

NETE's Netevia Breaks into B2B Sales Market

In June 2018, the Company announced the extension of its Netevia platform to include a smart solution for enabling secure vendor payments, which will enhance the revenue generation from the division.

Netevia's advantages include:

- Electronical payments delivered using a secure single-use dynamic credit card number, i.e. payments can only be processed by the designated single vendor for a specific amount and have added controls for improved flexibility and security.
- Integration with the existing accounting systems, which requires no complex setup.
- 24/7 customer support by phone, email, or live chat.

According to Statista's 2017 B2B E-commerce report, B2B business is now dwarfing that of the B2C business. Global B2B sales are estimated at \$7.7 trillion, compared to \$2.3 trillion in B2C sales. Netevia's vendor payments solution streamlines B2B payments by improving payment processes and reducing the costs to send payments through a user-friendly web and mobile platform interface.

Development of Unified Payments

In late May 2018, Net Element announced that one of its subsidiaries, Unified Payments, has launched an intelligent payment solution for the events industry.

Unified Payments' integrated payment solution for the events industry enhances existing payment acceptance services with intelligent integration for POS systems, self-order kiosks, chargeback protection and multi-channel payment acceptance. Unified Payments makes its innovative programs such "Fast Pass Funding" same-day funding, "Zero Pay", a cash payment discount program through which merchants keep 100% of sales revenues from the events and the "Complimentary Equipment Placement Program" available to all events industry merchants in the North America.

According to a recent events industry council report, meetings and events industry continues to expand across all segments, contributing hundreds of billions of dollars in revenue to the U.S. economy and supporting 5.9 million jobs. Notable recent data referenced in the report shows the industry generated over \$330 billion in direct spending and more than \$845 billion in business sales.

Risk Considerations

Foreign Exchange. The Company has Russian operations that transact in foreign currencies, including Russian rubles, euros, and the Kazakhstan tenge. NETE did witness the effect of exchange rate changes in the form of a decrease in its USD-denominated cash balance by \$3,720 for the three months ended March 31, 2018, as compared to a \$57,288 increase for the three months ended March 31, 2017.

Rapidly increasing competition in the payments space and ever-changing landscape. In general, as technology evolves at an exponential pace, the competitive environment dynamically shifts. Aside from tech-based competitors in payment systems, traditional financial services companies seek means to develop more and more technology and fin-tech-driven products and services as the industry takes shape.

Reliance on third-party processors and service providers. NETE relies on its partnerships with numerous payment processing organizations to permit card authorization, data capture, settlement, and merchant accounting services, etc. Given that many of these organizations are also competitors and long-term agreements are not in place, the relationships could be vulnerable.

Appendix: Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (in USD)	Mar. 31, 2018	Dec. 31, 2017
Current assets:		
Cash	9,190,957	11,285,669
Accounts receivable	5,133,698	5,472,856
Prepaid expenses and other assets	1,881,628	2,282,614
Total current assets	16,206,283	19,041,139
Fixed assets	51,218	58,268
Intangible assets	2,898,765	3,127,760
Goodwill	9,643,752	9,643,752
Other long term assets	462,980	460,511
Total assets	29,262,998	32,331,430
Current liabilities:		
Accounts payable	6,375,505	6,785,459
Accrued expenses	3,478,918	3,674,430
Deferred revenue	1,176,843	1,712,591
Notes payable (current portion)	1,455,376	2,493,973
Total current liabilities	12,486,642	14,666,453
Notes payable (net of current portion)	5,044,211	4,521,449
Total liabilities	17,530,853	19,187,902
Shareholder's equity:		
Paid in capital	183,201,232	183,119,222
Accumulated other comprehensive loss	(2,490,923)	(2,530,238)
Accumulated deficit	(168,966,916)	(167,356,070)
Stock subscriptions receivable		(50,585)
Noncontrolling interest	(11,634)	(39,186)
Total stockholders' equity	11,732,145	13,143,528
Total liabilities and stockholders' equity	29,262,998	32,331,430

Source: Company Filings

CONSOLIDATED STATEMENT OF CASH FLOWS <i>(in USD)</i>	3 Months Ended	
	Mar. 31, 2018	Mar. 31, 2017
Cash flows from operating activities		
Net loss attributable to Net Element stockholders	(1,610,847)	(2,487,498)
Adjustments to reconcile net loss to net cash provided by operating activities		
Noncontrolling interest	27,553	(50,701)
Share based compensation	82,011	596,404
Depreciation and amortization	703,538	657,363
Non cash interest	16,759	46,135
Changes in assets and liabilities		
Accounts receivable	1,032,930	510,498
Deferred revenue	(535,748)	(445,953)
Prepaid expenses and other assets	(308,648)	(231,755)
Accounts payable and accrued expenses	(545,306)	449,284
Net cash used in operating activities	(1,137,758)	(956,223)
Cash flows from investing activities		
Purchase of portfolios and client acquisition costs	(401,980)	(403,585)
Purchase of fixed and changes in other assets	(2,393)	355
Net cash used in investing activities	(404,373)	(403,230)
Cash flows from financing activities		
Proceeds from common stock		1,437,132
Proceeds from indebtedness		92,000
Repayment of indebtedness	(515,834)	(92,680)
Related party advances	(33,027)	57,159
Net cash provided by financing activities	(548,861)	1,493,611
Effect of exchange rate changes on cash	(3,720)	57,288
Net decrease (increase) in cash	(2,094,712)	191,446
Cash at beginning of period	11,285,669	621,635
Cash at end of period	9,190,957	813,081
Cash paid during the period for:		
Interest	226,479	166,394
Taxes	4,140	64,314

Source: Company Filings

CONDENSED CONSOLIDATED INCOME STATEMENT <i>(in USD)</i>	3 Months Ended	
	Mar. 31, 2018	Mar. 31, 2017
Net revenues		
Service fees	15,982,394	12,729,663
Branded content		832,278
Total Revenues	15,982,394	13,561,941
Costs and expenses:		
Cost of service fees	13,618,334	10,650,748
Cost of branded content		809,244
General and administrative	2,446,480	2,831,161
Non-cash compensation	82,011	596,404
Bad debt expense	121,274	279,759
Depreciation and amortization	703,538	657,363
Total costs and operating expenses	16,971,637	15,824,679
Loss from operations	(989,243)	(2,262,738)
Interest expense, net	(243,238)	(269,688)
Other income (expense)	(350,813)	(5,773)
Net (loss) before income taxes	(1,583,294)	(2,538,199)
Income taxes		
Net loss	(1,583,294)	(2,538,199)
Net (income) loss attributable to the noncontrolling interest	(27,553)	50,701
Net loss attributable to Net Element, Inc. stockholders	(1,610,847)	(2,487,498)
Foreign currency translation	39,315	12,103
Comprehensive loss attributable to common stockholders	(1,571,532)	(2,475,395)
Loss per share - basic and diluted (in dollars per share)	\$ (0.42)	\$ (1.51)
Weighted average number of common shares outstanding - basic and diluted (in shares)	3,853,130	1,647,606

Source: Company Filings

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