Q3 2016 and Preliminary FY 2016 Update – FEBRUARY 15, 2017

Ackroo Inc. (TSX Venture: AKR.v, $0.195)

Ackroo Inc.	AKR - TSX-V
(Currency is in CAD unless noted otherwise)	
Last Price ($)	$0.195
December 31, 2018 - Target Price ($)	**$0.49**
Return to target	**151%**
52-week high / low ($)	$0.295 / $0.165
Average Daily Volume (90-Day)	61,090
Market Info	
Shares Outstanding (M)	27.2
Warrants (M)	2.9
Options (M)	2.7
Fully Diluted Shares Out (M)	32.8
Market Capitalization ($M)	$5.30
Enterprise Value ($M)	$6.38
Most Recent Quarter	**Q3 2016**
Revenue ($M)	0.56
Gross Margin (%)	68%
EBITDAS ($M)	($0.11)
Working Capital ($M)	$0.26
Total Debt ($M)	$1.08
Valuation	
EV/Revenue - FY 16	2,83

FYE: Dec 31	FY 2015	FY 2016E	FY 2017E	FY 2018E
Revenue ($M)	$1.82	$2.25	$3.10	$4.03
Gross Margin	66%	66%	75%	75%
EBITDAS ($M)	($0.76)	($0.45)	$0.08	$0.57

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-On October 31, 2016, Ackroo reported its Q3 2016 financial results which showed an 8% growth in revenue over last year's.

-Ackroo's working capital position was strengthened with the closing of a $1M private placement in November 2016.

-On January 16, 2016, Ackroo announced preliminary revenue of $2.254M and $586K in FY and Q4 2016 respectively.

-Ackroo is now fully integrated with i-Lube POS platform as part of a new channel initiative with Petro-Canada's lubricant division.

- We have updated our forecasts and increased our price target to 49 cents.

Ackroo finishes the year strong and positions itself for accelerated growth

On October 31, 2016, Ackroo reported its Q3 2016 financial results which showed an 8% growth in revenue over last year's. Net Operating Loss (EBITDAS), excluding foreign exchange gains and losses, was slightly higher at ($109K) than the first two quarters of 2016 because of professional and legal fees related to their acquisition of Loyalint/Fidelint which closed at the end of the quarter. The Quebec-based acquisition should be immediately accretive to EBITDAS, adding $180K in recurring revenue and $50k in one-time revenue annually.

Ackroo's working capital position was strengthened with the closing of a $1M private placement in November 2016. The company issued 5M shares at 0.20$ and 2.567M warrants exercisable at 0.30$ for a period of 24 months. As of September 30, 2016, adjusted working capital was positive $256K, including current portion of long-term debt. Following the private placement closing, Ackroo hired six new employees to strengthen its sales & marketing and product development teams.

On January 16, 2016, Ackroo announced preliminary revenue of $2.254M and $586K in FY and Q4 2016 respectively. The company missed on our annual revenue estimate of $2.4M by 6% which enacted some selling by impatient Ackroo shareholders, pushing the stock price under 20 cents. **While the numbers in the press release may seem disappointing at first glance, many operational updates make us truly excited for 2017.**

First and foremost, Ackroo completed the long-awaited and needed product enhancements to its Ackroo Anywhere platform to start migrating Dealer Rewards Canada (DRC) accounts. When we spoke to Steve Levely, CEO, in mid-January, he mentioned that 20% of DRC and Loyalint/Fidelint locations have already been transitioned to Ackroo Anywhere and he expects the process to be over by the end of Q1 2017. Expected savings on licensing fees could reach approximately $75K per quarter.

Secondly, Q4 2016 was a record quarter for new business written with 60K$ in one-time revenue signed and ready to deploy. This business was pushed back to 2017 because of the lack of resources before the private placement closing and the focus on the DRC and Loyalint/Fidelint migrations after. It is interesting to note Ackroo added a 20-location automotive dealer group in November, bringing their total automotive dealerships to more than 300 (almost 10% of all car dealers in Canada). The group should add approximately $100K in annual recurring revenue, without accounting for any potential one-time sales.

Finally, Ackroo experienced a record quarter in lead generation with more than 50% growth over Q4 2015. New referral partners like First Data Canada are sending more and more leads to Ackroo and the company now has the resources to close and deploy them. 2017 should be an exciting year!

Ackroo integrates with i-Lube POS platform

On February 10, 2016, Ackroo announced that its platform Ackroo Anywhere is now fully integrated with i-Lube POS platform. The company's solution, which allows for departmental and SKU-based loyalty, has gone live in 8 Minit Lube locations in Alberta and is now available for all quick-lube clients using i-Lube. Thousands of locations in North America and on 2 other continents use this platform, which make us believe it could be a lucrative vertical for Ackroo.

Here's an interesting excerpt from the press release: *"The first client utilizing the combined solution was also sponsored by a major Canadian petroleum provider that we look forward to working with alongside other quick-lube partners of theirs."*

From our research[1] and discussion from management, the major Canadian petroleum provider is Petro-Canada's lubricant division. It was recently sold for $1.13B to HollyFrontier Corporation, a US oil refiner. To help them get differentiation in the marketplace, Petro-Canada is pushing Ackroo's solution so quick-lube merchants can offer rewards on their oil and lube products. They pay for all upfront costs, including initial card order and/or mobile, and merchants must pay the monthly fee.

All partners in this new channel are incentivized to make the relationship work, so we are very excited to see what it could yield in terms of new accounts in 2017. We believe it could develop into a significant long-term growth driver for Ackroo. The added credibility of working with Petro-Canada could also bring new opportunities to the company in the automotive services vertical.

[1] Minut Lube's « House Oil » is Petro-Canada: http://www.minitlube.com/minitlube-partners.htm

2016 Operational Metrics

Important Business Metrics		
	2015	**2016**
Average MRR per location	$98	$92
Average OTR per new merchant	$1,050	$1,220
Average annual OTR per location (existing)	$269	$266
Customer product mix	54% GC | 46% GC/LTY	65% GC | 35% GC/LTY
Average monthly transactions	109	125
Opportunity source	49% Channel | 51% Direct	61% Channel | 39% Direct
Retention	90% +	95% +
Locations	1,200+AKR | 900 + PGC	1,500 + AKR | 900 + PGC
Approximate lifetime value (7 year min)	$11,165	$10,810
Acquisition cost	$1,000 - $1,500	$1,000 - $1,500

The table is from Ackroo's Investor Presentation and presents important 2016 business metrics. Average MRR per location varies depending on the mix of gift cards (GC) and loyalty (LTY) clients and across different verticals. **Considering the company finished the year with 1,500+ locations, the recurring revenue base is now over $400K per quarter and keeps growing.**

For Software-as-a-Service ("SaaS") businesses, an important variable to monitor is the customer retention rate. A 95% rate is telling a lot about the quality of Ackroo's solutions. Larger players in the space would be ready to pay a significant multiple to acquire such a stable business, with 65%+ gross margins and over 60% in recurring revenues.

Forecasts and Outlook

With current resources, the expectation for management is to add $10K each month to their quarterly recurring revenue run-rate. With only a few more hires (3 to get to 25 employees total), Steve Levely believes Ackroo could support $4M in total revenues. It would only need four to five new employees per additional tranche of $1M in sales thereafter. **The Ackroo Anywhere platform is easily scalable and there is significant operating leverage in the company's model to become highly profitable in just a few years.**

Ackroo's goal is to get to 10,000 locations by 2022 through a mix of organic and inorganic growth.

Management has learned a lot through their first attempts at a rollup strategy. DRC and D1 Mobile, while strategic acquisitions – the former to consolidate Ackroo's leader position for gift card, loyalty and rewards solutions in the automotive dealership market and the latter to acquire the know-how to develop their own mobile app –, has reminded us of one important rule to follow for successful acquisitions: Only buy companies with an inferior product that you can integrate rapidly.

The corollary is that the company must finish the product development work needed to get ahead of competition, but here's the good news: Ackroo's technology is only a few years old – Ackroo Anywhere launched in February 2014 – while some of their competitors are still using platforms developed in the early 2000s. By 2017 year's end, management expects to have completed work on the following:

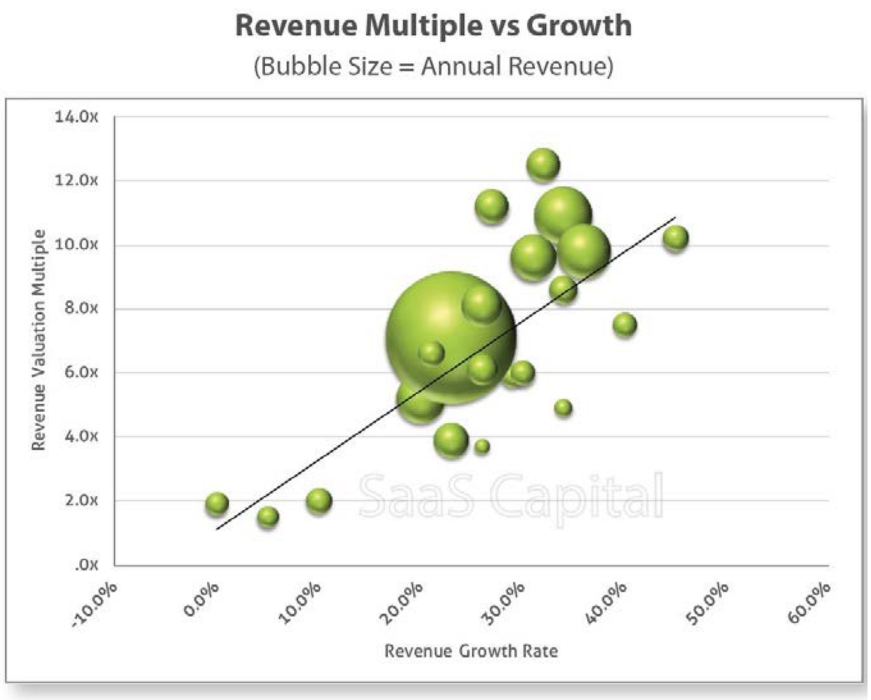
- A more comprehensive and complete white-label mobile app offering;
- An enhanced e-commerce offering integrating PhotoGIFTCARD personalization capabilities as well as the OnTab payment gateway to allow merchants to utilize other online payment processors than Ackroo's current partner PayPal;
- New integrations with channel and product partners;
- Additional marketing and data analytics functionalities.

Ackroo's strategy is to become a focused leader in key verticals like automotive dealerships, automotive services (parts, quick lube, gas/fuel) and quick serve restaurants. They try to cater to all retail and hospitality, but will allocate resources strategically in verticals where they can get good traction like those listed above.

At Espace MicroCaps, we like to invest in high-quality vertical software companies with SaaS models and lots of optionality through organic and inorganic growth opportunities. Our goal is to buy them at a steep discount to market's average multiple for comparable companies, with the margin of safety provided by positive operating cash flows.

Ackroo should get there in H1 2017, although there are many moving parts with new employee hires, migration delays, deployments of new accounts, etc. The downside would be to dilute shareholders again through an equity financing, but we are confident it won't happen. Large shareholders of the company are working behind the scenes to help Ackroo get access to debt financing at reasonable terms to fuel its growth strategy.

Based on a [SaaS Capital white paper] on valuation multiples of private and publicly-traded SaaS companies, we believe Ackroo should be priced at least at 4x EV/Revenue.



Source: Bessemer Venture Partners, August 15, 2016

We have updated our forecasts accordingly and increased our price target to 49 cents.

AKR - EV/Revenue Valuation Model	FY 15	FY 16E	FY 17E	FY 18E
Revenue	1 822 224	2 254 416	3 100 000	4 030 000
(-) COGS	611 898	771 012	775 000	1 007 500
Gross Profit	1 210 326	1 483 404	2 325 000	3 022 500
(-) OPEX	2 066 868	1 937 268	2 250 000	2 450 000
Normalized EBITDAS	**(856 542)**	**(453 864)**	**75 000**	**572 500**
Key Metrics				
Revenue Growth y/y	37%	24%	38%	30%
Gross Margin	66%	66%	75%	75%
EBITDAS Margin	-47%	-20%	2%	14%
Shares Outstanding	**27 201 836**			
10% Option Pool + Warrants	5 587 384			
FD Shares Out	**32 789 220**			
Price Target December 31, 2018	**0,49 $**			
(Valuation @ 4x EV/Revenue)				

Financial snapshots

AKR - Quarterly Financials	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Revenue	560 564	559 223	548 300	601 758	519 766	315 562	385 138
(-) COGS	179 553	196 721	189 523	199 815	183 914	91 028	137 141
Gross Profit	381 011	362 502	358 777	401 943	335 852	224 534	247 997
(-) OPEX	490 393	449 812	447 063	618 250	479 770	513 708	455 140
Normalized EBITDAS	**(109 382)**	**(87 310)**	**(88 286)**	**(216 307)**	**(143 918)**	**(289 174)**	**(207 143)**
(-) Grants and tax credits*	-	-	-	-	(90 223)	-	-
EBITDAS**	(109 382)	(87 310)	(88 286)	(216 307)	(53 695)	(289 174)	(207 143)
Key Metrics							
Revenue Growth y/y	8%	77%	42%	72%	61%	10%	4%
Gross Margin	68%	65%	65%	67%	65%	71%	64%
Improvement in N(EBITDAS) loss	24%	70%	57%	49%	46%	41%	64%
Working Capital	**256 256**	**(507 582)**	**(1 180 833)**	**(1 130 290)**	**(807 723)**	**(846 879)**	**368 620**

AKR - Annual Financials	FY 15	FY 14	FY 13	FY 12
Revenue	1 822 224	1 328 166	1 284 016	681 142
(-) COGS	611 898	360 888	426 451	166 825
Gross Profit	1 210 326	967 278	857 565	514 317
(-) OPEX	2 066 868	2 716 753	3 430 474	4 123 264
Normalized EBITDAS	**(856 542)**	**(1 749 475)**	**(2 572 909)**	**(3 608 947)**
(-) Grants and tax credits	-	(135 428)	(77 480)	(183 701)
EBITDAS**	(856 542)	(1 614 047)	(2 495 429)	(3 425 246)
Key Metrics				
Revenue Growth y/y	37%	3%	89%	
Gross Margin	66%	73%	67%	76%
Improvement in EBITDAS loss	51%	32%	29%	
Working Capital	**(1 130 290)**	**(510 687)**	**176 218**	**3 234 124**

* Grants and tax credits exclude a $100K provision for potential reversal of previous years SRED in FY 15

** EBITDAS excluding foreign exchange gains & losses

Disclosure

Philippe Bergeron-Bélanger, Mathieu Martin and MicroCaps Research Canada Inc., which operates Espace MicroCaps, own collectively 375,000 shares of Ackroo. MicroCaps Research Canada Inc. is providing Ackroo with communication-marketing services for a period of 6 months beginning January 2017 for a fee of $2,000 a month.

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