tax advisory service. Mr. Khilji is engaged in providing advisory services to small business clients. He has been serving numerous high net worth individuals, professionals, as well as entrepreneurs. He is involved in consulting clients in the areas of strategic business management, sales and marketing, retirement planning, asset protection, financial restructuring and bankruptcy. Mr. Khilji has also served as contract CFO for a number of companies. From 2004 to 2005, Mr. Khilji served as a Senior Manager in the Financial Services Group of KPMG and from 2002 to 2004 as a Senior Manager with the Corporate Tax Group at Waterhouse Coopers. Mr. Khilji graduated from Southern Illinois University in 1993 with a Master of Business Administration Finance and Marketing and in 1991 with a Bachelor of Science Finance.

## FINANCIAL SUMMARY

### Exhibit 9. Income Statement

Figures in \$000 unless specified	FY17A	FY18E	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>\$47,072.4</b>	<b>\$83,833.6</b>	<b>\$166,748.0</b>	<b>\$255,064.8</b>	<b>\$347,121.4</b>
YoY growth	26.9%	78.1%	98.9%	53.0%	36.1%
Cost of sales	\$44,751.0	\$79,699.3	\$150,073.2	\$204,051.8	\$260,341.0
<b>Gross Profit</b>	<b>\$2,321.4</b>	<b>\$4,134.4</b>	<b>\$16,674.8</b>	<b>\$51,013.0</b>	<b>\$86,780.3</b>
Margin	4.9%	4.9%	10.0%	20.0%	25.0%
Operating expenses	\$10,475.6	\$8,068.0	\$16,174.6	\$28,516.2	\$42,175.2
<b>EBIT</b>	<b>(\$8,154.2)</b>	<b>(\$3,933.6)</b>	<b>\$500.2</b>	<b>\$22,496.7</b>	<b>\$44,605.1</b>
Margin	(17.3%)	(4.7%)	0.3%	8.8%	12.9%
<b>EBITDA</b>	<b>(\$8,154.2)</b>	<b>(\$3,682.1)</b>	<b>\$833.7</b>	<b>\$22,955.8</b>	<b>\$45,125.8</b>
Margin	(17.3%)	(4.4%)	0.5%	9.0%	13.0%
Other income/ (expense)	(\$3,004.2)	(\$3,004.2)	(\$3,004.2)	(\$3,004.2)	(\$3,004.2)
Profit before tax	(\$11,158.4)	(\$6,937.8)	(\$2,504.0)	\$19,492.5	\$41,600.9
Tax	0.0	0.0	0.0	4,039.2	8,736.2
<b>Net income to Common</b>	<b>(\$11,158.4)</b>	<b>(\$6,937.8)</b>	<b>(\$2,504.0)</b>	<b>\$15,453.3</b>	<b>\$32,864.7</b>
Margin	(23.7%)	(8.3%)	(1.5%)	6.1%	9.5%
<b>EPS (per share)</b>	<b>(\$0.24)</b>	<b>(\$0.05)</b>	<b>(\$0.02)</b>	<b>\$0.12</b>	<b>\$0.25</b>

Source: SeeThruEquity Research.

### Exhibit 10. Balance Sheet

Figures in \$000, unless specified	FY17A	FY18E	FY19E	FY20E	FY21E
Current assets	\$1,609.8	\$1,150.9	\$3,888.5	\$20,292.1	\$53,864.1
Other assets	\$7,882.3	\$7,880.8	\$7,797.4	\$7,838.2	\$7,817.6
<b>Total assets</b>	<b>\$9,492.1</b>	<b>\$9,031.7</b>	<b>\$11,685.8</b>	<b>\$28,130.3</b>	<b>\$61,681.6</b>
Current liabilities	\$2,670.3	\$3,147.7	\$4,305.8	\$5,297.0	\$5,983.6
Other liabilities	\$2,600.0	\$8,600.0	\$12,600.0	\$12,600.0	\$12,600.0
Shareholders' equity	\$4,221.8	(\$2,716.0)	(\$5,220.0)	\$10,233.3	\$43,098.0
<b>Total liabilities and shareholder equity</b>	<b>\$9,492.1</b>	<b>\$9,031.7</b>	<b>\$11,685.8</b>	<b>\$28,130.3</b>	<b>\$61,681.6</b>

Source: SeeThruEquity Research

### Exhibit 11. Cash Flow Statement

Figures in \$000, unless specified	FY17A	FY18E	FY19E	FY20E	FY21E
Cash from operating activities	<b>\$228.7</b>	<b>(\$6,742.5)</b>	<b>(\$2,341.8)</b>	<b>\$15,372.9</b>	<b>\$32,216.5</b>
Cash from investing activities	(78.4)	(250.0)	(250.0)	(500.0)	(500.0)
Cash from financing activities	1,149.6	6,000.0	4,000.0	0.0	0.0
<b>Net inc/(dec) in cash</b>	<b>1,300.0</b>	<b>(992.5)</b>	<b>1,408.2</b>	<b>14,872.9</b>	<b>31,716.5</b>
Cash at beginning of the year	5.1	1,305.1	312.6	1,720.7	16,593.7
<b>Cash at the end of the year</b>	<b>1,305.1</b>	<b>312.6</b>	<b>1,720.7</b>	<b>16,593.7</b>	<b>48,310.1</b>

Source: SeeThruEquity Research

## **About Gopher Protocol, Inc.**

GOPH is a development-stage company which specializes in the creation of Internet of Things (IoT) and Artificial Intelligence enabled mobile technology. Its technology, GopherInsight, consists of a smart microchip, mobile application software, and supporting software. GopherInsight has endless uses in the IoT ecosystem and GOPH has so far focused on developing tracking devices based on the technology. It has commercialized three products so far – Guardian Patch, Guardian Pet Tracker (Guardian Sphere or Guardian Orb) and Guardian Bracelet. For more information, visit [www.gopherprotocol.com](http://www.gopherprotocol.com).



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