

### Financial Services

**SURG** - NASDAQ

August 3, 2022

|                             |                        |
|-----------------------------|------------------------|
| <b>Closing Price 8/2/22</b> | <b>\$6.80</b>          |
| Rating:                     | Buy                    |
| 12-Month Target Price:      | (prior \$8.00) \$10.00 |
| 52-Week Range:              | \$1.76 - \$7.50        |
| Market Cap (M):             | 83.3                   |
| Shares O/S (M):             | 12.2                   |
| Float:                      | 92.1%                  |
| Avg. Daily Volume (000):    | 141.8                  |
| Debt (M):                   | \$6.1                  |
| Dividend:                   | \$0.00                 |
| Dividend Yield:             | 0.0%                   |
| Risk Profile:               | Speculative            |
| Fiscal Year End:            | December               |

#### Revenue ('000)

|       | 2021A  | 2022E   | 2023E   |
|-------|--------|---------|---------|
| 1Q    | 10,989 | 21,141A | 40,870  |
| 2Q    | 11,378 | 27,720  | 43,570  |
| 3Q    | 14,538 | 33,970  | 46,270  |
| 4Q    | 14,156 | 41,120  | 48,970  |
| CY    | 51,061 | 123,951 | 179,680 |
| Prior | —      | 125,751 | —       |

#### GAAP EPS

|       | 2021A  | 2022E   | 2023E |
|-------|--------|---------|-------|
| 1Q    | (1.85) | (0.10)A | 0.63  |
| 2Q    | (0.07) | (0.04)  | 0.69  |
| 3Q    | (0.51) | 0.33    | 0.76  |
| 4Q    | (0.79) | 0.73    | 0.82  |
| CY    | (3.09) | 0.91    | 2.91  |
| Prior | —      | 1.06    | —     |



**Company description:** SurgePays is a technology and telecommunications company focused on the underbanked and underserved communities.

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## SurgePays, Inc.

**Buy**

**Near-Term Sign-Ups Below Our Forecast, Longer-Term Outlook and 2023 Estimates Unchanged; Raise PT to \$10 – Reiterate Buy**

### Summary

- **SURG disclosed 150,000 ACP customers as of mid-July; this is below our forecast due to later expansion than we expected to 50 states (from 14 states)**
- **Based on this lag, we lower our 2Q22 estimates. We also lower our 2022 estimates: we do not expect the customer count to catch up to our current forecast until year-end 2022.**
- **We maintain our 2023 estimates and longer-term outlook and raise our price target to \$10, from \$8. Trading at only 2.3x our 2023 EPS estimate, SURG shares are very undervalued, in our view. Our new \$10 price target equates to a 2023E P/E of only 3.4x (previously 2.7x), a very substantial discount to peers.**

### Details

**Mid-July ACP customer count was below our forecast...** On 7/14, SURG disclosed that it had exceeded 150,000 customers in the U.S. Government's Affordable Connectivity Program (ACP). This represents very rapid growth, from 0 customers in August 2021, but is below our comparable forecast of about 170,000 customers. The reason is that we had assumed that SURG's sign-up network would be expanded to 50 states (from 14 states) and fully utilized sooner than actually occurred. On 4/7/22, SURG announced the acquisition of Torch Wireless, which extended authorization into all 50 states, but SURG did not immediately pursue sign-ups in all of these states. In addition, management has indicated that, while demand is robust, it has had to periodically slow sign-ups due to lack of financing for computer tablets (that are given 'free' with all sign-ups). Therefore, our 2Q22 estimates (and our 2022 estimates) are probably aggressive (see below).

**...but our 2022 year-end customer count outlook remains unchanged.** With an expanded sign-up network and active pursuit of customers in increasingly more states, we expect SURG to catch up to our year-end customer count forecast of more than 225,000. Management has said that it expects to "easily surpass" its year-end 2022 guidance of 200,000 customers. In addition, management has indicated that tablet financing should become less of an issue with a line of credit secured by U.S. Government receivables. These actions, in our view, would also position SURG to meet (or beat) our current 2023 estimates, which we are not changing.

**We lower our 2022 EPS estimate to \$0.91, from \$1.06, and make our quarterly estimates more back-end-loaded.** Most impacted are our 2Q22 estimates: we are now estimating a 2Q22 net loss of (\$0.04) vs. positive EPS of \$0.10 previously. We expect an accelerating pace of sign-ups and, given this pace, it is difficult to predict in which quarter the related revenues and earnings will fall.

**We maintain our 2023 estimates and raise our price target to \$10 from \$8.** At a 7/27/22 Virtual Investor Spotlight appearance, management indicated that it expects to have at least 500,000 customers by year-end 2023, which is well above our forecast of about 400,000, and bolsters our confidence in our 2023 EPS estimate of \$2.91. This confidence enables us to raise our price target to \$10, which equates to a 2023E P/E multiple of only 3.4x (previously 2.7x) versus 12.8x for the average of wireless providers, 4.2x for non-prime financial services companies, 11.8x for payments companies, and 18.9x for convenience stores. These very substantial discounts could partly be explained by SURG's early stage of growth.

**We reiterate our Buy rating.** In the next four quarters, we expect stock price appreciation of 47% (to our \$10 price target).

We expect SURG to report 2Q22 results during the week of 8/8 (next week).

**SURGEPAYS, INC. (SURG)**

Income Statement

(\$ in thousands)

|  | 1Q21A          | 2Q21A          | 3Q21A          | 4Q21A          | 1Q22A          | 2Q22E         | 3Q22E         | 4Q22E         | 1Q23E         | 2Q23E         | 3Q23E         | 4Q23E         | 2021A           | 2022E          | 2023E          |
|--|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|----------------|----------------|
| <b>Revenues</b>                            | <b>10,989</b>  | <b>11,378</b>  | <b>14,538</b>  | <b>14,156</b>  | <b>21,141</b>  | <b>27,720</b> | <b>33,970</b> | <b>41,120</b> | <b>40,870</b> | <b>43,570</b> | <b>46,270</b> | <b>48,970</b> | <b>51,061</b>   | <b>123,951</b> | <b>179,680</b> |
| Cost of Revenues                           | 9,857          | 10,051         | 12,635         | 12,348         | 18,508         | 24,292        | 26,632        | 28,972        | 29,373        | 31,314        | 33,254        | 35,195        | 44,891          | 98,404         | 129,136        |
| <b>Gross Profit</b>                        | <b>1,132</b>   | <b>1,327</b>   | <b>1,903</b>   | <b>1,808</b>   | <b>2,633</b>   | <b>3,428</b>  | <b>7,338</b>  | <b>12,148</b> | <b>11,497</b> | <b>12,256</b> | <b>13,016</b> | <b>13,775</b> | <b>6,170</b>    | <b>25,547</b>  | <b>50,544</b>  |
| Gross Profit Margin                        | 10.3%          | 11.7%          | 13.1%          | 12.8%          | 12.5%          | 12.4%         | 21.6%         | 29.5%         | 28.1%         | 28.1%         | 28.1%         | 28.1%         | 12.1%           | 20.6%          | 28.1%          |
| General & Administrative                   | 2,960          | 2,574          | 2,135          | 4,318          | 3,505          | 3,600         | 3,000         | 3,000         | 3,500         | 3,500         | 3,500         | 3,500         | 11,987          | 13,105         | 14,000         |
| Depreciation and Amortization              | 218            | 180            | 181            | 180            | 169            | 169           | 169           | 169           | 169           | 169           | 169           | 169           | 759             | 676            | 676            |
| Stock-Based Compensation                   | 62             | (17)           | (37)           | (4)            | 9              | 9             | 9             | 9             | 9             | 9             | 9             | 9             | 4               | 36             | 36             |
| Total Operating Expenses                   | 3,240          | 2,737          | 2,279          | 4,494          | 3,683          | 3,778         | 3,178         | 3,178         | 3,678         | 3,678         | 3,678         | 3,678         | 12,750          | 13,817         | 14,712         |
| <b>Operating Income</b>                    | <b>(2,108)</b> | <b>(1,410)</b> | <b>(376)</b>   | <b>(2,686)</b> | <b>(1,050)</b> | <b>(350)</b>  | <b>4,160</b>  | <b>8,970</b>  | <b>7,819</b>  | <b>8,578</b>  | <b>9,338</b>  | <b>10,097</b> | <b>(5,993)</b>  | <b>11,730</b>  | <b>35,832</b>  |
| Other Income / Expense                     | 0              | 0              | 0              | 2213           | 0              | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 2213            | 0              | 0              |
| Interest Expense                           | (1,304)        | (2,097)        | (1,237)        | (2,880)        | (169)          | (169)         | (169)         | (169)         | (169)         | (169)         | (169)         | (169)         | (7,518)         | (676)          | (676)          |
| Non-Recurring Gains/Losses                 | (1,403)        | 3,293          | (45)           | (4,078)        | (25)           | 0             | 0             | 0             | 0             | 0             | 0             | 0             | (2,233)         | (25)           | 0              |
| Total Other Income                         | (2,707)        | 1,196          | (1,282)        | (4,745)        | (194)          | (169)         | (169)         | (169)         | (169)         | (169)         | (169)         | (169)         | (7,538)         | (701)          | (676)          |
| <b>Income Before Taxes</b>                 | <b>(4,815)</b> | <b>(214)</b>   | <b>(1,658)</b> | <b>(7,431)</b> | <b>(1,244)</b> | <b>(519)</b>  | <b>3,991</b>  | <b>8,801</b>  | <b>7,650</b>  | <b>8,409</b>  | <b>9,169</b>  | <b>9,928</b>  | <b>(13,531)</b> | <b>11,029</b>  | <b>35,156</b>  |
| Income Taxes                               | 0              | 0              | 0              | 0              | (32)           | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0               | (32)           | 0              |
| Taxes as % of Income Before Taxes          | 0%             | 0%             | 0%             | 0%             | 3%             | 0%            | 0%            | 0%            | 0%            | 0%            | 0%            | 0%            | 0%              | 0%             | 0%             |
| Net Income (After Noncontrolling Interest) | (4,815)        | (214)          | (1,658)        | (7,431)        | (1,212)        | (519)         | 3,991         | 8,801         | 7,650         | 8,409         | 9,169         | 9,928         | (13,531)        | 11,061         | 35,156         |
| Preferred Stock Dividends                  | 0              | 0              | 0              | 0              | 0              | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0               | 0              | 0              |
| <b>Net Income Attributable to Common</b>   | <b>(4,815)</b> | <b>(214)</b>   | <b>(1,658)</b> | <b>(7,431)</b> | <b>(1,212)</b> | <b>(519)</b>  | <b>3,991</b>  | <b>8,801</b>  | <b>7,650</b>  | <b>8,409</b>  | <b>9,169</b>  | <b>9,928</b>  | <b>(13,531)</b> | <b>11,061</b>  | <b>35,156</b>  |
| Add: Interest Expense                      | 1,304          | 2,097          | 1237           | 2880           | 169            | 169           | 169           | 169           | 169           | 169           | 169           | 169           | 3,840           | 676            | 676            |
| Add: Non-Cash/Non-Recurring Charges        | 0              | 0              | 0              | 0              | 25             | -400          | 600           | 600           | 0             | 0             | 0             | 0             | 5029            | 825            | 0              |
| Add: Amortization of Intangible Assets     | 218            | 180            | 181            | 181            | 169            | 169           | 169           | 169           | 169           | 169           | 169           | 169           | 760             | 676            | 676            |
| Add: Stock-Based Compensation              | 62             | (17)           | (37)           | (4)            | 9              | 9             | 9             | 9             | 9             | 9             | 9             | 9             | 4               | 36             | 36             |
| Add: Income Taxes                          | 0              | 0              | 0              | 0              | (32)           | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0               | -32            | 0              |
| <b>Adjusted EBITDA</b>                     | <b>(3,231)</b> | <b>2,046</b>   | <b>(277)</b>   | <b>(4,374)</b> | <b>(872)</b>   | <b>(572)</b>  | <b>4,938</b>  | <b>9,748</b>  | <b>7,997</b>  | <b>8,756</b>  | <b>9,516</b>  | <b>10,275</b> | <b>(3,898)</b>  | <b>13,242</b>  | <b>36,544</b>  |
| Shares Outstanding (EOP)                   | 2,543          | 3,230          | 3,288          | 12,100         | 12,100         | 12,100        | 12,100        | 12,100        | 12,100        | 12,100        | 12,100        | 12,100        | 12,100          | 12,100         | 12,100         |
| Shares Outstanding (Average)               | 2,604          | 3,088          | 3,264          | 9,404          | 12,100         | 12,100        | 12,100        | 12,100        | 12,100        | 12,100        | 12,100        | 12,100        | 4,382           | 12,100         | 12,100         |
| <b>GAAP EPS</b>                            | <b>-1.85</b>   | <b>-0.07</b>   | <b>-0.51</b>   | <b>-0.79</b>   | <b>-0.10</b>   | <b>-0.04</b>  | <b>0.33</b>   | <b>0.73</b>   | <b>0.63</b>   | <b>0.69</b>   | <b>0.76</b>   | <b>0.82</b>   | <b>-3.09</b>    | <b>0.91</b>    | <b>2.91</b>    |
| Dividends per Share                        | 0.00           | 0.00           | 0.00           | 0.00           | 0.00           | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          | 0.00            | 0.00           | 0.00           |
| Adjusted EBITDA Per Share                  | -1.24          | 0.66           | -0.08          | -0.47          | -0.07          | -0.05         | 0.41          | 0.81          | 0.66          | 0.72          | 0.79          | 0.85          | -0.89           | 1.09           | 3.02           |

Source: Company reports and Maxim Group estimates

## DISCLOSURES

## SurgePays, Inc. Rating History as of 07/29/2022

powered by: BlueMatrix



## Maxim Group LLC Ratings Distribution

As of: 08/02/22

|             |   | % of Coverage<br>Universe with Rating | % of Rating for which Firm<br>Provided Banking Services<br>in the Last 12 months |
|-------------|---|---------------------------------------|--|
| <b>Buy</b>  | Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to outperform its relevant index over the next 12 months.   | <b>90%</b>                            | <b>44%</b>   |
| <b>Hold</b> | Fundamental metrics are currently at, or approaching, industry averages. Therefore, we expect this stock to neither outperform nor underperform its relevant index over the next 12 months. | <b>10%</b>                            | <b>48%</b>   |
| <b>Sell</b> | Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to underperform its relevant index over the next 12 months.   | <b>0%</b>                             | <b>0%</b>  |

*\*See valuation section for company specific relevant indices*

I, Michael Diana, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

The research analyst(s) primarily responsible for the preparation of this research report have received compensation based upon various factors, including the firm's total revenues, a portion of which is generated by investment banking activities.

**Maxim Group makes a market in SurgePays, Inc.**

**Maxim Group managed/co-managed/acted as placement agent for an offering of the securities for SurgePays, Inc. in the past 12 months.**

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**Maxim Group received compensation for investment banking services from SurgePays, Inc. in the past 12 months.**

**An affiliate of Maxim Group beneficially owns warrants/shares in SurgePays, Inc. .**

**SURG:** For SurgePays, Inc., we use the Russell 2000 Index (RUT) as the relevant index.

**Valuation Methods**

**SURG:** We value SurgePays, Inc. based on relative valuation, primarily using multiples of estimated EPS, and, secondarily, multiples of estimated revenues.

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### Price Target and Investment Risks

**SURG:** Aside from general market and other economic risks, and aside from COVID (which is a risk for all companies), risks particular to our price target and rating for SurgePays, Inc. include: 1) competition (from wireless providers, financial services companies and other companies); 2) governmental/regulatory risk (particularly related to the FCC's ACP program); 3) execution of SurgePays' sales force growth plan; 4) technology risk (particularly relating to hardware and proprietary software); 5) funding/equity risk (related to inability to obtain debt or equity funding and to ownership or earnings dilution from obtaining funding at an unfavorable price or on unfavorable terms).

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### RISK RATINGS

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Risk ratings take into account both fundamental criteria and price volatility.

**Speculative – Fundamental Criteria:** This is a risk rating assigned to early-stage companies with minimal to no revenues, lack of earnings, balance sheet concerns, and/or a short operating history. Accordingly, fundamental risk is expected to be significantly above the industry. **Price Volatility:** Because of the inherent fundamental criteria of the companies falling within this risk category, the price volatility is expected to be significant with the possibility that the investment could eventually be worthless. Speculative stocks may not be suitable for a significant class of individual investors.

**High – Fundamental Criteria:** This is a risk rating assigned to companies having below-average revenue and earnings visibility, negative cash flow, and low market cap or public float. Accordingly, fundamental risk is expected to be above the industry. **Price Volatility:** The price volatility of companies falling within this category is expected to be above the industry. High-risk stocks may not be suitable for a significant class of individual investors.

**Medium – Fundamental Criteria:** This is a risk rating assigned to companies that may have average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to approximate the industry average.

**Low – Fundamental Criteria:** This is a risk rating assigned to companies that may have above-average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to be below the industry.

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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