

Research Note

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

SITO Mobile Ltd.

Neutral

John Nobile
April 5, 2017

SITO \$2.49 — (NASDAQ)

	<u>2015A*</u>	<u>2016A*</u>
Revenues (millions)	\$12.8	\$29.4
Earnings (loss) per share	(\$0.28)	(\$0.07)

52-Week range	\$6.08 – \$1.71	Fiscal year ends:	December
Common shares out as of November 14, 2016	20.7 million	Revenue per share (TTM)	\$1.61
Approximate float	12.6 million	Price/Sales (TTM)	1.5X
Market capitalization	\$52 million	Price/Sales (FY2017)E	NA
Tangible book value/share	\$0.30	Price/Earnings (TTM)	NMF
Price/tangible book value	8.3X	Price/Earnings (FY2017)E	NA

**Reflects discontinued operations of SITO's SMS (Wireless Applications) business. 2015 figures are restated.*

SITO Mobile Ltd., headquartered in Jersey City, New Jersey, is a mobile media technology company that enables marketers to create mobile device content targeted to audiences based on location, interests, behaviors, and loyalty. The company's principal product includes location based advertising. (www.sitomobile.com)

Key investment considerations:

Downgrading to Neutral from Speculative Buy due to current valuation pressures.

Effective February 17, 2017, Jerry Hug resigned as CEO and a director of SITO Mobile. Richard O'Connell, Jr., a member of the company's board of directors since February 2016, was appointed to serve as interim CEO.

On March 16, 2017, SITO announced the resignation of Kurt Streams as CFO and the appointment of Lawrence Firestone as interim CFO.

In February 2017, SITO announced it sold the remaining portion of its legacy wireless applications business (SMS messaging) to 3Cinteractive for \$400,000 in cash.

SITO reported (3/28/17) 4Q16 revenue increased 34% to \$7.5 million and a loss (0.07) per share. We projected 4Q16 revenue of \$9.7 million and EPS of \$0.02. Results reflect the discontinued operations of SITO's Wireless Applications business which were not reflected in our projections.

2016 revenue increased 130% to \$29.4 million. SITO lost \$1.3 million or (\$0.07) per share compared to a loss of \$4.4 million or (\$0.28) per share in 2015. Results reflect the discontinued operations of SITO's Wireless Applications business.

****Please view our disclosures on pages 6 - 8.***

Recommendation and Valuation

We are downgrading shares to Neutral from Speculative Buy due to current valuation pressures.

Due to disappointing preliminary 4Q16 media placement revenue followed by allegations of false and misleading statements by SITO concerning its business, the share price fell 50% but has since recovered partially, rising to \$2.49. SITO's valuation could remain depressed due to lingering investor concerns.

Recent Developments

SITO Announces Interim CFO - On March 16, 2017, SITO announced the resignation of Kurt Streams as CFO and the appointment of Lawrence Firestone as interim CFO.

Firestone is the CEO and President of FirePower Technology, Inc., a position he held since January 2014. From June 2012 through June 2013, served as CEO and president of Qualstar Corporation. From February 2011 through June 2012, served as CFO of Xiotech Corporation. Member of InterimExecs, a service provider of interim executives to fill the immediate needs of companies. Public company management experience also includes EVP and CFO of Advanced Energy Industries, Inc., senior VP and CFO at Applied Films Corporation. Public company board experience includes CVD Equipment, Qualstar Corporation, Amtech Systems, Inc., and Hyperspace Communications, Inc.

SITO Announces Interim CEO - Effective February 17, 2017, Jerry Hug resigned as CEO and a director of SITO Mobile. Richard O'Connell, Jr., a member of the company's board of directors since February 2016, was appointed to serve as interim CEO.

From 2010 to 2016, O'Connell served as CFO and chief credit officer of Emergent Capital, Inc. From 2006 to 2009, served as CFO of RapidAdvance, LLC, and from 2002 to 2005, served as COO of Insurent Agency Corporation. From 2000 to 2001, acted as securitization consultant to the Industrial Bank of Japan, and from 1999 to 2000, served as president of Telomere Capital, LLC. From 1988 to 1998, served in various senior capacities at Enhance Financial Services and its subsidiary, Singer Asset Finance Company, including president and COO of Singer Asset Finance and Senior Vice President and Treasurer of Enhance Financial Services. BA Franklin and Marshall College. MBA Rutgers University Graduate School of Management.

Following the resignation of Jerry Hug, the audit committee of the board of directors engaged an independent law firm and an accounting consulting firm to conduct an inquiry into the use of the company's charge and debit cards, as well as certain cash withdrawals. The inquiry detected misappropriation of company funds by each of Streams and Hug.

SITO Sells Remaining Wireless Application Business – In February 2017, SITO announced it sold the remaining portion of its legacy wireless applications business (SMS messaging) to 3Cinteractive for \$400,000 in cash.

4Q and FY 2016 Financial Results

4Q16 – Total revenue increased 34% to \$7.5 million. SITO lost \$1.3 million or (\$0.07) per share compared to a loss of \$438,000 or (\$0.03) per share in 4Q15. We projected 4Q16 revenue of \$9.7 million and net income of \$473,000 or \$0.02 per share. Results reflect the discontinued operations of SITO's Wireless Applications business which were not reflected in our projections.

Media placement revenue grew to \$7.3 million from \$5.3 million in 4Q15. Gross margins increased to 51.9% from 49.7%. SG&A expenses rose to \$4.9 million from \$3.5 million. Interest expense decreased to \$417,000 from \$472,000.

FY 2016 – Total revenue increased 130% to \$29.4 million. SITO lost \$1.3 million or (\$0.07) per share compared to a loss of \$4.4 million or (\$0.28) per share in 2015. Results reflect the discontinued operations of SITO's Wireless Applications business.

Media placement revenue grew to \$28.9 million from \$12.1 million in 2015. Gross margins increased to 54.8% from 52.3%. SG&A expenses rose to \$17.6 million from \$11.2 million. Interest expense decreased to \$1.7 million from \$1.8 million.

Liquidity - As of December 31, 2016, the company had \$8.7 million cash, a current ratio of 2.0X versus 2.2X for the software industry, and a long-term debt/equity ratio of 0.2X versus 0.9X for the industry.

During 2015, SITO entered into a revenue sharing and note purchase agreement with CF DB EZ LLC (the revenue participant) and the Fortress Credit Co. LLC (the note purchaser). SITO issued and sold senior secured notes worth \$10 million and issued 261,954 new shares of common stock to Fortress at \$3.817 per share for \$1 million. SITO netted approximately \$8.2 million from notes and common stock after deducting expenses.

The 42-month note bears interest at a rate equal to LIBOR plus 9% per annum. In March 2016, SITO amended its debt agreement with Fortress. The amendment provided for monthly debt principal payments of \$175,000 per month (reduced from \$333,000 per month previously) payable through February 2017. In March 2017, debt principal payments will become \$300,000 per month until the loan maturity date of March 31, 2018, at which time the remaining loan balance will be due.

Risks

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

Customer concentration – SITO's present and future business depends heavily on a single client (Walmart) which was responsible for 43% of SITO's total revenue in FY15. The loss of business with this client will have a detrimental effect on SITO's revenue.

Carrier agreement – SITO relies on wireless carriers, primarily AT&T, to market the company's products and services and generate revenue. Should AT&T choose to promote competing products and services, SITO's business could be adversely affected.

Competition – SITO has many competitors, many of whom may have more financial resources than the company. New market entrants are expected and existing competitors are expected to introduce new products and services that compete with SITO.

Rapid technological change – It is likely that SITO's industry will be subject to rapid technological changes. The company's competitors may have more resources to react to such changes than SITO.

Liquidity risk - Shares of SITO 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 12.6 million shares in the float and the average daily volume is approximately 145,000 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.

SITO Mobile Ltd.

Consolidated Balance Sheets
(in thousands \$)

	<u>2016A</u>	<u>2015A*</u>
Cash and cash equivalents	8,745	2,615
Accounts receivable	8,842	4,938
Other	<u>669</u>	<u>1,353</u>
Total current assets	18,256	8,906
Net property, plant and equipment	446	585
Intangible assets	10,898	10,619
Other	<u>546</u>	<u>646</u>
Total assets	<u>30,146</u>	<u>20,757</u>
Accounts payable and accrued expenses	5,251	5,250
Deferred revenue	245	468
Other	<u>3,508</u>	<u>4,917</u>
Total current liabilities	9,004	10,635
Long-term liabilities	<u>3,956</u>	<u>4,941</u>
Total liabilities	<u>12,960</u>	<u>15,576</u>
Total stockholders' equity	<u>17,187</u>	<u>5,181</u>
Total liabilities & stockholders' equity	<u>30,147</u>	<u>20,757</u>

*2015 results restated to reflect discontinued operations and sale of SMS business

Source: Company filings

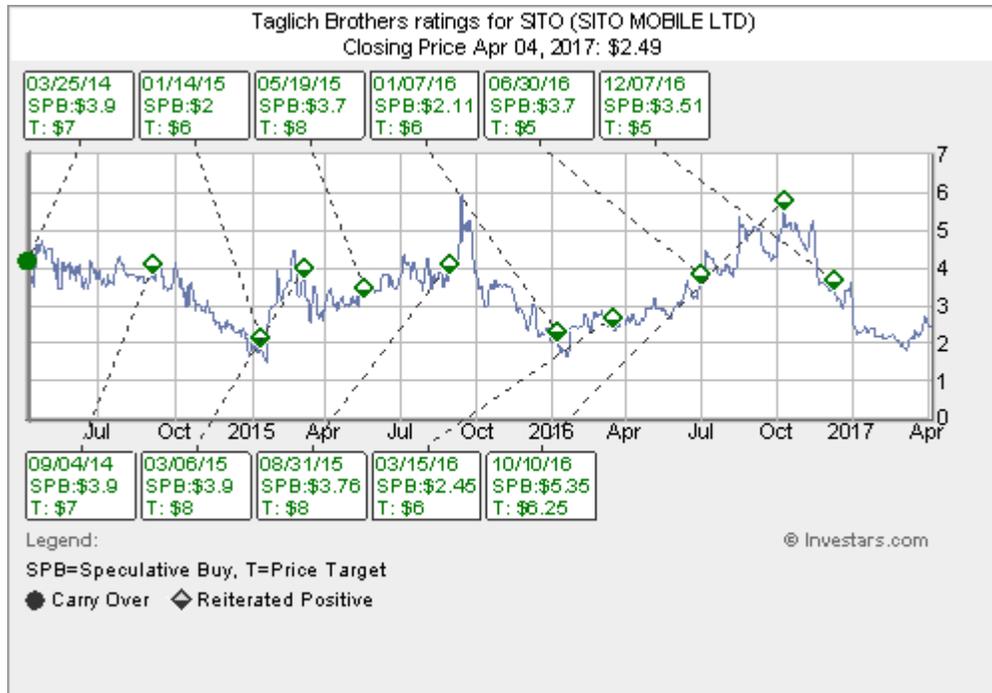
SITO Mobile Ltd.

	Quarterly Income Statement (in thousands \$)		Annual Income Statement (in thousands \$)	
	<u>12/16A</u>	<u>12/15A*</u>	<u>2016A</u>	<u>2015A*</u>
Revenue	7,455	5,581	29,427	12,805
Cost of revenue	<u>3,587</u>	<u>2,807</u>	<u>13,292</u>	<u>6,113</u>
Gross profit	3,868	2,774	16,135	6,692
Total operating expenses	<u>4,918</u>	<u>3,469</u>	<u>17,566</u>	<u>11,167</u>
Operating income (loss)	(1,050)	(695)	(1,431)	(4,475)
Interest expense	<u>(417)</u>	<u>(472)</u>	<u>(1,738)</u>	<u>(1,781)</u>
Income (loss) before taxes	(1,467)	(1,167)	(3,169)	(6,256)
Income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income / (loss) from continuing ops.	<u>(1,467)</u>	<u>(1,167)</u>	<u>(3,169)</u>	<u>(6,256)</u>
Net income / (loss) from discontinued ops.	<u>121</u>	<u>729</u>	<u>1,880</u>	<u>1,827</u>
Net income / (loss)	<u>(1,346)</u>	<u>(438)</u>	<u>(1,289)</u>	<u>(4,429)</u>
EPS continuing ops.	(0.07)	(0.07)	(0.17)	(0.39)
EPS discontinued ops.	<u>0.01</u>	<u>0.04</u>	<u>0.10</u>	<u>0.11</u>
EPS	<u>(0.07)</u>	<u>(0.03)</u>	<u>(0.07)</u>	<u>(0.28)</u>
Shares Outstanding	20,673	17,158	18,247	16,094
<u>Margin Analysis</u>				
Gross margin	51.9%	49.7%	54.8%	52.3%
Operating expenses	66.0%	62.0%	59.7%	88.3%
Operating margin	(14.1)%	(12.5)%	(4.9)%	(34.9)%
Net margin	(19.7)%	(20.9)%	(10.8)%	(48.9)%
Tax rate	0.0%	0.0%	0.0%	0.0%
<u>Year / Year Growth</u>				
Total Revenues	33.6%		129.8%	
Net Income	NMF		NMF	
EPS	NMF		NMF	

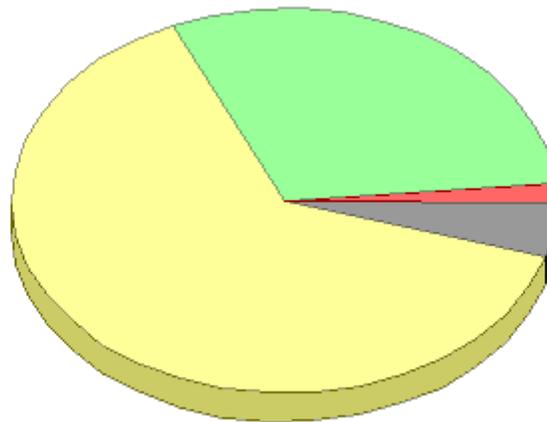
*2015 results restated to reflect discontinued operations and sale of SMS business

Source: Company filings

Price Chart



Taglich Brothers' Current Ratings Distribution



30.3 % Buy 63.64 % Hold 4.55 % Not Rated 1.52 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	13
Hold	1	50
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 29,137 shares of SITO common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 4,500 shares of SITO common stock. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 8,780 shares of SITO common stock. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 3,000 shares of SITO common stock. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 3,550 shares of SITO common stock. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In September 2012 and October 2012, Taglich Brothers Inc. served as the exclusive placement agent in private placements of SITO convertible debt and warrants.

All research issued by Taglich Brothers, Inc. is based on public information. SITO Mobile Ltd. is not paying Taglich Brothers, Inc. for the creation and dissemination of research reports.

General Disclosures

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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:

Advanced Energy Industries (NASDAQ: AEIS)
Amtech Systems (NASDAQ: ASYS)
CVD Equipment (NASDAQ: CVV)
Emergent Capital (NYSE: EMG)
Qualstar (NASDAQ: QBAK)

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.

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.