United States
Consumer Lending

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FlexShopper, Inc.

Initiating Coverage with a BUY rating and $3.00 Target

The only omni-channel "pure play" virtual lease-to-own company; serving a largely untapped market and; experiencing rapid growth

COVERAGE INITIATION

Rating: BUY

Ticker: FPAY

Price: $0.84

Target: $3.00

Initiating with BUY: We are initiating coverage of FlexShopper with a BUY rating. FlexShopper has reimagined the rent-to-own/lease-to-own industry as a virtual business with proprietary software, an automated underwriting process, connections to sales with third party vendors and a payment option that we believe will become as nearly widespread as PayPal (PYPL-NR).

Market is large and growing. We believe the addressable market for FPAY is at least $25 billion. The market is for sub-prime borrowers and those without access to conventional credit, however it isn't limited to that segment and could diversify further.

Highly scalable business: With its own proprietary software and no requirement for a physical store, we believe the business is limited only to process speed and macro-economic factors.

Economics are attractive and business is growing. While readers of this report are unlikely to accept the economics of purchasing product through its model, tens of millions of people need an option like this and you can see it in the growth profile which is a double digit CAGR.

Risks remain but the valuation is attractive on multiple levels. The company faces several risks. With the stock below $1.00 is in non-compliance with NASDAQ listing rules, but there is still time for that issue to correct on its own. It also needs to get to ~$40 million in quarterly revenue in order to reach breakeven. But at the current share price we feel that the market is too focused on the risk side of the equation.

Current valuation attractive: We calculate a 12-month price target for shares of FlexShopper to be $3.00 based on our synthetic dividend discount.

Stock Data

Exchange:	Nasdaq CMS
52-week Range:	$0.66-4.80
Shares Outstanding (million):	17.7
Market cap ($million):	$15
EV ($million):	$37
Debt ($million):	$28
Cash ($million):	$6
Avg. Daily Trading Vol. ($million):	$0.03
Float (million shares):	9
Short Interest (million shares):	0.4
Dividend, (annual Yield)	$0 (NA%)

Revenues (US$ million)

	2018A (Cur.)	2019E (Cur.)	2020E (Cur.)
Q1 Mar	20A	27E	39E
Q2 Jun	19A	26E	37E
Q3 Sep	21A	27E	36E
Q4 Dec	25A	30E	41E
Total	**85A**	**110E**	**153E**
EV/Revs	0.4x	0.3x	0.2x

Earnings per Share (pro forma)

	2018A (Cur.)	2019E (Cur.)	2020E (Cur.)
Q1 Mar	(0.55)A	(0.27)E	(0.06)E
Q2 Jun	(0.48)A	(0.18)E	(0.03)E
Q3 Sep	(0.56)A	(0.18)E	(0.00)E
Q4 Dec	(0.37)A	(0.12)E	0.11E
Total	**$(1.39)A**	**$(0.71)E**	**$0.01E**
P/E	NMF	NMF	NMF

Company Description

Based in Boca Raton, FL, FlexShopper is a unique combination of a consumer finance company, e-retailer and RTO/LTO business that utilizes proprietary software and its own PayPal like payment option for any online retailer.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 18.

Exhibit 1: FlexShopper, Inc. Stock Price (5-years)

Source: Nasdaq.com

INVESTMENT THESIS

We are initiating coverage of FlexShopper with a BUY rating and a 12-month price target of $3.00.

Market is large and growing. We believe the addressable market for FPAY is at least $25 billion. The market is for sub-prime borrowers and those without access to conventional credit, however it isn't limited to that segment and could diversify further.

Highly scalable business: With its own proprietary software and no requirement for a physical store, we believe the business is limited only to process speed and macro-economic factors.

Economics are attractive and business is seeing double-digit growth. While readers of this report are unlikely to accept the economics of purchasing product through its model, tens of millions of people need an option like this and you can see it in the growth profile which is a double digit CAGR.

Risks remain but the valuation is attractive on multiple levels. The company faces several risks. With the stock below $1.00 is in non-compliance with NASDAQ listing rules, but there is still time for that issue to correct on its own. It also needs to get to ~$40 million in quarterly revenue in order to reach breakeven. But at the current share price we feel that the market is too focused on the risk side of the equation. The shares trade below our price-target and sell at a significant discount to peers.

Current valuation attractive: We calculate a 12-month price target for shares of FlexShopper to be $3.00 based on our synthetic dividend discount.

Past performance of stock reflects a mix of circumstances, none of which is operational in our opinion. The decline in price from August 2018 to September 2018 (Exhibit 1) reflects the attempts of multiple separate investment banking efforts to get a $10 million equity deal. Prior to this time the stock that traded on average ~2,000 shares a day and had only three institutional investors. The largest institutional investor then (and now), did not participate in any meaningful way according to Thomson Reuters. During 2018, the company had positive double-digit revenue comps each quarter and put up 20%+ gross profit margins.

VALUATION

We are initiating coverage of FlexShopper with a BUY rating and a 12-month price target of $3.00, which is based on a synthetic-dividend discount model. Our assumption is that the company hits breakeven in 2020 and grows robustly in the following five years before beginning to slow. Our valuation model is shown in Exhibit 2 below. The model sums up all earnings per share, discounted at 15% to arrive at a per share value and terminal value growth is assumed to be GDP. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year.

Exhibit 2 – Valuation Model

	Target Price:	$3.01	
Year	EPS	Discounted EPS	Share Count (Millions)
2019	($0.71)	($0.71)	16
2020	0.01	0.01	22
2021	0.20	0.15	32
2022	0.30	0.20	35
2023	0.45	0.26	36
2024	0.56	0.28	38
2025	0.62	0.27	40
2026	0.68	0.25	42
2027	0.72	0.23	44
2028	0.75	0.21	45
	Terminal Value:	$1.85	

Source: Ascendiant Capital Markets LLC

We also looked at comps to peers (Exhibit 3). FlexShopper is a hybrid of an online retailer, finance company and a rent-to-own retailer. When we look at FlexShopper comps compared to a composite of these three businesses, the stock sells for a discount of between 75% to 97%.

Exhibit 3 – FlexShopper Compared to Peers - $ in millions except per share figures

Segment	Ticker	Company Name	Market Cap	4/5/19 Close	EV	Price/Book	2019 Price Rev/Share	2020 Price Rev/Share	2018 EV/Revenue
Finance Company	V	Visa Inc	346,366.76	157.65	356,713.76	9.78	15.20	13.70	16.64
Finance Company	MA	Mastercard Inc	242,760.86	236.63	240,810.86	36.05	14.48	12.81	12.88
Finance Company	PYPL.O	PayPal Holdings Inc	124,043.43	105.73	116,932.43	6.42	6.90	5.88	5.93
Finance Company	DFS	Discover Financial Services	24,451.50	74.95	38,943.50	1.76	2.15	2.02	
Finance Company	ALLY.K	Ally Financial Inc	11,570.72	28.85	58,115.72	0.69	1.85	1.76	
Finance Company	CIT	CIT Group Inc	4,917.20	49.66	9,562.20	0.65	2.65	2.59	
Finance Company	MRLN.O	Marlin Business Services Corp	269.88	21.89	1,078.55	1.39	2.64	2.34	9.61
Average						8.10	6.55	5.87	11.26
Online retail	AMZN.O	Amazon.com Inc	902,477.25	1,837.28	910,516.25	16.93	3.28	2.79	3.20
Online retail	BABA.K	Alibaba Group Holding Ltd	480,461.35	185.35	486,810.67	7.88	8.60	6.33	11.57
Online retail	OSTK.O	Overstock.com Inc	544.09	16.87	484.61	3.31	0.33	0.30	0.21
Average						9.38	4.07	3.14	4.99
RTO	AAN	Aaron's Inc	3,626.80	53.51	4,036.28	1.60	0.91	0.84	0.84
RTO	RCII.O	Rent-A-Center Inc	1,108.18	20.53	1,492.83	3.03	0.42	0.42	0.47
Average						2.31	0.67	0.63	0.66
Composite	FPAY.O	FlexShopper Inc	15.02	0.85	37.00	1.58	0.12	0.12	0.44
		Composite Comps (1/3 each segment)				6.35	3.58	3.04	5.57
		FlexShopper Discount To Comps				**-75%**	**-97%**	**-96%**	**-92%**

Source: Ascendiant Capital Markets LLC and Thomson Reuters Eikon

INDUSTRY OVERVIEW

Market Statistics

The lease-to-own (LTO) industry offers consumers an alternative to traditional methods of obtaining electronics, computers, home furnishings, appliances and other durable goods. According to a report published by the Association of Progressive Rental Organizations (APRO) in 2016, using data from 2012, the $8.5 billion rent-to-own industry in the United States, Mexico and Canada consists of approximately 9,900 stores of which Rent A Center, Inc. (RCII-NR) represents 2,158 stores and Aaron’s, Inc. (AAN-NR), 377. FlexShopper’s stores are all virtual.

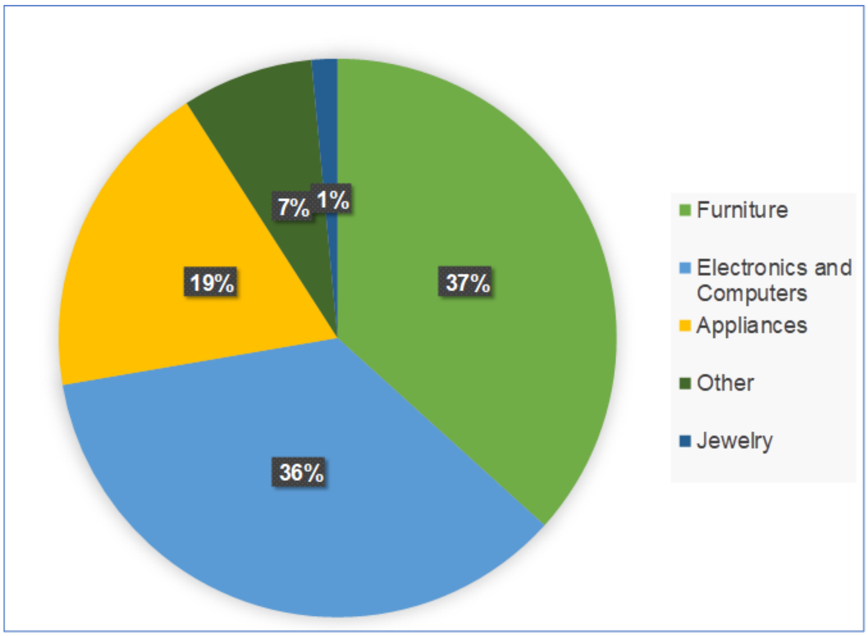
According to the same source, the industry serves approximately 4.8 million customers and approximately 83% of rent-to-own customers have household incomes between $15,000 and $50,000 per year. The rent-to-own industry provides customers the opportunity to obtain merchandise they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. According to data released by the Fair Isaac Corporation on September 24, 2018, consumers in the “subprime” category (those with credit scores below 650) made up approximately 29% of the United States population.

According to company reports issued by Aaron’s, Inc. on March 5, 2019, it claims the market in the U.S. is now much larger at $25 billion to $35 billion. We believe this is the generally accepted current addressable market.

What products are most frequently purchased?

According to APRO, the main categories for rent-to-own or lease-to-own are shown in Exhibit 4. Furniture and bedding, electronics and computers are the two largest categories, representing nearly 75% of purchases.

Exhibit 4



Source: The Association of Progressive Rental Organizations and Ascendiant Capital Markets LLC

Why Would Anyone LTO or RTO?

We believe there are tens of millions of people in the United States that, confronted with a need to spend $500 on a set of tires or a new mattress, could not find the money to complete that transaction. For example, according to data from the Center on Budget and Policy Priorities (CBPP) in 2015, there are seven million adults and another 19 million households with at least one adult and one child on the Supplemental Nutrition Assistance Program (SNAP) in the U.S. To be on this program you must be poor and, in most cases, have less than $2200 in liquid assets. Just looking at this demographic alone, it is clear these people are not going to get traditional credit and clearly have no assets. So, when a new child comes along and they need to buy a mattress or if the tires on the car fail, the LTO option looks like a life-line. And most of these adults are working, there just isn't enough left over and they can't save money and stay on the SNAP program. This also help us think about the market size. If this group alone spent $500/year through the LTO channel, that would make the market $13B. And since this does not cover all the potential customers, the addressable market estimate of $25 billion looks about right.

FlexShopper Remakes the LTO Industry

FlexShopper does not operate stores. Instead it leverages its lease technology into both brick and mortar stores of others or online.

Exhibit 5

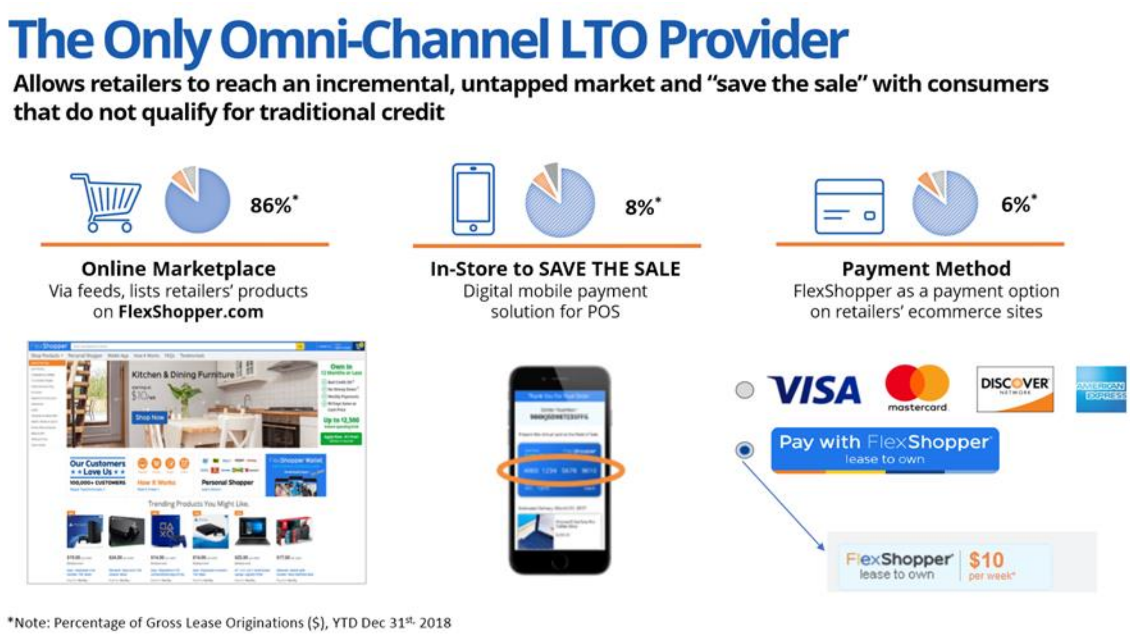
Source: Company presentation

FlexShopper has developed a business that focuses on "improving the quality of life" of its customers by providing them the opportunity to obtain ownership in high-quality marketplaces. FlexShopper has successfully developed and is currently processing LTO transactions, often within seconds using its "LTO Engine," FlexShopper's proprietary technology that automates the process of consumers receiving spending limits and entering into leases for durable goods. The LTO Engine is the basis for FlexShopper's primary sales channels, which include business to consumer ("B2C") and business to business ("B2B") channels, as described in further detail below. Concurrently, e-tailers and retailers that work with FlexShopper may increase their sales by utilizing FlexShopper's online channels to connect with consumers that want to acquire products on an LTO basis. FlexShopper's sales channels include: durable products, such as consumer electronics, home appliances, computers (including tablets and wearables), smartphones, tires, jewelry, furniture (including accessories) and mattresses, under affordable payment lease-to-own ("LTO") purchase agreements with no long-term obligation. Its customers can acquire well-known brands such as Samsung, Frigidaire, Hewlett-Packard, LG, Whirlpool, Simmons, Philips, Ashley, Apple and more. It is our belief that the introduction of FlexShopper's LTO programs support broad untapped expansion opportunities within the U.S. consumer e-commerce through an omni-channel approach:

1. **Online Marketplace:** Selling directly to consumers via the online FlexShopper.com LTO Marketplace featuring thousands of durable goods
2. **In-store "Save-the-Sale":** Utilizing FlexShopper's LTO payment method at check out on e-commerce sites and through in-store terminals and;
3. **Additional Payment Method on payment screen next to credit cards, similar to when you see a PayPal (PYPL-NR) option:** Facilitating LTO transactions with retailers that have not yet become part of the FlexShopper.com LTO Marketplace.

FlexShopper's customers typically do not have sufficient cash or credit to obtain these goods, so they find the short-term nature and affordable payments of LTO attractive.

Exhibit 6 – Sales Channel



Source: Company Presentation

How the Lease-Purchase Transaction Works

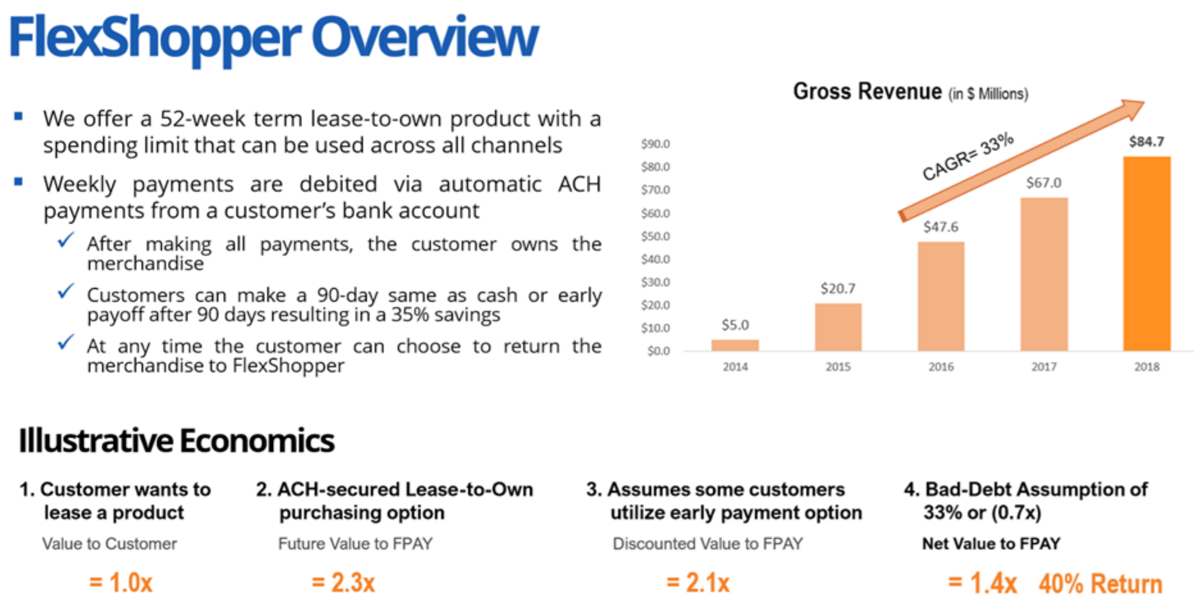
A lease-purchase transaction is a flexible alternative for consumers to obtain and enjoy brand name merchandise with no long-term obligation. Key features of its lease-purchase transactions include:

- Brand name merchandise. FlexShopper offers well-known brands such as LG, Samsung, Sony and Vizio home electronics; Frigidaire, General Electric, LG, Samsung and Whirlpool appliances; Acer, Apple, Asus, Samsung and Toshiba computers and/or tablets; Samsung and Apple smartphones; and Ashley, Powell and Standard furniture, among other brands.
- Convenient payment options. Its customers make payments on a weekly, bi-weekly or monthly basis. Payments are automatically deducted from the customer's authorized checking account or debit card. Additionally, customers may make additional payments or exercise early payment options, which enable them to save money.
- No long-term commitment. A customer may terminate a lease-purchase agreement at any time with no long-term obligation by paying amounts due under the lease-purchase agreement and returning the leased item to FlexShopper.
- Applying has no impact on credit or FICO score. FlexShopper does not use FICO scores to determine customers' spending limits so its underwriting does not impact consumers' credit with the three main credit bureaus.
- Flexible options to obtain ownership. Ownership of the merchandise generally transfers to the customer if the customer makes all payments during the lease term, which is one year, or exercises early payment options, which typically save the customer money.

The Economics of LTO

The economics of FPAY's LTO are fairly simple: charge enough money so that after both bad debts and early payment options are taken into consideration, the cash return is ~40%. While the markup to the customer appears extreme, it hasn't stopped the company from showing gross revenue CAGR of double-digits. See Exhibit 7.

Exhibit 7



Source: Company Presentation

Key Trends Driving the Industry:

Non-prime consumers represent the largest segment of the credit market. According to Fair Isaac Corporation, 29% of Americans have low credit scores (with credit scores below 650). We estimate that approximately 50 million American households are underbanked, sub-prime or credit invisible, or have no credit history. This segment of consumers represents a significant and underserved market.

Additional industry trends include:

- Consumers recognizing that they have more convenient options to acquire the products they want.
- The difficult retail climate leading retailers to embrace "save the sale" financing to increase sales with new consumers thus capturing sales that might have gone elsewhere.
- Technology advances in online underwriting and LTO digital functionality continuing to drive the B2B market segment by making it easier for retailers and consumers to transact on an LTO basis in an efficient and timely manner.

GROWTH OPPORTUNITIES AND STRATEGIES

It is our belief that FlexShopper has created a unique platform whereby its B2B and B2C sales channels beneficially advance each other. For its B2C channels, it directly markets to its consumers LTO opportunities at FlexShopper.com, where they can choose from over 150,000 of the latest products shipped directly to them by certain of the nation's largest retailers including Best Buy, Amazon, Walmart, Overstock, Serta and many more. This generates sales for its retail partners, which encourages them to incorporate its B2B solutions into their online and in-store sales channels. The lease originations by its retail partners using its B2B channels, which have no customer acquisition cost to FlexShopper, subsidize its B2C customer acquisition costs. Meanwhile, its B2C

marketing promotes FlexShopper.com, which provides incremental sales for its retail partners as well as benefitting its FlexShopper.com business.
To achieve its goal of being the preeminent "pure play" virtual LTO leader, FlexShopper is executing on the following strategies:

Grow FlexShopper into a dominant LTO brand. Given strong consumer demand and organic growth potential for its LTO solutions, FlexShopper believes that significant opportunities exist to expand its presence within current markets via existing marketing channels. As non-prime consumers become increasingly familiar and comfortable with its retail kiosk partnerships, online marketplace and mobile solutions, it plans to capture the new business generated as they migrate away from less convenient legacy brick-and-mortar LTO stores.

Expand the range of customers served. It continues to evaluate new product and market opportunities that fit into its overall strategic objective of delivering next-generation retail, online and mobile LTO terms that span the non-prime/near-prime credit spectrum. For example, it is evaluating products with lower fees that would be more focused on the needs of more creditworthy subprime consumers that prefer a less expensive LTO option. In addition, it is continually focused on improving its analytics to effectively underwrite and serve consumers within those segments of the non-prime credit spectrum that it does not currently reach, including profitable deeper penetration of the sub-prime spectrum.

Pursue additional strategic retail partnerships. It intends to continue targeting regional and national retailers to expand its B2B sales channels. As illustrated in Exhibit 6, FlexShopper has a solid omni-channel solution for retailers to "save the sale" with LTO options. In retail, the phrase "save the sale" means offering consumers other finance options when they don't qualify for traditional credit. We expect these partnerships to provide FlexShopper with access to a broad range of potential new customers, with low customer acquisition costs.

Expand its relationships with existing customers and retail partners. Customer acquisition costs represent one of the most significant expenses for FlexShopper due to its high percentage of online customers. In comparison, no acquisition cost is incurred for customers acquired through its retail partnerships. It seeks to expand its strong relationships with existing customers by providing qualified customers with increased spending limits or offering other products and services to them, as well as growing its retail partnerships to reduce its overall acquisition cost.

Continue to optimize marketing across all channels. Since it began marketing its services to consumers in 2014, FlexShopper has made significant progress in targeting its customers and lowering its customer acquisition costs. This is across different media including direct response television and digital channels such as social media, email, and search engines.

COMPETITIVE STRENGTHS

The LTO industry is highly competitive. Its operation competes with other national, regional and local LTO businesses, as well as with rental stores that do not offer their customers a purchase option. Some of these companies have, or may develop, systems that enable consumers to obtain through online facilities spending limits and payment terms and to enter into leases nearly instantaneously, in a manner similar to that provided by FlexShopper's proprietary technology. It is our belief the following three competitive strengths differentiate FlexShopper:

1. Underwriting and Risk Management

Specialized technology and proprietary risk analytics optimized for the non-prime credit market. FlexShopper has made substantial investments in its underwriting technology and analytics platforms to support rapid scaling, innovation and regulatory compliance. Its team of data scientists and risk analysts uses its risk infrastructure to build and test strategies across the entire underwriting process, using alternative credit data, device authentication, identity verification, and many more data elements. It is our belief that its real-time proprietary technology and risk analytics platform is better than its competitors' in underwriting online consumers and consumer electronics; most of its peers focus on in-store consumers that acquire furniture and appliances, which

FlexShopper believes are easier to underwrite based on its own experiences. In addition, all its applications are processed instantly with approvals and spending limits provided within seconds of submission.

2. LTO Products for Consumers and Retailers

Expansive online LTO marketplace. FlexShopper has made substantial investments in its custom e-commerce platform to provide consumers the greatest selection of popular brands delivered by some of the nation's largest retailers, including Best Buy, Amazon, Walmart, Overstock, Serta and many more. Its platform is custom-built for online LTO transactions, which include underwriting its consumers, serving them LTO leases, syncing and communicating with its retail partners to fulfill orders and all front- and back-end customer relationship management functions, including collections and billing. The result is a comprehensive technology platform that manages all facets of its business and enables FlexShopper to scale with hundreds of thousands of visitors and products.

Omni-channel "save the sale" product for retailers. In retail, the phrase "save the sale" means offering consumers other finance options when they do not qualify for traditional credit. It is our belief that FlexShopper has the best omnichannel solution for retailers to "save the sale" with LTO options. To our knowledge, no competitor has an LTO marketplace that provides retailers incremental sales with no acquisition cost. In addition, compared to its peers, its product for consumers requires no money down and typically fewer application fields. It is our belief this leads to more in-store and online sales. Its "integrationless" in-store technology may have been a strong selling point for its recent 726-store rollout since it required no equipment or technology investment from either party.

Providing LTO consumers an "endless aisle" of products for lease-to-own. As illustrated by its B2C channels in Exhibit 6, it offers consumers three ways to acquire products on an LTO basis. At FlexShopper.com its customers can choose from over 150,000 of the latest products shipped by certain of the nation's largest retailers. If customers want products that are not available on its marketplace, they may use its "personal shopper" service and simply complete a form with a link to the webpage of the desired durable good. It will then facilitate their purchase by providing an LTO arrangement. It also offers consumers the ability to acquire durable goods with its FlexShopper Wallet smartphone application available on Apple and Android devices. With FlexShopper Wallet, consumers may apply for a spending limit and take a picture of a qualifying item in any major retail store and it fill the order for them. With its B2C channels FlexShopper believes it is providing LTO consumers with a superior LTO experience and fulfilling its mission to help improve their quality of life by shopping for what they want where they want.

3. A Lean and Scalable Model

Compared to the brick-and-mortar LTO industry, which is suffering from the same headwinds as traditional retail stores and declining sales, FlexShopper has been successful in addressing the LTO consumer through online channels.
It is our belief its model is more efficient and scalable for the following reasons:

FlexShopper has no inventory risk and is completely drop-ship. FlexShopper does not have any of the costs associated with buying, storing and shipping inventory. Instead, its suppliers ship goods directly to consumers.

It serves LTO consumers across the United States without brick-and-mortar stores. FlexShopper does not have any of the costs associated with physical stores and the personnel needed to operate them.
As its sales grow it achieves more operating leverage. Its model is primarily driven by a technology platform that does not require significant increases in operating overhead to support sales growth.

SALES AND MARKETING

- B2C Channels

FlexShopper uses a multi-channel, analytics-powered approach to marketing its products and services, with both broad-reach and highly-targeted channels, including television, digital, telemarketing and marketing affiliates. The goal of its marketing is to promote its brand and primarily to directly acquire new customers at a targeted acquisition cost. Its marketing strategies include the following:

Direct response television advertising. FlexShopper uses television advertising supported by its internal analytics and media buys from a key agency to drive and optimize website traffic and lease originations.

Digital acquisition. Its online marketing efforts include pay-per-click, keyword advertising, search engine optimization, marketing affiliate partnerships, social media programs and mobile advertising integrated with its operating systems and technology from vendors that allow FlexShopper to optimize customer acquisition tactics within the daily operations cycle.

User experience and conversion. It measures and monitors website visitor usage metrics and regularly test website design strategies to improve customer experience and conversion rates.

- B2B Channels

FlexShopper uses internal business development personnel and outside consultants that focus on engaging retailers and e-tailers to use its services. This includes promoting FlexShopper at key trade shows and conferences.

PROPRIETARY MANAGEMENT INFORMATION SYSTEMS

FlexShopper uses computer-based management information systems to facilitate its entire business model, including underwriting, processing transactions through its sales channels, managing collections and monitoring leased inventory. Through the use of its proprietary software developed in-house, each of its retail partners uses its online merchant portal that automates the process of consumers receiving spending limits and entering into leases for durable goods generally to within seconds. The management information system generates reports which enables FlexShopper to meet its financial reporting requirements.

GOVERNMENT REGULATIONS

The LTO industry is regulated by and subject to the requirements of various federal, state and local laws and regulations, many of which are in place for consumer protection. In general, such laws regulate, among other items, applications for leases, late fees, finance rates, disclosure statements, the substance and sequence of required disclosures, the content of advertising materials and certain collection procedures. In 2016, the Company enhanced its compliance department by hiring a Chief Compliance Counsel.

INTELLECTUAL PROPERTY

FlexShopper was granted U.S. Patent Number 10,089,682 by the U.S. Patent and Trademark Office (USPTO), on October 2, 2018, for its system that enables e-commerce servers to complete LTO transactions through their e-commerce websites. The inventors include CEO, Brad Bernstein. Moreover, FlexShopper has received a notice of allowance from the USPTO for additional systems that enable retailer devices to complete LTO transactions through their retailer web pages, as well as systems that further enable consumer devices to modify received retailer web pages to indicate LTO payments in association with transaction-eligible products as part of LTO transactions through the retailer web pages. It is our belief that certain proprietary information, including but not limited to its underwriting model, and its patented and patent-pending systems are central to its business model and we believe they give FlexShopper a key competitive advantage. It relies on trademark and copyright law, trade secret protection, and confidentiality, license and work product agreements with its employees, customers, and others to protect its proprietary rights.

FINANCIALS

For our model we have assumed similar seasonal patterns in spending and revenue as we have seen over the past three years. While the company has not yet achieved profitability, we believe it will achieve sufficient scale in 2020 to reach profitability by 4Q20. The line items in the income statement generally speak for themselves, however one item, Other operating expenses needs explanation. Other operating expenses have been higher as a percent of sales, but now run about 10%. The main categories of items included in this are as follow:

- Amortization and depreciation
- Computer and internet expenses
- Legal and professional fees
- Merchant bank fees
- Stock compensation expense
- Other

We have included a balance sheet and cash flow statement in our model in the back of this report.

RISKS

Limited operating history makes it difficult to evaluate its business to date and assess its future viability. FlexShopper, LLC, which was formed in June 2013 to enter the LTO business, has a limited operating history upon which investors may judge its performance and has incurred net losses. Its ability to achieve profitability in this business will depend upon many factors, including, without limitation, its ability to execute its growth strategy and technology development, obtain sufficient capital, develop relationships with third-party retail partners, adapt to fluctuations in the economy and modify its strategy based on the degree and nature of competition. Its senior management team has very limited experience in the LTO industry.

If it fails to regain compliance with the minimum closing bid requirements of the Nasdaq Capital Market or to satisfy other requirements for continued listing, including stockholder equity requirements, its common stock may be delisted and the price of its common stock and its ability to access the capital markets could be negatively impacted.
FlexShopper common stock and warrants are listed for trading on the Nasdaq Capital Market ("Nasdaq"). To maintain these listings, it must satisfy Nasdaq's continued listing requirements, including, among other things, a minimum closing bid price requirement of $1.00 per share.

On November 21, 2018, it received a notification letter from Nasdaq informing FlexShopper that for the last 30 consecutive business days, the bid price of its common stock had closed below $1.00 per share. This notice had no immediate effect on its Nasdaq listing and FlexShopper has 180 calendar days, or until May 20, 2019, to regain compliance. The closing bid price of its common stock must be at least $1.00 per share for a minimum of ten consecutive business days to regain compliance. If by that time FlexShopper has not regained compliance with the bid price requirement, a second 180-day compliance period may be available, provided (i) it meets the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on Nasdaq, including stockholder equity requirements (except for the bid price requirement), and (ii) it provides written notice to Nasdaq of its intention to cure this deficiency during the second compliance period by effecting a reverse stock split, if necessary.

The LTO business depends on the success of its third-party retail partners and its continued relationships with them. Its revenues depend in part on the relationships FlexShopper has with third-party retailers it works with to offer its LTO services. FlexShopper has entered into a variety of such arrangements and expect to seek additional such relationships in the future.

Growth will depend on its ability to develop its brands, and these efforts may be costly. Its ability to develop the FlexShopper brand will be critical to achieving widespread acceptance of its services and will require a continued focus on active marketing efforts. It will need to continue to spend substantial amounts of money on, and devote substantial resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among its customers.

The customer base presents significant risk of default for non-payment. FlexShopper bears the risk of non-payment or late payments by its customers. The nature of its customer base makes it sensitive to adverse economic conditions and, in the event of an economic downturn, less likely to meet its prevailing underwriting standards, which may be more restrictive in an adverse economic environment.

Customers can return merchandise without penalty. When its customers acquire merchandise through the FlexShopper LTO program, it purchases the merchandise from the retailer and enters the lease-to-own relationship with the customer. Because its customers can return merchandise without penalty, there is risk that it may end up owning a significant amount of merchandise that is difficult to monetize. Returns totaled less than four percent of leased merchandise at December 31, 2018.

It relies on internal models to manage risk, to provide accounting estimates and to make other business decisions. Its results could be adversely affected if those models do not provide reliable estimates or predictions of future activity. The accurate modeling of risks is critical to its business, particularly with respect to managing underwriting and spending limits for its customers. Its expectations regarding customer repayment levels, as well as its allowances for doubtful accounts and other accounting estimates, are based in large part on internal modeling. It also relies heavily on internal models in making a variety of other decisions crucial to the successful operation of its business. It is therefore important that its models are accurate, and any failure in this regard could have a material adverse effect on its results.

Its operations are regulated by and subject to the requirements of various federal and state laws and regulations. These laws and regulations, which may be amended or supplemented or interpreted by the courts from time to time, could expose FlexShopper to significant compliance costs or burdens or force FlexShopper to change its business practices in a manner that may be materially averse to its operations, prospects or financial condition. Currently, nearly every state and the District of Columbia specifically regulate LTO transactions. At the present time, no federal law specifically regulates the LTO industry, although federal legislation to regulate the industry has been proposed from time to time. Most of the states that regulate LTO transactions have enacted disclosure laws that require LTO companies to disclose to their customers the total number of payments, the total amount and timing of all payments to acquire ownership of any item, any other charges that may be imposed and miscellaneous other items. In addition, certain restrictive state lease purchase laws limit the total amount that a customer may be charged for an item, or regulate the “cost-of-rental” amount that LTO companies may charge on LTO transactions, generally defining “cost-of-rental” as lease fees paid in excess of the “retail” price of the goods.

MANAGEMENT

Brad Bernstein, Director, President & CEO, is a co-founder of FlexShopper, Chief Executive Officer, President, and a Member of the Board. Mr. Bernstein served as President and Chief Financial Officer of the Company from January 2007 through December 2014, during which time the Company was named Anchor Funding Services, Inc. and primarily engaged in the business of providing accounts receivable financing to businesses in the United States. Mr. Bernstein became CEO of FlexShopper in December 2014. Previously, Mr. Bernstein was employed by Preferred Labor LLC from March 1999 through January 2007. Mr. Bernstein served Preferred Labor LLC as its Chief Financial Officer and later as its President. Before joining Preferred Labor LLC, Mr. Bernstein was a partner of Miller, Ellin Consulting Group, LLP, where he advised commercial and investment banks, asset-based lenders, and alternative finance companies in connection with debt or equity investments. Mr. Bernstein has used his banking relationships to raise debt and negotiate and structure financing for companies. Mr. Bernstein brings to the Board his financial and business expertise as a Certified Public Accountant. Mr. Bernstein received a Bachelor of Arts degree from Columbia University.

Russ Heiser, CFO, has served as Chief Financial Officer since December 2015. From July 2015 to December 2015, Mr. Heiser served as a consultant to the Company. From 2008 to 2015, Mr. Heiser served as an advisor to family offices in South Florida. In this role, Mr. Heiser focused on venture capital and private equity investments and was responsible for sourcing, financial analysis, transaction execution and management of portfolio companies across a variety of sectors. From 2004 to 2008, Mr. Heiser was an Executive Director in the Investment Banking Division at UBS in New York and, from 2001 to 2004, was an Associate in the Investment Banking Division at Bear, Stearns & Co. in New York. Mr. Heiser received his BS in Accounting from the University of Richmond and an MBA from Columbia Business School. Over the course of his career, Mr. Heiser has earned both CPA and CFA designations.

Ravi Radhakrishnan, CRO, has served as Chief Risk Officer since February 2016 and was appointed as an executive officer of the Company in April 2018. In his role, Mr. Radhakrishnan manages the Company's underwriting and lease portfolio strategies and heads the Company's data science team. From 2012 to 2016, Mr. Radhakrishnan led credit valuations strategy for Bank of America's card division as a Senior Vice President. There, he helped implement profitability-driven underwriting across the risk segments and products for its multi-billion-dollar consumer portfolio asset. Previously, he managed the Decision Insights group for JPMorgan Chase Bank to drive growth through advanced analytics. Before that, he spent a decade at Capital One and HSBC Banks managing their customer acquisition programs for direct channels. Mr. Radhakrishnan received his MS in Industrial & Systems Engineering from Virginia Tech and BS in Engineering from Regional Engineering College in India.

FINANCIAL MODEL

Figure 8 - FlexShopper, Inc. - Income Statement

($ in thousands except per share)

December ending year	2017		2018			2018		2019E			2019E		2020E			2020E
	Year	Q1	Q2	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Revenues																
Lease revenue and fees	$65.41	$19.34	$18.59	$20.51	$24.02	$82.46	$26.00	$25.00	$27.00	$30.00	$108.00	$38.00	$36.00	$35.00	$40.00	$149.00
Sales of leased merchandise	1.63	0.61	0.49	0.49	0.68	2.27	0.80	0.60	0.60	0.80	2.80	1.00	0.80	0.80	1.00	3.60
Total revenue	$67.05	$19.95	$19.08	$21.00	$24.70	$84.73	$26.80	$25.60	$27.60	$30.80	$110.80	$39.00	$36.80	$35.80	$41.00	$152.60
Growth	41%	*14%*	*14%*	*27%*	*50%*	26%	*34%*	*34%*	*31%*	*25%*	31%	*46%*	*44%*	*30%*	*33%*	38%
Cost of lease revenues	31.45	10.41	8.99	10.29	10.95	40.64	13.13	12.54	13.52	12.94	52.14	18.72	17.66	17.18	17.22	70.79
Cost of leased merchandise sold	1.00	0.33	0.32	0.35	0.42	1.42	0.43	0.41	0.44	0.49	1.77	0.62	0.59	0.57	0.66	2.44
Provision for doubtful accounts	19.14	5.18	5.48	5.91	6.68	23.24	6.97	7.17	7.45	8.01	29.60	10.14	9.57	9.31	10.66	39.68
Total cost of revenue	51.59	15.92	14.80	16.54	18.05	65.30	20.53	20.12	21.42	21.44	83.50	29.48	27.82	27.06	28.54	112.91
Gross Profit	**15.46**	**4.03**	**4.28**	**4.46**	**6.65**	**19.43**	**6.27**	**5.48**	**6.18**	**9.36**	**27.30**	**9.52**	**8.98**	**8.74**	**12.46**	**39.69**
Gross Margin	**23.1%**	**20.2%**	**22.4%**	**21.2%**	**26.9%**	**22.9%**	**23.4%**	**21.4%**	**22.4%**	**30.4%**	**24.6%**	**24.4%**	**24.4%**	**24.4%**	**30.4%**	**26.0%**
Operating Expenses																
Marketing	6.09	1.17	1.26	1.60	3.02	7.05	1.61	1.79	2.21	3.70	9.30	1.95	2.21	2.51	3.69	10.35
SG&A	7.86	2.18	2.03	2.19	2.40	8.80	2.68	2.56	2.76	2.93	10.93	3.82	3.61	3.51	4.02	14.95
Other operating expenses	7.66	2.04	1.92	2.21	2.60	8.76	2.73	2.61	2.82	3.14	11.30	3.98	3.75	3.65	4.18	15.57
Total Operating Expenses	21.62	5.39	5.21	5.99	8.02	24.60	7.02	6.96	7.78	9.76	31.53	9.75	9.57	9.67	11.89	40.87
Operating Income	**(6.16)**	**(1.35)**	**(0.93)**	**(1.53)**	**(1.37)**	**(5.18)**	**(0.75)**	**(1.48)**	**(1.60)**	**(0.40)**	**(4.24)**	**(0.23)**	**(0.59)**	**(0.93)**	**0.57**	**(1.18)**
Operating Margin	**-9.2%**	**-6.8%**	**-4.9%**	**-7.3%**	**-5.5%**	**-6.1%**	**-2.8%**	**-5.8%**	**-5.8%**	**-1.3%**	**-3.8%**	**-0.6%**	**-1.6%**	**-2.6%**	**1.4%**	**-0.8%**
Interest expense and other	(2.17)	(0.93)	(1.05)	(1.19)	(1.12)	(4.28)	(1.12)	(1.12)	(1.12)	(1.12)	(4.48)	(0.56)	0.44	1.44	2.44	3.78
Pre-Tax Income	**($8.33)**	**($2.29)**	**($1.97)**	**($2.72)**	**($2.48)**	**($9.46)**	**($1.87)**	**($2.60)**	**($2.72)**	**($1.52)**	**($8.72)**	**($0.79)**	**($0.14)**	**$0.51**	**$3.02**	**$2.60**
Pre-Tax Margin	**-12.4%**	**-11.5%**	**-10.4%**	**-12.9%**	**-10.1%**	**-11.2%**	**-7.0%**	**-10.2%**	**-9.9%**	**-4.9%**	**-7.9%**	**-2.0%**	**-0.4%**	**1.4%**	**7.4%**	**1.7%**
Tax expense/(benefit)	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	0.00
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%	0.0%
Net Income (loss)	**($8.33)**	**($2.29)**	**($1.97)**	**($2.72)**	**($2.48)**	**($9.46)**	**($1.87)**	**($2.60)**	**($2.72)**	**($1.52)**	**($8.72)**	**($0.79)**	**($0.14)**	**$0.51**	**$3.02**	**$2.60**
Dividends	**$2.32**	**$0.60**	**$0.60**	**$0.61**	**$0.61**	**$2.43**	**$0.60**	**$0.60**	**$0.60**	**$0.60**	**$2.40**	**$0.60**	**$0.60**	**$0.60**	**$0.60**	**$2.40**
Net loss attributable to common	**($10.65)**	**($2.89)**	**($2.58)**	**($3.33)**	**($3.09)**	**($11.89)**	**($2.47)**	**($3.20)**	**($3.32)**	**($2.12)**	**($11.12)**	**($1.39)**	**($0.74)**	**($0.09)**	**$2.42**	**$0.20**
EPS, as reported	**(2.01)**	**(0.55)**	**(0.48)**	**(0.56)**	**(0.37)**	**(1.39)**	**(0.27)**	**(0.18)**	**(0.18)**	**(0.12)**	**(0.71)**	**(0.06)**	**(0.03)**	**(0.00)**	**0.11**	**0.01**
Diluted Shares Outstanding	5	5	5	6	8	9	9	18	18	18	16	22	22	22	22	22

Sources: Company reports and Ascendiant Capital Markets, LLC

Figure 9 - FlexShopper, Inc. - Balance Sheet

($ in millions except per share)

December ending year	FY2020E	FY2019E	FY2018	FY2017	FY2016
Balance sheet					
Current Assets					
Cash and S.T.I.	$10.77	$4.58	$6.14	$4.97	$4.08
Accounts receivable	9.00	7.00	6.38	4.26	0.00
Inventories	0.50	0.50	0.32	0.32	0.00
Other assets	60.00	45.00	32.36	21.42	0.14
Total Current Assets	**80.27**	**57.08**	**45.20**	**30.96**	**4.22**
Net PP&E	4.00	3.60	3.34	2.95	0.09
Other non-current assets	0.10	0.10	0.09	0.10	0.00
Total Assets	**$84.37**	**$60.78**	**$48.63**	**$34.01**	**$4.31**
Current Liabilities					
Current portion loan payable	$18.00	$16.00	$14.25	$14.09	$1.28
Accounts payable	14.00	12.00	10.05	8.89	0.07
Other current liabilities	2.00	2.00	1.81	0.00	0.00
Total current liabilities	**34.00**	**30.00**	**26.11**	**22.99**	**1.34**
Loan payable	18.00	16.00	14.02	4.70	0.00
Other non-current	0.00	0.00	0.00	0.00	0.00
Total Liabilities	**52.00**	**46.00**	**40.13**	**27.68**	**1.34**
Stockholders' Equity					
Preferred stock	23.15	23.15	23.15	23.15	0.00
Common stock	0.00	0.00	0.00	0.00	0.00
Additional paid-in-capital	64.07	49.07	34.07	22.45	97.66
Retained earnings	(54.85)	(57.45)	(48.73)	(39.27)	(94.67)
Cum. trans. adj. and treasury stock	0.00	0.00	0.00	0.00	(0.03)
Total stockholders' equity	32.37	14.78	8.49	6.32	2.97
Total Liabilities and equity	**$84.37**	**$60.78**	**$48.63**	**$34.01**	**$4.31**

Sources: Company reports and Ascendiant Capital Markets, LLC

Figure 10 - FlexShopper, Inc. - Cash Flow

Cash Flow	**2020E**	**2019E**	**2018**
Net Income	$2.60	($8.72)	($9.46)
Accounts receivable	(2.00)	(0.62)	(2.12)
Prepaid expenses	0.00	(0.18)	0.00
Lease merchandise, net	(15.00)	(12.64)	(10.95)
Net PP&E	(0.40)	(0.26)	(0.39)
Other non-current	0.00	(0.01)	0.01
Current portion loan payable	2.00	1.75	0.16
Accounts payable	2.00	1.68	0.62
Accrued	0.00	0.27	0.54
Other	0.00	0.19	1.81
Loan payable	2.00	1.98	9.32
Other non-current	0.00	0.00	0.00
Preferred stock	0.00	0.00	0.00
Common stock	0.00	0.00	0.00
Additional paid-in-capital	15.00	15.00	11.63
Other equity	0.00	0.00	0.00
Other			
Total Cash Flow	$6.20	($1.56)	$1.17

Source: Ascendiant Capital Markets, LLC

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FlexShopper, Inc.

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Risks & Considerations

Risks to attainment of our share price includes but are not limited to balance sheet/liquidity risks, failure to meet NASDAQ minimum closing bid requirements, failure to achieve profitability, competition, changes in the economic environment, investor sentiment and changes in government regulations. Some of these risks are detailed in the body of the report.

Ascendiant Capital Markets, LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Ascendiant Capital Markets, LLC Rating System

Prior to January 31, 2014, ASCM used the following rating system:

Strong Buy: We expect the stock to provide a total return of 30% or more within a 12-month period.

Buy: We expect the stock to provide a total return of between 10% and 30% within a 12-month period.

Neutral: We expect the stock to provide a total return of between minus 10% and plus 10% within a 12-month period.

Sell: We expect the stock to provide a total return of minus 10% or worse within a 12-month period.

Speculative Buy: This rating is reserved for companies we believe have tremendous potential, but whose stocks are illiquid or whose equity market capitalizations are very small, often in the definition of a nano cap (below $50 million in market cap). In general, for stocks ranked in this category, we expect the stock to provide a total return of 50% or more within a 12-month period. However, because of the illiquid nature of the stock's trading and/or the nano cap nature of the investment, we caution that these investments may not be suitable for all parties.

Total return is defined as price appreciation plus dividend yield.

Ascendiant Capital Markets, LLC Distribution of Investment Ratings (as of January 15, 2019)

			Investment Banking Services Past 12 months	
Rating	**Count**	**Percent**	**Count**	**Percent**
Buy	37	95%	5	14%
Hold	2	5%	1	50%
Sell	0	0%	0	0%
Total	39	100%	6	15%

Other Important Disclosures

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