

## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### Borqs Technologies, Inc.

**Speculative Buy**

John Nobile

April 26, 2018

**BRQS \$8.50 — (NASDAQ)**

	<u>2016A</u>	<u>2017A</u>	<u>2018E</u>	<u>2019E</u>
Revenues (millions)	\$120.6	\$154.3	\$200.0	\$252.0
Earnings (loss) per share	\$0.00	\$(1.52)	\$0.26	\$0.45

52-Week range	\$9.80 – \$7.85	Fiscal year ends:	December
Common shares out as of 3/27/18	31.3 million	Revenue per share (TTM)	\$12.01
Approximate float	5.5 million	Price/Sales (TTM)	0.7X
Market capitalization	\$266 million	Price/Sales (FY2019)E	1.1X
Tangible book value/share	\$(2.32)	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2019)E	18.9X

*Borqs Technologies, Inc., headquartered in Beijing, China, is a provider of software and products focused on the Internet of Things (IoT) market. The company is also a mobile virtual network operator (MVNO) in China.*

#### **Key investment considerations:**

*We are reiterating our Speculative Buy rating on Borqs Technologies, Inc. and raising our twelve-month price target to \$12.00 per share from \$8.25 based on strong sales growth through 2019.*

*Borqs has averaged revenue growth of nearly 50% over the past three years. We believe continued customer acceptance of the company's products in the fast growing IoT market should enable strong growth through our forecast horizon. GrowthEnabler projects 28.5% CAGR to \$457 billion in 2020 from \$157 billion in 2016.*

*Borqs was able to continue growing its MVNO sales despite the effect of tightened security measures for SIM card activations in China in 2017. We project continued growth in MVNO revenues through 2019.*

*For 2018, we project revenue growth of 29.6% to \$200 million and EPS of \$0.26, up from our prior revenue forecast of \$182.2 million and a loss of \$(0.02) per share. Our increased projections reflect continued market acceptance of BRQS' hardware and software products and growth in MVNO sales.*

*For 2019, we project revenue growth of 26% to \$252 million and EPS of \$0.45. Growth should be driven by continued market acceptance of BRQS' hardware and software products and growth in MVNO sales.*

*On April 2, 2018, Borqs reported 2017 revenue increased 28% to \$154.3 million. The net loss widened to \$19.5 million or \$(1.52) per share from breakeven. We projected revenue of \$149 million and a loss of \$21.9 million or \$(1.60) per share.*

***\*Please view our disclosures on pages 15 - 17.***

## ***Recommendation and Valuation***

### **Reiterating Speculative Buy rating and raising our twelve-month price target to \$12.00 per share from \$8.25 based on our strong sales growth forecast through 2019.**

Our rating reflects our projected 28% compound annual growth rate (CAGR) of the company's revenue to \$252 million in 2019 from \$154.4 million in 2017. Borqs is successfully penetrating the IoT market as customer acceptance of the company's products (such as mobile phones, tablets, and wearables) continues. Borqs was able to continue growing its MVNO sales despite the effect of tightened security measures for SIM card activations in China in 2017. We project continued growth in MVNO revenues through 2019.

Shares of BRQS currently trade at a multiple of 0.7X trailing twelve month (TTM) sales. The industry (software) trades at an average TTM multiple of 2.7X sales. Investors should accord BRQS's a multiple approaching that of the industry based on our forecasted growth to 2019. Applying a multiple of 1.5X to our FY19 sales per share projection of \$8.05, we derive a year-ahead value of approximately \$12.00 per share. Our twelve-month price target implies a year-ahead return of over 40%.

We believe shares of BRQS are suitable for risk tolerant investors looking to make an investment in the fast growing IoT market. Investors are cautioned that with a substantial portion of Borqs' operations conducted in China, the company is subject to economic, political and legal developments in China which could adversely affect the company's business.

## ***Organizational History***

Borqs Technologies, Inc. (formerly known as Pacific Special Acquisition Corp.) was incorporated in the British Virgin Islands on July 1, 2015 for the purpose of acquiring, merging with, or engaging in a business combination with one or more businesses or entities.

On August 18, 2017, the company acquired a 100% equity interest in Borqs International Holding Corp. Concurrent with the completion of the acquisition, the company changed its name from Pacific Special Acquisition Corp. to Borqs Technologies, Inc.

## ***Business***

Borqs Technologies, headquartered in Beijing, China, is a provider of software and products focused on the Internet of Things (IoT) market. Internet of Things refers to the network of objects (such as security systems, thermostats, cars, electronic appliances, and lights in household and commercial environments) that feature internet connectivity and the communication that occurs between these objects and other Internet-enabled devices and systems.

The company is also a mobile virtual network operator (MVNO) in China. An MVNO is a wireless communications services provider that does not own the wireless network infrastructure over which it provides services to its customers. An MVNO enters into a business agreement with a mobile network operator to obtain bulk access to network services at wholesale rates, then sets retail prices independently.

The company's operations include two business units, connected solutions and MVNO. The connected solutions unit develops wireless smart connected devices (hardware) and cloud solutions (software). The MVNO unit operates a mobile virtual network in China that provides a full range of 2G/3G/4G mobile communication services for consumers.

**Connected Solutions** – Borqs’ connected solutions unit designs chipsets and related software for mobile connected devices. The company outsources manufacturing of connected devices to third-party factories, buying key components for devices and consigning them to the factories to manufacture and assemble. Borqs sells the final products to its customers (select direct customers can be seen in table at right), which are responsible for marketing and retail distribution.



The company developed the Android software platform and hardware platform for Intel and Qualcomm phones and tablets. In February 2016, Qualcomm announced its planned business expansion for its next generation Qualcomm® Snapdragon™ Wear platform with the addition of new ecosystem partners (including Borqs). The platform is targeted for next generation connected and tethered wearables, such as smartwatches, watches for children and elderly individuals, smart bands, smart eyewear, and smart headsets.

The company’s connected solutions platform is built on Google’s Android software. Android is an open source operating system for mobile devices such as smartphones and tablet computers, and was first released to the public by Google in late 2008. Borqs, which was among the first to obtain the Android source code, built a technology platform used in the first deployment of Android-based mobile devices to support a network for China Mobile.

Borqs provides customers with customized, integrated, commercial grade Android platform software and service solutions through its BorqsWare software platform consisting of client and server software. The client software platform offers commercial grade Android software that works with selective mobile chipsets, functionality enhancements of open source Android software, and mobile operator required services. Customers may require the company to provide further software customization to meet their specific market needs. Borqs’ client software has been used in Android phones, tablets, watches and various Internet-of-Things (IoT) devices.

Borqs’ server platform consists of back-end server software that allows customers to develop their own mobile end-to-end services for their devices. Customers may require the company to provide further customization of its server software to meet their specific needs.

As of December 2017, the company has collaborated with six mobile chipset manufacturers and 29 mobile device OEMs to commercially launch Android based connected devices in 11 countries. Connected devices embedded with the BorqsWare software platform are in more than 12 million units worldwide.

Borqs’ connected solutions unit generated approximately 79% of the company’s revenue in 2017.

In January 2018, Borqs announced it signed an agreement to acquire 13.8% of both Shenzhen Crave Communication Co., Ltd (Crave) and its affiliated business entity in Hong Kong, Colmei Technology International Ltd (Colmei). Crave is a manufacturer of mobile terminal devices and Colmei is a sales entity located in Hong Kong. In 2017, Borqs contracted Crave/Colmei for multiple projects in the manufacturing of Borqs’ products. Terms call for payment of 3 million of BRQS shares and \$10 million in cash to be paid over 3 years for total consideration of \$13 million.

Borqs investments in Colmei and Crave should help provide it with access to acceptable financing terms, competitive component pricing, and prioritized production capacity.

In January 2018, Borqs entered into a letter of intent to acquire 60% of Shanghai KADI Machinery Technology Co., Ltd (KADI), a developer of embedded software and hardware for electric control modules in electric vehicles. The consideration proposed to be paid by Borqs includes \$11.7 million in cash and shares worth \$3.3 million. Borqs is likely to raise equity capital to complete this acquisition.

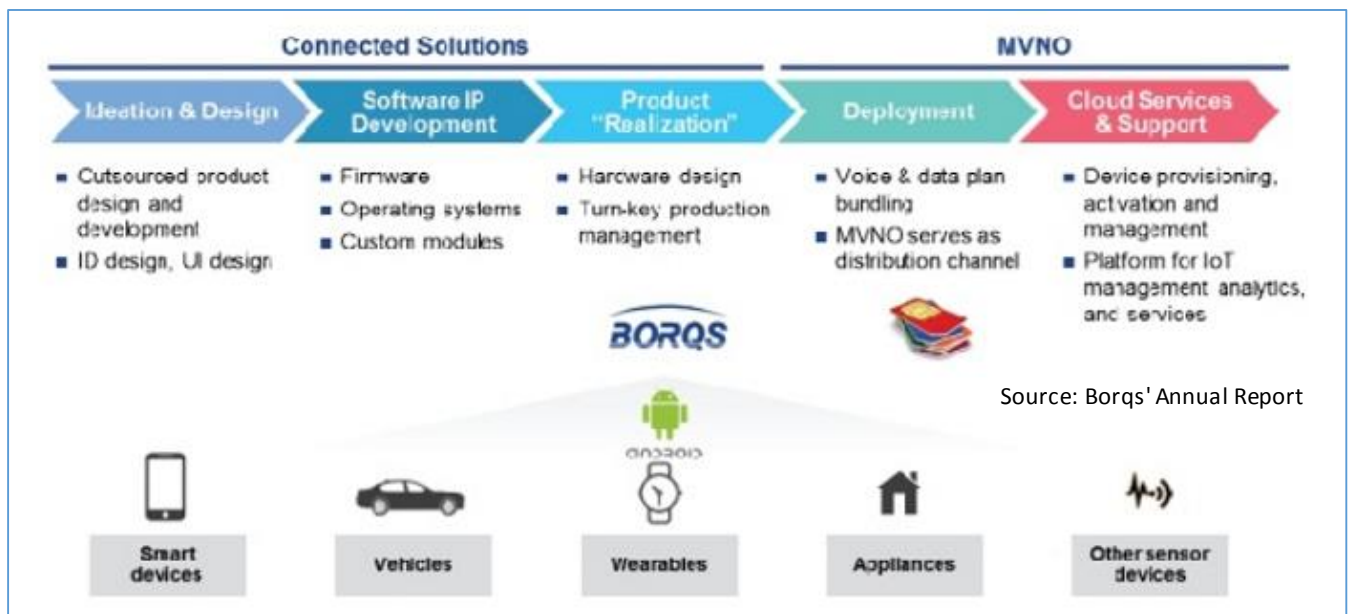
KADI was awarded a \$48.5 million supply contract for its core electric control modules from a key automotive contractor in China, Shenzhen Espirit Technology Co., Ltd. The products are to be delivered between 2018 through 2020.

**MVNO** – This unit provides a full range of 2G/3G/4G voice and data services for general consumer usage and IoT devices, as well as traditional telecom services such as voice conferencing. The MVNO unit also acts as a sales and promotion channel for the products developed by the connected solutions unit. Borqs’ MVNO unit had nearly 5.4 million subscribers in China as of December 31, 2017.

Borqs’ MVNO unit generated approximately 21% of the company’s revenue in 2017.

**End-to-End Business Model**

Borqs’ connected solutions unit aids customers in the design, development and commercialization of their connected devices. The company’s MVNO unit helps customers deploy their devices in China with 2G/3G/4G cellular connectivity and a flexible voice/data plan. Borqs’ business model helps to satisfy specific customer requirements through five key offerings that include ideation and design, software IP development, product realization, deployment, and cloud services and support. Following is a brief description of these offerings.



**Ideation & Design** — Based on customer requirements, Borqs helps design the product ID and user interface. The company offers design engineering for 2D/3D rendering and can provide a physical mockup with different color, material and finishes, so the customer can hold and feel the product before it is manufactured.

**Software IP Development** — IoT devices are often highly customized and require special software to display the data (i.e. watch display and user interface), reduce power consumption (i.e. a small battery in a wearable device), perform specific functions (i.e. push-to-talk), and to connect to the network. Borqs has developed a large number of software libraries that can be reused for various connected devices.

**Product Realization** — Borqs’ research and development team helps customers design hardware. The company also provides services to help customers handle manufacturing logistics.

**Deployment** — A number of connected devices require cellular connectivity to connect to the network to access backend cloud services. If a customer intends to deploy their connected devices in China, the customer can acquire SIM cards with flexible voice/data plans from Borqs’ MVNO for cellular connectivity.

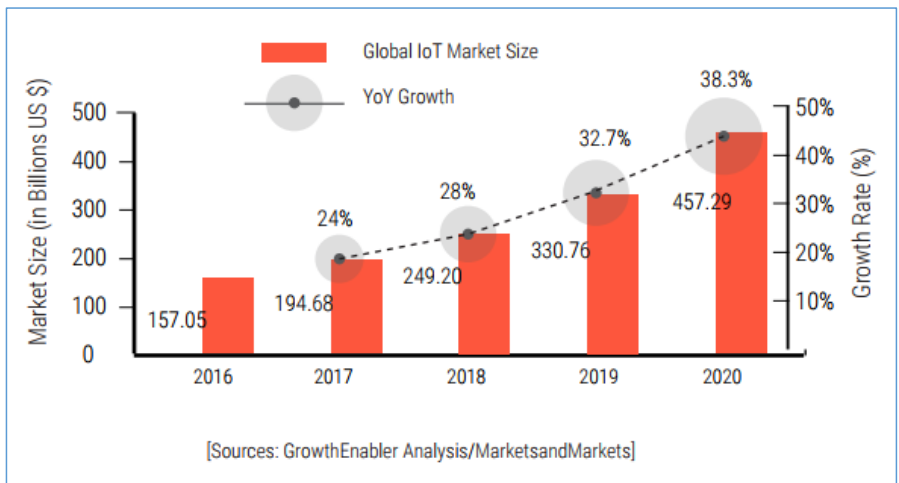
**Cloud Services and Support** — Borqs’ MVNO can help customers manage their subscribers database, handle the payment and re-charging, as well as provide data analytics of the subscribers usage traffic models.

**IoT Market**

IoT is broadly classified into nine segments, five for businesses and four for individuals. Business use consists of industrial IoT, retail, smart utilities and energy, healthcare, and smart cities. Individual use consists of connected homes, wearables, cars, and personal health. In a report on the IoT market, the research firm GrowthEnabler broke the IoT market into two distinct groups – businesses and individuals.

Businesses consider investing in IoT to reduce business continuity risk through predictive analytics that optimize operational performance, reduce costs, and consequently increase profits and customer impact. Other benefits include higher workforce productivity and new product development opportunities. End-customers (individuals) increasingly use IoT to save time, money and heighten personal convenience by using smart home automation, and rely on health tracking devices to enhance well-being and lifestyle. Adoption is set to grow as machine sensors in smartphones, wearable devices, and other smart devices become more prevalent and affordable.

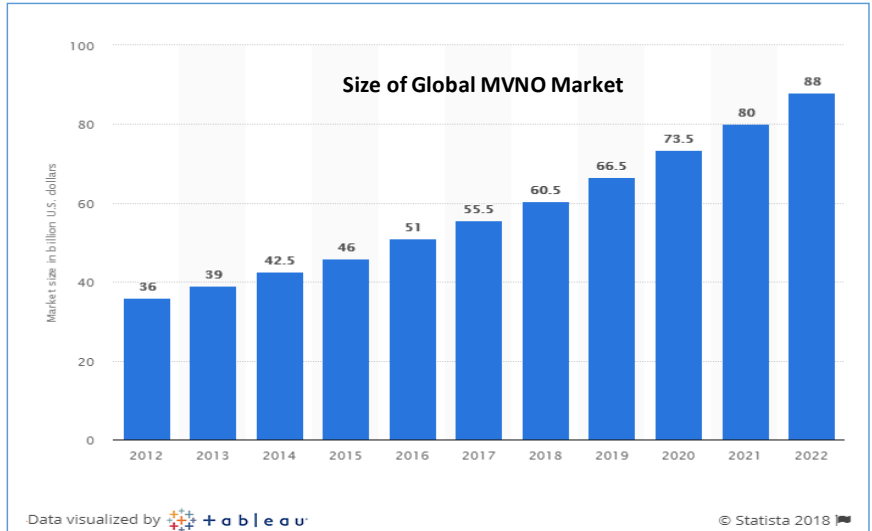
GrowthEnabler projects that IoT will connect 20 billion devices or ‘things’ to the existing internet infrastructure by 2020. Sophisticated sensors, embedded into everyday objects are already enabling data led decision making for early adopters across industries. IoT has enabled the connected home to become a reality, and as a consequence minimized human effort with inventions such as smart refrigerators that can pre-order groceries through e-commerce. Gadgets such as Amazon’s Echo Dot and Google’s Nest represent the first generation of IoT products with the best of IoT still to come. GrowthEnabler projected the global IoT market to grow from \$157 billion in 2016 to \$457 billion by 2020 for a compound annual growth rate of 28.5% (see chart at right).



Supporting growth in the IoT market will be an increase in the number of IoT connections. GrowthEnabler projected the number of IoT connections will increase at a CAGR of 16% from 6 billion in 2015 to 27 billion by 2025.

### ***MVNO Market***

The global MVNO market was valued at \$55.5 billion in 2017 and is projected to reach \$88 billion by 2022 for a compound annual growth rate (CAGR) of 9.7% (see chart at right). Driving growth is rising advancements in mobile technology (such as 4G and LTE infrastructure). However, low profit margins restrain market growth.



While the global MVNO market is expected to grow at a CAGR of 9.7% into 2022, the MVNO market in China is expected to grow more rapidly. Reportlinker projects China’s MVNO market to grow at a CAGR of 65.1% from 2016 to 2021. Some factors driving growth in China are growing smartphone penetration, increasing traffic, telecom infrastructure development in rural and remote areas, and the increasing adoption of IoT solutions.

### ***Competition***

The marketplace for connected devices and cloud service solutions is highly fragmented. The company competes on the basis of various factors, including reliability, performance, experience, product features and functionality, time-to-market, price, and customer support to name a few.

Borqs expects competition to intensify as more competitors enter the market, and as existing competitors attempt to diversify and expand their software and service solutions offerings across the Android platform. The company’s primary competitors include traditional hardware-centric OEMs and software development companies.

Traditional OEMs include Foxconn Technology Group and BYD Electronic (International) Company Limited. Large software development companies include Baidu and Alibaba.

Major MVNO competitors include Snail Mobile, d.Mobile and Soshare.

Some of Borqs’ competitors have significantly greater financial, technical, marketing and other resources than the company.

### ***Competitive Advantage***

Borqs’ competitive strengths come from its relationships with leading chipset vendors, its software capabilities across parts of the Android platform, its large MVNO subscriber base, and its significant investment in research and development.

The company works closely with leading chipset vendors in their software development, including software for their latest state-of-the-art chipsets. These strategic relationships enable the company to come up with a competitive product portfolio.

Borqs has focused on building its technology to serve customers across the Android platform. The company believes it was first to develop commercial grade software to support video telephony for Android. In collaboration with China Mobile, Borqs developed the base chipset software to deploy Android-based mobile devices to support a network for China Mobile.



## **Strategy**

The company's strategic goal is to lead and expand the market for smart connected devices, and to increase its MVNO market share in China. Borqs plans to achieve its goal by adhering to the following key strategies:

Maintain and grow market share and technology leadership – Borqs intends to leverage its core technology to maintain its position as an independent provider of commercial grade Android platform software for mobile chipset manufacturers, mobile device OEMs, and mobile operators. The company also intends to grow market share by expanding its software and service platform solutions. Borqs intends to hire additional experienced engineers in China and India and further invest in research and development efforts to strengthen its core technology expertise and capabilities.

Deepen relationships with existing customers – While Borqs believes that its relationships with existing customers are strong, it intends to further strengthen those relationships in order to create more business opportunities. Through collaborations with customers from the early stages of a product launch, the company intends to gain insight into its customers' long-term goals.

Expand its MVNO market share in China – Based on publically available data from China, the company is believed to be one of the top MVNO businesses in China, as measured in terms of registered subscribers. Borqs intends to expand its market share organically or by acquiring smaller MVNOs, as well as bundling its connected products with its SIM cards (with voice/data plans) and focus the bundling on IoT devices.

Selectively pursue acquisitions, strategic alliances, joint ventures and partnerships – Borqs will continue to pursue acquisition opportunities, strategic alliances, joint ventures and partnerships to complement its core technology, further its geographic expansion, and grow its business.

## **2017 Financial Results**

Revenue increased 28% to \$154.3 million. The net loss widened to \$19.5 million or \$(1.52) per share from breakeven. Included in the net loss for 2017 was the subtraction of \$210,000 or \$0.02 per share attributable to noncontrolling interests and a loss of \$7 million or \$(0.54) per share related to the accretion to redemption value of convertible preferred shares. Included in the net loss for 2016 was the addition of \$632,000 or \$0.15 per share attributable to noncontrolling interests, a loss of \$976,000 or \$(0.23) per share related to the accretion to redemption value of convertible preferred shares, and a loss of \$2.3 million or \$(0.53) per share related to the allocation to holders of convertible preferred shares. Excluding these items, the net loss was \$12.4 million or \$(0.96) per share in 2017 versus net income of \$2.6 million or \$0.61 per share in 2016.

Connected Solutions revenue (includes hardware and software revenue) increased 43% to \$122.2 million while MVNO revenue (includes MVNO and other revenue) decreased 8.7% to \$32.1 million.

Hardware revenue increased 57.4% to \$111 million while software revenue decreased 24.8% to \$11.2 million. The increase in hardware revenue reflects an increase in orders of tablets, ruggedized handsets, high speed data smartphones, and home entertainment remote controls. The decrease in software revenue primarily reflects an overall decline in software engineering project sales.

MVNO revenue (excludes traditional telephony activities) increased 2.7% to \$30.1 million while other revenue decreased 66.4% to \$2 million.

Gross profit increased 8% to \$27.2 million. Gross margins decreased to 17.6% from 21.8%. Connected Solutions gross margins decreased to 15.3% from 24% while MVNO gross margins increased to 26.3% from 13.2%. The decrease in Connected Solutions gross margins were due to a higher volume of lower margin hardware sales. The increase in MVNO gross margins was due to improved economies of scale and the removal of a stringent minimum charge from China Unicom, Borqs' incumbent operator.

Operating expenses increased to \$35.3 million from \$21.7 million. General and administrative expenses increased to \$20.8 million from \$10 million. Selling and marketing expenses increased to \$8 million from \$5.9 million. R&D expenses increased to \$6.4 million from \$5.7 million.

The company paid \$2.3 million or 52% in income tax versus \$2.7 million or 51% in 2016. Borqs' tax rates have been higher than statutory rates because losses experienced by certain subsidiaries could not be used to offset gains in other subsidiaries within the same jurisdiction.

*Liquidity* – As of December 31, 2017, Borqs had \$16.5 million cash of which \$3.5 million is restricted, a current ratio of 1.3, a debt to equity ratio of 0.4, and 32% of assets were financed by equity.

Cash used in operations in 2017 was \$14.9 million consisting of \$9.6 million cash earnings and a \$24.5 million increase in working capital. The increase in working capital was primarily due to an increase in receivables offset in part by an increase in prepaid expenses.

The bulk of cash used in investing consisted primarily of \$7.7 million purchases of intangible assets related to capitalized software development costs. Cash provided by financing of \$31.9 million consisted primarily of \$18 million cash received from merger and \$9 million proceeds from the issuance of convertible preferred shares.

While the company had no long-term bank debt as of December 31, 2017, it had \$18.1 million of current bank debt with interest rates ranging from 6.73% to 7.97%.

### ***Economic Outlook***

In April 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from January 2018. The growth estimates reflect strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the US.

The IMF raised its economic growth estimate for the US to 2.9% in 2018 and 2.7% in 2019, up from its earlier (January 2018) growth forecast of 2.7% for 2018 and 2.5% for 2019. The upward revision reflects stronger than expected US economic activity in 2017, firmer external demand, and the expected economic impact from 2018 tax policy changes, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments.

The third estimate of US GDP growth (released on March 28, 2018) showed the US economy grew at an annual rate of 2.9% in 4Q17, down from 3.2% growth in 3Q17. The 4Q17 US GDP growth estimate primarily reflects increases in consumer spending, business investment, exports, housing investment, and government spending. These contributions were partly offset by declines in private inventory investment.

The IMF kept its economic growth estimate for China at 6.6% in 2018 and 6.4% in 2019, unchanged from January 2018. The IMF projects China's economy to continue rebalancing away from investment toward private consumption.

### ***Projections***

Our estimates will not include contribution from the pending 60% acquisition of KADI until it is completed.

*2018* – We project revenue growth of 29.6% to \$200 million and net income of \$8.2 million or \$0.26 per share. We previously projected revenue of \$182.2 million and a net loss of \$543,000 or \$(0.02) per share. The increase in our projections is due to continued market acceptance of BRQS' hardware and software products in the growing IoT market and growth in MVNO sales.

We project a \$24.6 million increase in gross profit to \$51.8 million from \$27.2 million and gross margins increasing to 25.9% from 17.6% due primarily to increased manufacturing overhead coverage.



Sales and marketing expenses should increase \$2 million to \$10 million from \$8 million. We project a \$1.2 million increase in general and administrative expenses to \$22 million due primarily to increased compensation costs. R&D expenses are projected to increase \$1.2 million to \$8 million from \$6.4 million due primarily to increased hardware and software development projects.

Interest expense should decrease to \$1.4 million from \$1.9 million due to lower average debt levels. We project the company paying \$3 million in taxes for a 26.7% tax rate.

We project cash earnings of \$30.6 million and a \$12.2 million increase in working capital for \$18.4 million cash provided by operations. The increase in working capital should come primarily from an increase in receivables and inventories offset in part by an increase in payables and accrued expenses. We project \$800,000 of capital expenditures. Cash used in financing activities of \$16.1 million reflect debt repayments. We project a \$1.5 million increase in cash to \$14.5 million at December 31, 2018.

2019 – We project revenue growth of 26% to \$252 million and net income of \$14 million or \$0.45 per share. Growth should be driven by continued market acceptance of BRQS’ hardware and software products in the growing IoT market and growth in MVNO sales.

We project a \$16.5 million increase in gross profit to \$68.3 million from \$51.8 million and gross margins increasing to 27.1% from 25.9% due primarily to increased manufacturing overhead coverage.

Sales and marketing expenses should increase \$2.6 million to \$12.6 million. We project a \$5.7 million increase in general and administrative expenses to \$27.7 million due primarily to increased compensation costs. R&D expenses are projected to increase \$2.1 million to \$10.1 million due primarily to increased hardware and software development projects.

We anticipate interest expense decreasing to \$300,000 from \$1.4 million due to lower average debt levels. We project the company paying \$4.5 million in taxes for a 24.5% tax rate.

We project cash earnings of \$34.8 million and a \$10.2 million increase in working capital for \$24.6 million cash provided by operations. The increase in working capital should come primarily from an increase in receivables and inventories offset in part by an increase in payables and accrued expenses. We project \$800,000 of capital expenditures. We project a \$23.8 million increase in cash to \$38.3 million at December 31, 2019.

## ***Risks***

In our view, these are the principal risks underlying the stock.

High concentration of business in China – A substantial portion of Borqs’ operations are conducted in China, and a significant portion of revenues are derived from customers where the contracting entity is located in China. Accordingly, the company’s business, financial condition, results of operations, prospects and certain transactions are subject to economic, political and legal developments in China.

China’s social and political conditions may not be as stable as those of the US and other developed countries. Any sudden changes to China’s political system or the occurrence of widespread social unrest could have a material adverse effect on Borqs’ business and results of operations.

Uncertainty regarding MVNO license in China – The company’s license to operate its mobile communications services as a mobile virtual network operator in China is based on a government issued extension of a trial license that was originally set to expire on December 31, 2015. If Borqs cannot obtain a renewed license, or the current extension is terminated, the company would need to cease its MVNO operation.

Limited number of major customers – Borqs has derived a significant portion of its revenue from a small number of major customers and key projects. For 2016 and 2017, the company’s top five customers accounted for 51.5% and 69.3%, respectively, of revenue. Any loss of business from these customers or key projects could reduce Borqs’ revenue and significantly harm its business.

Competition – The mobile operating system industry is intensely competitive and characterized by rapid technological changes, which often result in shifts in market share among the industry’s participants as one operating system may become more widely used than others. There can be no assurance that the Android platform will continue to compete effectively with alternative mobile operating system platforms, such as Apple’s iOS platform or Windows mobile operating system from Microsoft.

Material weakness of internal controls over financial reporting – In the course of preparing its consolidated financial statements, Borqs has identified material weaknesses, significant deficiencies and other deficiencies in its internal control over financial reporting. The company is currently in the process of implementing remedial steps to improve its internal control over financial reporting. If Borqs fails to timely achieve and maintain the adequacy of its internal controls, investors could lost confidence in the reliability of its financial statements.

Exchange rate risk - Approximately half of Borqs’ revenues and costs are denominated in the Renminbi (RMB). Any significant revaluation of RMB may materially and adversely affect the company’s cash flows, revenues, earnings and financial position. For example, an appreciation of RMB against the US dollar would make new RMB denominated investments or expenditures more costly to the company. Conversely, a significant depreciation of the RMB against the US dollar may significantly reduce the US dollar equivalent of the company’s earnings.

Liquidity risk - Shares of Borqs Technologies have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 5.5 million shares in the float and the average daily volume is approximately 3,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Borqs Technologies, Inc.

Consolidated Balance Sheets  
(in thousands \$)

	2015A	2016A	2017A	2018E	2019E
Cash and cash equivalents	7,787	3,610	13,060	14,534	38,291
Restricted cash	770	1,153	3,459	3,459	3,459
Receivables	15,361	33,066	69,234	89,735	113,067
Inventories	6,264	12,682	17,031	19,857	24,607
Deferred cost of revenues	984	969	507	507	507
Prepaid and other current assets	3,225	6,599	16,240	16,240	16,240
<b>Total current assets</b>	<b>34,391</b>	<b>58,079</b>	<b>119,531</b>	<b>144,333</b>	<b>196,171</b>
Net property and equipment	2,250	1,488	1,362	1,625	1,651
Intangible assets	13,262	15,498	20,004	13,597	8,325
Goodwill	741	693	736	736	736
Deferred tax assets	1,074	1,054	1,463	1,463	1,463
Deferred cost of revenues	177	689	2,642	2,642	2,642
Other non-current assets	1,184	529	2,994	2,994	2,994
<b>Total assets</b>	<b>53,079</b>	<b>78,030</b>	<b>148,732</b>	<b>167,390</b>	<b>213,982</b>
Accounts payable	6,951	22,691	49,690	57,936	71,795
Accrued expenses and other payables	6,263	7,634	12,163	15,765	19,863
Advances from customers	-	-	3,623	3,623	3,623
Deferred revenue	17,334	11,995	7,960	7,960	7,960
Other current liabilities	-	-	-	-	-
Income tax payable	165	216	1,232	1,232	1,232
Short-term bank borrowings	2,000	6,306	12,648	2,000	2,000
Current portion of long-term borrowings	571	1,381	5,432	-	-
Deferred government grants	1,762	264	-	-	-
<b>Total current liabilities</b>	<b>35,046</b>	<b>50,487</b>	<b>92,748</b>	<b>88,516</b>	<b>106,473</b>
Unrecognized tax benefits	691	1,755	2,121	2,121	2,121
Warrant liabilities	-	1,344	-	-	-
Deferred tax liabilities	1,779	1,539	3,555	3,555	3,555
Deferred revenue	440	2,428	1,346	1,346	1,346
Long-term bank borrowings	381	4,491	-	-	-
Deferred government grants	2,252	1,844	1,957	1,957	1,957
<b>Total liabilities</b>	<b>40,589</b>	<b>63,888</b>	<b>101,727</b>	<b>97,495</b>	<b>115,452</b>
<b>Preferred equity</b>	<b>67,886</b>	<b>68,862</b>	-	-	-
<b>Common equity (deficit)</b>	<b>(55,031)</b>	<b>(54,256)</b>	<b>47,802</b>	<b>69,895</b>	<b>98,530</b>
Noncontrolling interest	(365)	(1,095)	(797)	-	-
<b>Total stockholders' equity</b>	<b>12,490</b>	<b>13,511</b>	<b>47,005</b>	<b>69,895</b>	<b>98,530</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>53,079</b>	<b>77,399</b>	<b>148,732</b>	<b>167,390</b>	<b>213,982</b>

Source: Company filings and Taglich Brothers' estimates

Borqs Technologies, Inc.

Income Statements for the Fiscal Years Ended  
(in thousands \$)

	2015A	2016A	2017A	2018E	2019E
Software	22,468	14,912	11,212	14,000	18,000
Hardware	32,647	70,536	111,021	142,000	182,000
MVNO	16,007	29,309	30,118	42,000	50,000
Other	3,950	5,829	1,956	2,000	2,000
Net revenues	75,072	120,586	154,307	200,000	252,000
Software	(12,660)	(6,347)	(7,247)	(8,120)	(10,440)
Hardware	(26,101)	(57,452)	(96,247)	(110,760)	(141,960)
MVNO	(16,225)	(28,784)	(22,836)	(28,560)	(30,500)
Other	(2,980)	(1,709)	(811)	(800)	(800)
(Cost) of revenues	(57,966)	(94,292)	(127,141)	(148,240)	(183,700)
Gross profit	17,106	26,294	27,166	51,760	68,300
Operating income/(expense)					
Sales and marketing	(7,359)	(5,874)	(7,952)	(10,000)	(12,600)
General and administrative	(4,883)	(10,042)	(20,753)	(22,000)	(27,720)
Research and development	(7,245)	(6,886)	(6,443)	(8,000)	(10,080)
Change in fair value of warrant liabilities	-	(12)	(200)	-	-
Other operating income	3,094	1,760	272	360	360
Operating income (loss)	713	5,240	(7,910)	12,120	18,260
Interest income	61	65	14	16	16
Interest expense	(156)	(797)	(1,877)	(1,440)	(300)
Other income	208	114	633	640	640
Other expense	(35)	(59)	(121)	(120)	(120)
Foreign exchange (loss) gain	855	692	(779)	-	-
Income before taxes	1,646	5,255	(10,040)	11,216	18,496
Income tax	(851)	(2,659)	(2,319)	(2,993)	(4,528)
Net income (loss)	795	2,596	(12,359)	8,223	13,968
Noncontrolling interests	(1,316)	(632)	210	-	-
Net income / (loss)	2,111	3,228	(12,569)	8,223	13,968
Accretion / allocation of conv. pref. stock	(2,417)	(3,228)	(6,956)	-	-
Net income (loss) to common stock	(306)	-	(19,525)	8,223	13,968
EPS	(0.04)	-	(1.52)	0.26	0.45
Shares Outstanding	7,176	7,177	12,843	31,300	31,300
<u>Margin Analysis</u>					
Gross margin	22.8%	21.8%	17.6%	25.9%	27.1%
Sales and marketing	9.8%	4.9%	5.2%	5.0%	5.0%
General and administrative	6.5%	8.3%	13.4%	11.0%	11.0%
Research and development	9.7%	5.7%	4.2%	4.0%	4.0%
Operating margin	0.9%	4.3%	(5.1)%	6.1%	7.2%
Net margin	(0.4)%	0.0%	(12.7)%	4.1%	5.5%
Tax rate	51.7%	50.6%	(23.1)%	26.7%	24.5%
<u>Year / Year Growth</u>					
Total Revenues	58.1%	60.6%	28.0%	29.6%	26.0%

Source: Company filings and Taglich Brothers' estimates

## Borqs Technologies, Inc.

### Quarterly Income Statements 2018E - 2019E (in thousands \$)

	3/18E	6/18E	9/18E	12/18E	2018E	3/19E	6/19E	9/19E	12/19E	2019E
Software	3,200	3,400	3,600	3,800	14,000	4,000	4,250	4,750	5,000	18,000
Hardware	32,500	34,500	36,500	38,500	142,000	41,000	44,000	47,000	50,000	182,000
MVNO	9,750	10,250	10,750	11,250	42,000	11,750	12,250	12,750	13,250	50,000
Other	500	500	500	500	2,000	500	500	500	500	2,000
Net revenues	45,950	48,650	51,350	54,050	200,000	57,250	61,000	65,000	68,750	252,000
Software	(1,856)	(1,972)	(2,088)	(2,204)	(8,120)	(2,320)	(2,465)	(2,755)	(2,900)	(10,440)
Hardware	(25,350)	(26,910)	(28,470)	(30,030)	(110,760)	(31,980)	(34,320)	(36,660)	(39,000)	(141,960)
MVNO	(6,630)	(6,970)	(7,310)	(7,650)	(28,560)	(7,168)	(7,473)	(7,778)	(8,083)	(30,500)
Other	(200)	(200)	(200)	(200)	(800)	(200)	(200)	(200)	(200)	(800)
(Cost) of revenues	(34,036)	(36,052)	(38,068)	(40,084)	(148,240)	(41,668)	(44,458)	(47,393)	(50,183)	(183,700)
Gross profit	11,914	12,598	13,282	13,966	51,760	15,583	16,543	17,608	18,568	68,300
Operating income/(expense)										
Sales and marketing	(2,298)	(2,433)	(2,568)	(2,703)	(10,000)	(2,863)	(3,050)	(3,250)	(3,438)	(12,600)
General and administrative	(5,055)	(5,352)	(5,649)	(5,946)	(22,000)	(6,298)	(6,710)	(7,150)	(7,563)	(27,720)
Research and development	(1,838)	(1,946)	(2,054)	(2,162)	(8,000)	(2,290)	(2,440)	(2,600)	(2,750)	(10,080)
Change in fair value of warrant liabilities	-	-	-	-	-	-	-	-	-	-
Other operating income	90	90	90	90	360	90	90	90	90	360
Operating income (loss)	2,814	2,958	3,102	3,246	12,120	4,223	4,433	4,698	4,908	18,260
Interest income	4	4	4	4	16	4	4	4	4	16
Interest expense	(540)	(420)	(300)	(180)	(1,440)	(75)	(75)	(75)	(75)	(300)
Other income	160	160	160	160	640	160	160	160	160	640
Other expense	(30)	(30)	(30)	(30)	(120)	(30)	(30)	(30)	(30)	(120)
Foreign exchange (loss) gain	-	-	-	-	-	-	-	-	-	-
Income before taxes	2,408	2,672	2,936	3,200	11,216	4,282	4,492	4,757	4,967	18,496
Income tax	(674)	(723)	(773)	(823)	(2,993)	(1,026)	(1,092)	(1,172)	(1,238)	(4,528)
Net income (loss)	1,734	1,949	2,163	2,377	8,223	3,256	3,400	3,585	3,729	13,968
Noncontrolling interests	-	-	-	-	-	-	-	-	-	-
Net income / (loss)	1,734	1,949	2,163	2,377	8,223	3,256	3,400	3,585	3,729	13,968
Accretion of convertible preferred stock	-	-	-	-	-	-	-	-	-	-
Net income (loss) to common stock	1,734	1,949	2,163	2,377	8,223	3,256	3,400	3,585	3,729	13,968
EPS	0.06	0.06	0.07	0.08	0.26	0.10	0.11	0.11	0.12	0.45
Shares Outstanding	31,300	31,300	31,300	31,300	31,300	31,300	31,300	31,300	31,300	31,300
<b>Margin Analysis</b>										
Gross margin	25.9%	25.9%	25.9%	25.8%	25.9%	27.2%	27.1%	27.1%	27.0%	27.1%
Sales and marketing	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
General and administrative	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Research and development	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Operating margin	6.1%	6.1%	6.0%	6.0%	6.1%	7.4%	7.3%	7.2%	7.1%	7.2%
Net margin	3.8%	4.0%	4.2%	4.4%	4.1%	5.7%	5.6%	5.5%	5.4%	5.5%
Tax rate	28.0%	27.1%	26.3%	25.7%	26.7%	24.0%	24.3%	24.6%	24.9%	24.5%
<b>Year / Year Growth</b>										
Total Revenues					29.6%					26.0%

Source: Company filings and Taglich Brothers' estimates

Taglich Brothers, Inc.

Borqs Technologies, Inc.

Statement of Cash Flows for the Periods Ended  
(in thousands \$)

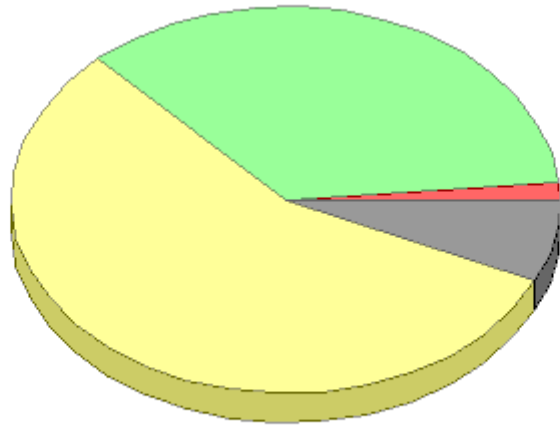
	2015A	2016A	2017A	2018E	2019E
Net income (loss)	795	2,596	(12,359)	8,223	13,968
Foreign exchange (gain) loss	(855)	(692)	779	-	-
Loss (gain) on disposal of property and equipment	(350)	1	-	-	-
Depreciation	1,371	1,011	744	761	774
Amortization	1,109	2,146	3,935	6,407	5,272
Deferred income taxes (benefits)	(1,044)	(220)	937	-	-
Interest expense	-	352	661	504	105
Share-based compensation	-	-	14,667	14,667	14,667
Changes in fair value of warrant liabilities	-	12	200	-	-
Cash earnings	1,026	5,206	9,564	30,562	34,786
<i>Changes in assets and liabilities</i>					
Restricted cash	211	(383)	(2,306)	-	-
Receivables	(2,331)	(17,705)	(36,168)	(20,501)	(23,331)
Inventories	(4,074)	(6,418)	(4,349)	(2,826)	(4,750)
Deferred cost of revenues	2,469	(497)	(1,491)	-	-
Prepaid expenses and other current assets	579	(3,175)	(12,140)	(728)	(105)
Accounts payable	(742)	15,740	26,999	8,246	13,859
Accrued expenses and other	2,100	1,371	5,215	3,602	4,099
Unrecognized tax benefits	645	1,064	366	-	-
Advances from customers	-	-	3,623	-	-
Deferred revenue	4,888	(3,351)	(5,117)	-	-
Income tax payable	165	682	1,016	-	-
Deferred government grants	(3,302)	(1,906)	(151)	-	-
Other assets	-	-	-	-	-
(Increase) decrease in working capital	608	(14,578)	(24,503)	(12,208)	(10,229)
<b>Net cash provided by (used in) operations</b>	<b>1,634</b>	<b>(9,372)</b>	<b>(14,939)</b>	<b>18,354</b>	<b>24,557</b>
Purchases of property and equipment	(798)	(494)	(842)	(800)	(800)
Purchases of intangible assets	(5,175)	(5,230)	(7,650)	-	-
Proceeds from disposal of property and equipment	14	1	1	-	-
Loan to a third party	(1,482)	-	-	-	-
Repayments of third party loan	75	457	371	-	-
<b>Net cash used in investing</b>	<b>(7,366)</b>	<b>(5,266)</b>	<b>(8,120)</b>	<b>(800)</b>	<b>(800)</b>
Proceeds from issuance of stock	-	-	62	-	-
Cash received from merger	-	-	18,034	-	-
Proceeds from issuance of convertible preferred stock	-	-	9,000	-	-
Proceeds from exercise of warrants	-	-	8	-	-
Issuance costs for convertible preferred stock	-	-	(312)	-	-
Proceeds from short-term bank borrowings	-	6,776	10,456	-	-
Repayments of short-term bank borrowings	(817)	(2,000)	(4,756)	(10,648)	-
Proceeds from long-term bank borrowings	999	6,000	2,000	-	-
Repayments of long-term bank borrowings	(47)	(571)	(2,631)	(5,432)	-
<b>Net cash provided by (used in) financing</b>	<b>135</b>	<b>10,205</b>	<b>31,861</b>	<b>(16,080)</b>	<b>-</b>
Effect of foreign exchange rate changes	(34)	256	648	-	-
<b>Net change in cash</b>	<b>(5,631)</b>	<b>(4,177)</b>	<b>9,450</b>	<b>1,474</b>	<b>23,757</b>
<b>Cash - beginning of period</b>	<b>13,418</b>	<b>7,787</b>	<b>3,610</b>	<b>13,060</b>	<b>14,534</b>
<b>Cash - end of period</b>	<b>7,787</b>	<b>3,610</b>	<b>13,060</b>	<b>14,534</b>	<b>38,291</b>

Source: Company filings and Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



35.62 % Buy 56.16 % Hold 6.85 % Not Rated 1.37 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	12
Hold		
Sell		
Not Rated		



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### **Analyst Certification**

**I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.**

#### **Public companies mentioned in this report:**

Amazon (NASDAQ: AMZN)  
China Mobile (NYSE: CHL)  
Google (NASDAQ: GOOG)  
Intel (NASDAQ: INTC)  
Qualcomm (NASDAQ: QCOM)  
Wipro (NYSE: WIT)

### **Meaning of Ratings**

**Buy** – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

**Speculative Buy** – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

**Neutral** – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

**Sell** – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

**Dropping Coverage** – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

### **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.