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Research Report – Update

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

SITO Mobile Ltd.

Speculative Buy

John Nobile
December 7, 2016

SITO $3.51 — (NASDAQ)

	2014A	2015A*	2016E	2017E
Revenues (millions)	$9.9	$19.2	$36.4	$38.9
Earnings (loss) per share	($0.31)	($0.27)	$0.03	$0.11

52-Week range	$6.08 – $1.55	Fiscal year ends:	December
Common shares out as of November 14, 2016	20.7 million	Revenue per share (TTM)	$1.84
Approximate float	16.0 million	Price/Sales (TTM)	1.9X
Market capitalization	$73 million	Price/Sales (FY2017)E	2.0X
Tangible book value/share	$0.41	Price/Earnings (TTM)	NMF
Price/tangible book value	8.6X	Price/Earnings (FY2017)E	31.9X

**Pro forma as if FY ended December 2015. SITO's fiscal year end was changed from September to December effective May 2016.*
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 products and services include location based advertising and mobile messaging. (www.sitomobile.com)

Key investment considerations:

Reiterating Speculative Buy rating but lowering twelve-month price target to $5.00 per share from $6.25 due primarily to a reduced sales outlook.

Our reduced sales outlook stems primarily from SITO's discontinuance of the relationship with its largest text messaging customer. SITO's remaining customers in this segment will only constitute about 1% of annualized revenue. Accordingly, we have lowered our projections for this segment.

Our reduced sales outlook for the wireless applications segment should be offset by strong sales growth in the media placement (location-based advertising) segment. The company has positioned itself to continue growing in the fast growing location-based advertising market (25% compound annual growth rate into 2020 projected by BIA/Kelsey in June 2016).

In October 2016, SITO announced a data partnership with Ayuda[x] Inc. to provide real-time mobile location data to advertising agencies and brand marketers.

For 2016, we project revenue of $36.4 million and EPS of $0.03, down from revenue of $37.5 million and EPS of $0.08 previously. For 2017, we project revenue of $38.9 million and EPS of $0.11, down from revenue of $45 million and EPS of $0.25 previously. The change in our projections primarily reflects a reduction in our wireless application revenue forecast.

SITO reported (11/14/16) 3Q16 revenue increased 129% to $10.3 million and EPS of $0.03. We projected 3Q16 revenue of $10.2 million and EPS of $0.04.

****Please view our disclosures on pages 12 - 14.***

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Recommendation and Valuation

We are reiterating our Speculative Buy rating on shares of SITO Mobile Ltd. (SITO) but lowering our twelve-month price target to $5.00 per share from $6.25 due primarily to a reduced sales outlook.

Our reduced sales outlook stems primarily from SITO's discontinuance of the relationship with its largest text messaging customer. SITO's remaining customers in this segment will only constitute about 1% of annualized revenue which equates to approximately $400,000 based on the most recent quarter (3Q16). This is down from over $6 million in 2015. Due to this recent development, we have lowered our projections for this segment accordingly.

Shares of SITO traded at a multiple of 3.4X TTM sales before 3Q16 results were released. SITO shares have since settled at 1.9X TTM sales, arguably an adverse market reaction to the discontinuance of a significant amount of SITO's wireless applications business. However, strong sales growth in the media placement segment should continue and eventually overcome the drop in wireless applications sales, increasing SITO's valuation (to 3X sales, down from our prior multiple of 3.6X). Applying a multiple of 3X to our FY17 sales estimate of $1.73 per share, discounted to account for execution risk, we obtain a year-ahead value of approximately $5.00 per share.

Recent Development

<u>*SITO Partners with Ayuda[x]*</u> – In October 2016, SITO announced a data partnership with Ayuda[x] Inc. to provide real-time mobile location data to advertising agencies and brand marketers. The partnership is expected to enrich and extend the respective data assets, targeting capabilities, measurement and audience reach of both companies and is designed to increase revenues for both parties.

Ayuda[x] is a marketing technology company that helps marketers target consumers by delivering ads to mobile devices and digital out-of-home screens by analyzing datasets to understand where consumers are, where they have been, and where they are going.

Business

SITO Mobile Ltd., headquartered in Jersey City, New Jersey, was incorporated in 2000. SITO 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 products and services include location based advertising and mobile messaging.

<u>*Location Based Advertising*</u> – SITO's location-based mobile ad targeting software offering delivers advertisements and videos on behalf of advertisers. The company's geo-fencing technology enables advertisers to deliver targeted ads to the mobile devices of people within close proximity (approximately 15 feet) of a specific location (i.e. roofing ad when customer enters Home Depot).

Revenue is driven by sales of SITO's advertising campaigns that feature banner ads on mobile devices and is based on the same media metrics used in Internet advertising. That is, the number of media impressions (ads) delivered at a specified price (cost per thousand impressions or CPM). SITO typically makes between $8 to $12 per CPM or $0.008 to $0.012 per impression.

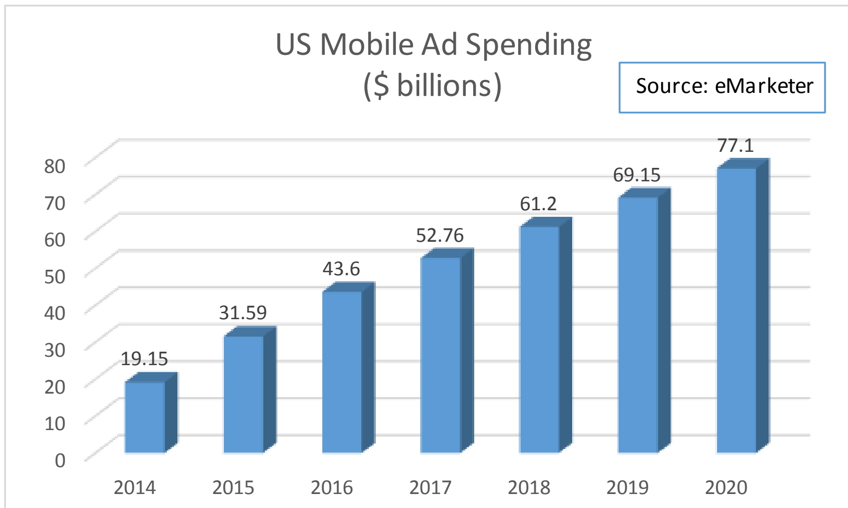
<u>*Messaging and Notifications*</u> – SITO's short message service (SMS) enables retailers to send targeted mobile coupons and transactional messages based on a shopper's profile. Targeted mobile coupons can be sent based on past purchase behaviors making the content relevant and timely to a shopper. Transactional messages send shipping and order pick-up alerts, as well as notifications for reorders, layaway and new product releases.

In the first nine months of 2016, approximately 17% of SITO's revenue was generated from contracts with five customers covered under an agreement with AT&T which enables the media to be sent via all US mobile carriers including AT&T, Verizon, Sprint, and T-Mobile. AT&T packages and marks up SITO's product, which is sold through AT&T's sales force. SITO also pursues sales directly.

In 3Q16, the bulk of this business was lost when SITO did not agree to lower their pricing as requested by the customer. The remainder of this business represents approximately 1% of annualized revenue (approximately $400,000) and is diversified across ten customers.

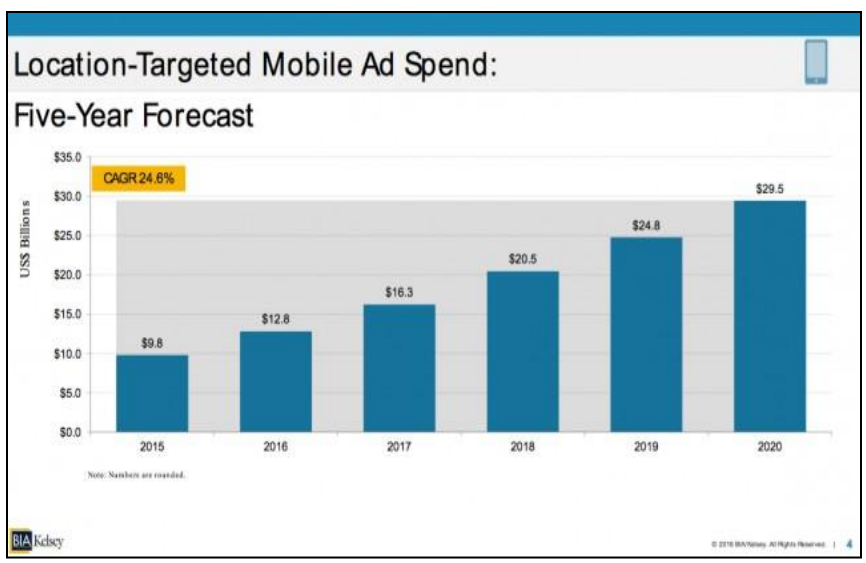
Mobile Industry Market and Forecast

The worldwide mobile market has grown significantly over the past five years. According to the mobile industry research firm GSMA Intelligence, the overall mobile industry (includes mobile phones, smartphones, tablet computers) should continue growing over the next five years. In its Mobile Economy 2016 report, GSMA projects the number of unique mobile subscribers will grow at an average annual growth rate of 3.9% from 2016 to 2020, reaching 5.6 billion by 2020.



The shift to mobile ad spending is being driven mainly by consumer demand. eMarketer estimates that US adults spend an average of 2 hours, 51 minutes with mobile devices each day.

Mobile ad spending should underlie strong growth for SITO. The latest projection (March 2016) by eMarketer was for US mobile advertising spending to reach $43.6 billion in 2016, up 38% from $31.6 billion in 2015. eMarketer projects 2017 spending to increase by approximately 21% to $52.8 billion (see chart above right). Growth in US digital ad spending will be centered on mobile devices while desktop spending is projected to remain relatively flat through 2020.



SITO's location-based mobile advertising technology targets consumers based on their precise location by placing "geo-fences", a virtual perimeter within a radius of a store or point location. Ads are delivered based on specific demographic profiles. In June 2016, the advertising research and advisory firm BIA/Kelsey projected location targeted mobile ad revenues to grow more than three-fold over the next five years, reaching $29.5 billion by 2020 (see chart at right). This rate of growth equates to a compound annual growth rate of approximately 25% from 2015 to 2020. A key factor driving this rate of growth includes marketers catching up to consumers' mobile usage as smartphones have entered the mainstream.

Strategy

The company's strategy is to expand within the fast growing mobile marketing space. SITO plans to do this by investing in sales and business development staff, continuing to enhance its location based advertising technology, and monetizing its patents. The end goal is to establish a direct sales channel and increase media buys (mobile ads) through its location based advertising product.

SITO's location based advertising product enables strategic mobile ad placements. The strong growth projected for mobile ad placements should underlie strong growth for the company's location based advertising product.

Competition / Competitive Advantage

With the rapid growth and adoption of mobile data services, the mobile media and data communications market remains highly competitive. There are a large number of small developers creating products for this market. Barriers to entry are low, as most developers can keep programming, project management, and distribution costs relatively low. New market entrants and existing competitors are expected to introduce new products and services that compete with SITO's.

SITO competes with publicly traded companies providing similar service offerings (includes targeted mobile advertising) including Facebook, Twitter, Tube Mogul and Mobivity. Sales and growth rates for SITO and its public competitors are shown at right.

Company	TTM ended	Y/YΔ
Facebook	$24.7B (9/16)	55%
Twitter	$2.5B (9/16)	27%
TubeMogul	$212.0M (9/16)	34%
Mobivity	$7.4M (9/16)	73%
SITO Mobile	$33.9M (9/16)	115%

Source: Company filings

Facebook operates as a mobile application and Website that enables people to connect with each other on mobile devices and personal computers. Its messenger product is a messaging application for mobile and Web on various devices which enable people to reach others instantly as well as enable businesses to engage with customers.

Twitter operates as a platform for public self-expression and conversation in real time. It provides promoted products and services that enable its advertisers to promote their brands, products, and services.

TubeMogul operates as an enterprise software company for digital branding. It offers a cloud-based platform that enables advertisers to plan, buy, measure, and optimize video advertising spend.

Mobivity provides mobile marketing technology. Mobivity offers C-4, a mobile marketing and customer relationship management platform.

SITO's competitive advantage lies in its ability to drive foot traffic into retail stores. As an example, in a September 2016 presentation, SITO reported that a national organic food retailer was able to increase foot traffic into its retail stores by 34% using SITO's targeted mobile ad technology which generated an ad click-through rate that was 2.5X the industry average.

3Q and Nine Months 2016 Financial Results

3Q16 – Total revenue increased 129% to $10.3 million. SITO earned $502,000 or $0.03 per share compared to a loss of $2.6 million or ($0.16) per share in 3Q15. We projected 3Q16 revenue of $10.2 million and net income of $777,000 or $0.04 per share.

Media placement revenue grew to $8.4 million from $3 million in 3Q15 primarily due to an expanded sales force. Wireless application revenue was up 33% to $1.8 million primarily due to $400,000 received from SITO's largest customer in this segment in connection with transferring this business back to the customer (SITO did not agree to lower their pricing as requested by the customer). Licensing and royalty decreased to $127,000 from $144,000.

Gross margins increased to 55.1% from 52.1% due primarily to $400,000 received in connection with the severed contract agreement with SITO's largest text messaging customer. SG&A expenses rose to $4.6 million from $3.5 million due primarily to increased spending in SITO's media placement business. Interest expense decreased to $437,000 from $475,000 due primarily to a lower debt level.

Nine Months 2016 – Total revenue increased 123% to $26.7 million. SITO earned $56,000 or $0.00 per share compared to a loss of $4 million or ($0.25) per share in the comparable period in 2015.

	Nine Months Ended	
	9/16A	9/15A
Wireless applications	4,735	4,738
Licensing and royalties	389	419
Media placement	21,583	6,805
Total revenue	26,707	11,962
Cost of revenue	12,135	5,615
Gross profit	14,572	6,347
SG&A	12,705	7,844
Depreciation and amortization	489	354
Extraordinary item	-	831
Operating income (loss)	1,378	(2,682)
Interest and other expense	(1,322)	(1,310)
Income (loss) before taxes	56	(3,992)
Income tax	-	-
Net Income / (Loss)	56	(3,992)
EPS	0.00	(0.25)
Shares Outstanding	19,762	15,735
Margin Analysis		
Gross margin	54.6%	53.1%
SG&A	47.6%	65.6%
Operating margin	5.2%	(22.4)%
Net margin	0.2%	(33.4)%
Year / Year Growth		
Total Revenues	123.3%	
Source: Company filings		

Media placement revenue grew to $21.6 million from $6.8 million in the first nine months of 2015 primarily due to an expanded sales force and the July 2015 acquisition of Hipcricket's media placement business. We estimate Hipcricket accounted for approximately $5.6 million or 26% of media placement revenue. Wireless application was flat at $4.7 million and included $400,000 received from SITO's largest customer in this segment in connection with transferring this business back to the customer. Licensing and royalty decreased to $389,000 from $419,000.

Gross margins increased to 54.6% from 53.1% primarily due to $400,000 received in connection with the severed contract agreement with SITO's largest text messaging customer. SG&A expenses rose to $12.7 million from $7.8 million due primarily to increased spending in SITO's media placement business. Operating income increased to $1.4 million or 5.2% of sales from an operating loss of $2.7 million in the comparable period in 2015 due primarily to the increase in revenue. Interest expense remained relatively flat at $1.3 million.

Liquidity - As of September 30, 2016, the company had $9.8 million cash, a current ratio of 2.1X versus 2.9X for the software industry, and a long-term debt/equity ratio of 0.3X versus 0.9X for the industry. By our forecasts, the company should have sufficient capital to meets its operational needs through 2017.

Cash used in operations of $570,000 in the first nine months of 2016 consisted of $3.2 million cash earnings and a $3.8 million increase in working capital. Cash used in investing of $1.2 million consisted primarily of capitalized software development costs. Cash from financing of $9 million, primarily net proceeds from a stock offering, more than offset cash used in operations and investing activities, increasing cash by $7.2 million to $9.8 million at September 30, 2016.

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 thorough 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.

Economic Outlook

With SITO's business conducted primarily in the US, the mixed economic growth projections for this area could constrain growth.

In October 2016, the International Monetary Fund (IMF) projected global economic growth of 3.1% in 2016 and 3.4% in 2017, unchanged from an earlier (July 2016) growth forecast. The growth estimate primarily reflects the continued subdued outlook for advanced economies following the June 23, 2016 vote in the United Kingdom to leave the European Union.

The IMF lowered its economic growth estimate for the US to 1.6% in 2016, and 2.2% in 2017, down from an earlier (July 2016) growth forecast of 2.2% for 2016 and 2.5% for 2017. The IMF attributed the downward revision to an extended period of inventory drawdowns and weak capital expenditures by businesses in the first half of 2016.

The second estimate of US GDP growth (released on November 29, 2016) showed the US economy grew at an annual rate of 3.2% in 3Q16, up from 1.4% growth in 2Q16. The 3Q16 US GDP growth estimate primarily reflects a rise in consumer spending on household services and durable goods, and increased exports of goods and services. Partly offsetting these contributions to GDP growth were declines in housing investment and government spending.

Projections

In contract negotiations with SITO's largest customer in the wireless application segment in 3Q16, SITO decided not to continue managing this customer's text messaging business when asked to lower its pricing. In connection with the transfer of this business back to the customer, SITO will receive $1 million of which $400,000 was received in 3Q16 with the balance expected in 4Q16. SITO's remaining customers in this segment will only constitute about 1% of annualized revenue, which equates to approximately $400,000 based on the most recent quarter. Due to this recent development, we have lowered our projections for this segment accordingly. We project wireless application revenue of $5.4 million in 2016 and $400,000 in 2017.

In 3Q16, SITO ran approximately 425 campaigns, almost 60% more than a year earlier. Approximately 20% of SITO's customers were new and SITO's average campaign size was above $30,000, nearly double the average campaign size a year earlier. Growing customer acceptance of SITO's mobile ad technology should help SITO's media placement revenue to grow in line with the long-term CAGR growth rate of 25% for the location targeted advertising industry. However, in 2016, SITO's media placement growth rate should surpass the industry rate due primarily to the acquisition of Hipcricket in 4Q15 (with annual revenue of $5.6 million in FY15). SITO's Canadian partner, Cieslok Media, increased its mobile advertising commitment with SITO to $2.1 million for FY16, up from $800,000 in FY15.

Barring further acquisitions, we believe SITO's media placement revenue growth should at least mirror that of the industry due to its competitive advantage in driving foot traffic into retail stores.

We project revenue for the media placement segment of $30.4 million in 2016 and $38 million in 2017 as the company continues to experience increased ad campaign spending.

For 2016, we project revenue of $36.4 million and net income of $528,000 or $0.03 per share. Our previous projections were for revenue of $37.5 million and net income of $1.7 million or $0.08 per share. The change in our projections primarily reflects 3Q16 results and lower wireless application revenue than previously projected ($5.4 million currently versus $5.9 million previously).

Gross margins over the past twelve months excluding the wireless applications segment do not differ significantly from margins which include this business (approximately 54%). We project gross margins of approximately 54%, consistent with trailing twelve month results. SG&A expenses are projected to increase 47% to $17.1 million from $11.3 million primarily due to a full year of expenses associated with the Hipcricket acquisition in 4Q15. SG&A margins are projected to decrease to 47% from 59% due primarily to increased operating expense leverage. The elimination of debt should reduce interest expense to $1.5 million from $1.8 million in 2015. We project the company will pay no taxes due to its large $39.6 million of net operating loss carryforwards.

We project SITO will generate $1.5 million cash from operations in 2016 primarily from cash earnings of $4.5 million and a $3 million increase in working capital. The increase in working capital will be due primarily to an increase in accounts receivable offset in part by an increase in accounts payable and accrued expenses. Cash from operations and the recent $11 million net proceeds from the issuance of common stock will exceed capitalized software development costs and an $8.9 million debt payment, increasing cash to $4.7 million at December 31, 2016.

For 2017, we project revenue of $38.9 million and net income of $2.4 million or $0.11 per share. Our previous projections were for revenue of $45 million and net income of $5.7 million or $0.25 per share. The change in our projections primarily reflects lower wireless application revenue than previously projected ($400,000 currently versus $5.8 million previously). We project gross margins of 54%, consistent with 2016. SG&A expenses are projected to increase to $18 million from $17.1 million primarily due to continued media placement investment. The company should pay no interest expense due to the elimination of debt. We project the company will pay no taxes due to its large $39.6 million of net operating loss carryforwards.

We project SITO will generate $5.4 million cash from operations in FY17 primarily from cash earnings. Cash from operations will exceed capital expenditures, patent and application costs, and capitalized software development costs, increasing cash to $9.5 million at December 31, 2017.

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 16 million shares in the float and the average daily volume is approximately 152,000 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.

Consolidated Balance Sheets
(in thousands $)

	FY13A	FY14A	2015A	3Q16A	2016E	2017E
Cash and cash equivalents	1,147	620	2,615	9,837	4,724	9,503
Accounts receivable	1,348	2,443	6,168	9,813	9,816	10,497
Other prepaid expenses	1,232	234	124	288	288	288
Total current assets	3,727	3,297	8,907	19,938	14,827	20,288
Net property, plant and equipment	239	237	585	458	579	554
Accounts receivable	-	450	-	-	-	-
Prepaid consulting - long-term portion	82	-	-	-	-	-
Capitalized software development costs	343	639	1,601	1,859	1,322	432
Intangible assets	2,067	5,371	9,501	9,277	9,116	8,693
Deposit - related party	-	-	-	-	-	-
Deferred loan costs	-	-	78	47	47	47
Other assets	65	113	85	109	109	109
Total assets	**6,523**	**10,107**	**20,757**	**31,688**	**26,000**	**30,123**
Accounts payable	1,352	1,652	4,828	4,412	5,199	5,609
Accrued expenses	282	1,269	1,278	1,954	1,862	1,991
Deferred revenue	-	208	533	432	432	432
Current obligation under capital lease	16	17	12	3	3	3
Current obligation under patent acquisitions	-	-	-	-	-	-
Purchase price payable	-	-	-	-	-	-
Note payable	-	-	3,984	2,475	-	-
Convertible debentures	3,279	4,291	-	-	-	-
Total current liabilities	4,929	7,437	10,635	9,276	7,496	8,035
Deferred revenue	-	-	-	-	-	-
Obligation under capital lease	29	13	6	4	4	4
Long-term debt	-	-	4,935	4,645	-	-
Convertible debentures	441	-	-	-	-	-
Total liabilities	**5,399**	**7,450**	**15,576**	**13,925**	**7,500**	**8,039**
Total stockholders' equity*	**1,124**	**2,657**	**5,181**	**17,763**	**18,501**	**22,083**
Total liabilities & stockholders' equity	**6,523**	**10,107**	**20,757**	**31,688**	**26,000**	**30,123**

*2016 includes $568,000 additional paid-in capital for the issuance of stock for debt restructuring

Source: Company filings and Taglich Brothers' estimates

SITO Mobile Ltd.

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

	FY13A	FY14A	2015A*	2016E	2017E
Wireless applications	7,784	8,196	6,360	5,435	400
Licensing and royalties	-	916	664	515	508
Media placement	-	759	12,151	30,434	38,000
Total revenue	7,784	9,871	19,175	36,384	38,908
Cost of revenue	3,329	3,778	9,064	16,587	17,898
Gross profit	4,455	6,093	10,111	19,797	21,010
Asset impairment			831		
SG&A	7,706	9,254	11,305	17,106	18,000
Depreciation and amortization	662	540	573	645	628
Research and development	66	60	-	-	-
Total operating expenses	8,434	9,854	12,709	17,751	18,628
Operating income (loss)	(3,979)	(3,761)	(2,598)	2,046	2,382
Interest expense	(1,271)	(749)	(1,781)	(1,518)	-
Income (loss) before taxes	(5,250)	(4,510)	(4,379)	528	2,382
Income tax	-	-	-	-	-
Net Income / (Loss)	(5,250)	(4,510)	(4,379)	528	2,382
EPS	(0.39)	(0.31)	(0.27)	0.03	0.11
Shares Outstanding	13,330	14,375	16,077	19,782	22,500
Margin Analysis					
Gross margin	57.2%	61.7%	52.7%	54.4%	54.0%
Cost of revenue	42.8%	38.3%	47.3%	45.6%	46.0%
SG&A	99.0%	93.7%	59.0%	47.0%	46.3%
Operating margin	(51.1)%	(38.1)%	(13.5)%	5.6%	6.1%
Net margin	(67.4)%	(45.7)%	(22.8)%	1.5%	6.1%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth					
Total Revenues	22.6%	26.8%	409.0%	89.7%	6.9%
Net Income	NMF	NMF	NMF	112.1%	351.4%
EPS	NMF	NMF	NMF	109.8%	296.8%

*Pro forma as if FY15 ended December 2015

Quarterly Income Statements FY15A - FY17E
(in thousands $)

	3/15A*	6/15A*	9/15A*	12/15A*	2015A*	3/16A	6/16A	9/16A	12/16E	2016E	3/17E	6/17E	9/17E	12/17E	2017E
Wireless applications	2,004	1,387	1,347	1,622	6,360	1,491	1,454	1,790	700	5,435	100	100	100	100	400
Licensing and royalties	135	140	144	245	664	135	126	127	127	515	127	127	127	127	508
Media placement	1,628	2,154	3,023	5,346	12,151	4,862	8,298	8,424	8,850	30,434	8,600	9,200	9,800	10,400	38,000
Total revenue	3,767	3,681	4,514	7,213	19,175	6,488	9,878	10,341	9,677	36,384	8,827	9,427	10,027	10,627	38,908
Cost of revenue	1,644	1,807	2,164	3,449	9,064	3,057	4,431	4,648	4,451	16,587	4,060	4,336	4,612	4,888	17,898
Gross profit	2,123	1,874	2,350	3,764	10,111	3,431	5,447	5,693	5,226	19,797	4,767	5,091	5,415	5,739	21,010
Asset impairment			831		831										
SG&A	2,012	2,380	3,452	3,461	11,305	3,998	4,117	4,591	4,400	17,106	4,100	4,400	4,600	4,900	18,000
Depreciation and amortization	68	77	209	219	573	164	160	164	157	645	157	157	157	157	628
Research and development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	2,080	2,457	4,492	3,680	12,709	4,162	4,277	4,755	4,557	17,751	4,257	4,557	4,757	5,057	18,628
Operating income (loss)	43	(583)	(2,142)	84	(2,598)	(731)	1,170	938	669	2,046	510	534	658	682	2,382
Interest expense	(380)	(454)	(475)	(472)	(1,781)	(440)	(445)	(437)	(196)	(1,518)	-	-	-	-	-
Income (loss) before taxes	(337)	(1,037)	(2,617)	(388)	(4,379)	(1,171)	725	501	473	528	510	534	658	682	2,382
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income / (Loss)	(337)	(1,037)	(2,617)	(388)	(4,379)	(1,171)	725	501	473	528	510	534	658	682	2,382
EPS	(0.02)	(0.07)	(0.16)	(0.02)	(0.27)	(0.07)	0.04	0.03	0.02	0.03	0.02	0.02	0.03	0.03	0.11
Shares Outstanding	15,326	15,405	16,423	17,155	16,077	17,221	19,832	19,573	22,500	19,782	22,500	22,500	22,500	22,500	22,500
Margin Analysis															
Gross margin	56.4%	50.9%	52.1%	52.2%	52.7%	52.9%	55.1%	55.1%	54.0%	54.4%	54.0%	54.0%	54.0%	54.0%	54.0%
Cost of revenue	43.6%	49.1%	47.9%	47.8%	47.3%	47.1%	44.9%	44.9%	46.0%	45.6%	46.0%	46.0%	46.0%	46.0%	46.0%
SG&A	53.4%	64.7%	76.5%	48.0%	59.0%	61.6%	41.7%	44.4%	45.5%	47.0%	46.4%	46.7%	45.9%	46.1%	46.3%
Operating margin	1.1%	(15.8)%	(47.5)%	1.2%	(13.5)%	(11.3)%	11.8%	9.1%	6.9%	5.6%	5.8%	5.7%	6.6%	6.4%	6.1%
Net margin	(8.9)%	(28.2)%	(58.0)%	(5.4)%	(22.8)%	(18.0)%	7.3%	4.8%	4.9%	1.5%	5.8%	5.7%	6.6%	6.4%	6.1%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth															
Total Revenues	107.3%	71.7%	50.3%	87.4%	409.0%	72.2%	168.4%	129.1%	34.2%	89.7%	36.1%	(4.6)%	(3.0)%	9.8%	6.9%
Net Income	NMF	NMF	NMF	NMF	NMF	NMF	127.7%	111.1%	221.9%	112.1%	143.5%	(26.4)%	31.3%	44.2%	351.4%
EPS	NMF	NMF	NMF	NMF	NMF	NMF	122.9%	108.8%	192.9%	109.8%	133.3%	(35.1)%	14.2%	44.2%	296.8%

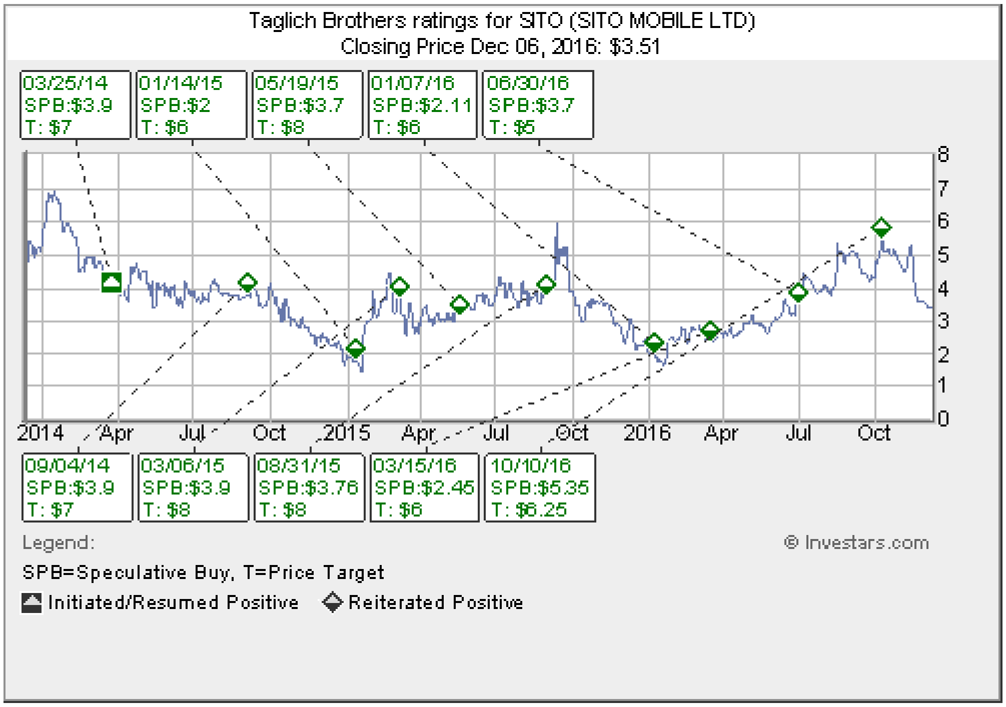
*Pro forma as if FY15 ended December 2015
Source: Company filings and Taglich Brothers' estimates

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

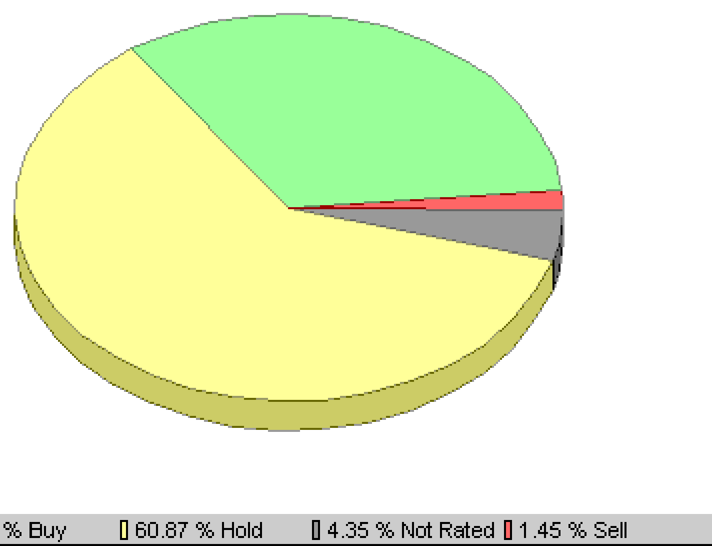
	FY13A	FY14A	FY15A	9m16A	2016E	2017E
Net income (loss)	(5,250)	(4,511)	(4,528)	56	528	2,382
Depreciation & amortization	1,488	1,106	1,742	1,907	2,455	2,180
Stock-based compensation	2,243	2,095	815	935	1,200	1,200
Write off of capitalized patent application costs	-	299	-	-	-	-
Bad debts	-	-	246	336	336	-
Loss on disposition/impairment of assets	-	-	831	5	5	-
Cash earnings (loss)	(1,519)	(1,011)	(894)	3,239	4,524	5,762
Changes in assets and liabilities						
Accounts receivable	(262)	(1,539)	(1,843)	(3,982)	(3,648)	(681)
Prepaid expenses	(21)	(5)	(161)	(164)	(164)	-
Other assets	-	(38)	30	(10)	24	-
Accounts payable	584	196	687	(418)	371	411
Accrued expenses	9	804	(81)	676	584	129
Deferred revenue	(25)	378	217	(101)	(34)	(43)
Accrued interest	182	245	(255)	190	(143)	(151)
(Increase) decrease in working capital	467	41	(1,406)	(3,809)	(3,010)	(335)
Net cash provided by (used in) operations	**(1,052)**	**(970)**	**(2,300)**	**(570)**	**1,514**	**5,427**
Option paid to related party regarding Soapbox Mobil	-	-	-	-	-	-
Investment in certificate of deposit	-	-	-	-	-	-
Redemption of certificate of deposits	19	-	-	-	-	-
Patents and patent application costs	(101)	(336)	(438)	(134)	(134)	(134)
Purchase of property and equipment	(46)	(72)	(495)	(23)	(100)	(100)
Capitalized software development costs	(400)	(452)	(1,445)	(1,074)	(1,074)	(405)
Note receivable - discontinued operations	-	10	-	-	-	-
Acquisitions	-	(390)	(1,300)	-	-	-
Payment on settlement regarding Anywhere software license	(600)	-	-	-	-	-
Net cash provided by (used in) investing	**(1,128)**	**(1,240)**	**(3,678)**	**(1,231)**	**(1,308)**	**(639)**
Proceeds from issuance of common stock	824	1,901	2,959	12,204	12,204	-
Purchase of company's common stock	-	(202)	-	-	-	-
Stock issuance costs	-	-	(75)	(1,180)	(1,180)	-
Restructuring of debt	-	-	-	(100)	(100)	-
Proceeds (principal payments) from issuance of debt	688	-	8,206	-	(7,120)	-
Loan advances received from related parties	-	-	-	-	-	-
Repayments on related party loans	-	-	-	-	-	-
Principal reduction on obligation under capital lease	(7)	(16)	(20)	(9)	(9)	(9)
Principal reduction on convertible debt	(200)	-	(3,708)	(1,892)	(1,892)	-
Expenditures relating to private offerings	(48)	-	-	-	-	-
Principal reduction on obligation on patent purchases	(88)	-	-	-	-	-
Net cash provided by (used in) financing	**1,169**	**1,683**	**7,362**	**9,023**	**1,903**	**(9)**
Net change in cash	**(1,011)**	**(527)**	**1,384**	**7,222**	**2,109**	**4,779**
Cash - beginning of period	**2,158**	**1,147**	**620**	**2,615**	**2,615**	**4,724**
Cash - end of period	**1,147**	**620**	**2,004**	**9,837**	**4,724**	**9,503**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**3**	**12**
Hold		
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.

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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:

Facebook (NASDAQ: FB)
Mobivity (OTC: MFON)
TubeMogul (NASDAQ: TUBE)
Twitter (NYSE: TWTR)

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.