

Society Pass, Inc. NASDAQ - SOPA

Second Quarter Update Report – August 23, 2024

Digital Marketing Unit Files for IPO – Price Range Implies Major Upside for SOPA

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- This week, Society Pass filed its second quarter 10Q but the main event was the S-1 filing for the long-awaited IPO of its wholly-owned digital marketing company, Thoughtful Media Group, under the proposed ticker TMGX.
- Based on the midpoint of the filing range in the S-1, TMGX would have a market capitalization of \$77.6 million, and SOPA's 92.8% pro forma ownership would be worth \$72.0 million or \$22.86 per SOPA share. SOPA shares trade at just 93 cents, so in an efficient markets world, something has to give.
- We published an initiation report on Thoughtful Media today, repeating the \$87.5 million valuation estimate we first published in our SOPA initiation in December 2023. This is based on a multiple of 5x our 2025 revenue estimate of \$17.5 million, which is also unchanged.
- As we write in the TMGX report, we conducted extensive due diligence on the company, both when we initiated on SOPA last year, and this year, and believe that the company is on track to meet our estimates. SOPA has invested in acquisitions and major personnel upgrades at TMGX under its ownership.
- SOPA 2Q results were again a mixed bag. As noted, and detailed in today's companion report, TMGX seems solidly on track. We note that SOPA's digital marketing segment results and TMGX's standalone financials differ slightly due to accounting eliminations.
- NusaTrip, SOPA's online travel agency, and its other major subsidiary reported another down quarter as its much-needed software upgrade has been delayed as the company moved to a new software development vendor. The new software is now expected to start being implemented in November, although management does plan to ramp up marketing in an attempt to revive sales in the near term using the existing software platform.
- Lastly, we note that SOPA's financial situation looks greatly improved. TMG completed a \$5 million convertible bond placement in July, reducing its need for funding from SOPA. SOPA has dramatically cut its own G&A expenditures cutting its EBITDA loss from \$3.0 million a year ago, to \$1.7 million in 2Q. TMG disclosed \$1.7 million in inter-company loans, which would be paid off using the IPO proceeds. Two million of SOPA's 16 million TMGX shares are being registered, with no lockup, so it can also monetize those. So, SOPA's financial situation looks greatly improved.

Rating	Buy	Earnings Per Share				
Ticker Symbol	SOPA	FYE - December	2022	2023	2024E	2025E
Market	NASDAQ	1Q - March	(\$4.49)	(\$2.93)	(\$1.21) A	(\$0.30)
Stock Price	\$0.93	2Q - June	(\$4.62)	(\$1.77)	(\$0.73) A	(\$0.19)
52 wk High	\$7.48	3Q - September	(\$5.90)	(\$2.03)	(\$0.59)	\$0.05
52 wk Low	\$0.89	4Q - December	(\$5.39)	(\$2.64)	(\$0.38)	\$0.23
		Year	(\$20.75)	(\$9.39)	(\$2.76)	(\$0.20)
Shares Outstanding:	3.2 M	Revenue (\$mm)	\$5.6	\$8.2	\$10.3	\$23.4
Public Market Float:	1.6 M	EV/Rev	0.5X	0.4X	0.3X	0.1X
Avg. Daily Volume	160,961	EBITDA (\$mm)	\$0.0	(\$12.7)	(\$6.7)	\$0.4
Market Capitalization:	\$2.9 M					
Institutional Holdings:	1.6%					

Risks/Valuation

- Business segments compete with larger, better-capitalized competitors.
- Cash is declining, but the new CEO is now focusing on profitability.
- We value SOPA shares using an Enterprise value to revenue to growth (ERG) methodology, with a blend of comps reflecting its mix of businesses.

Company description: Society Pass is a high-growth acquisitive internet services company offering advertising, travel, retail, and telecom services in the fast-growing Southeast Asia region. It ties its offerings together under its Society Points loyalty program. Our model shows it approaching positive EBITDA as it shifts from its early growth strategy to a focus on profitability under its new CEO.



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Thoughtful Media IPO Price Range Suggests Major Upside for SOPA Shares

As noted, TMG has now filed the S-1 for its initial public offering. The midpoint of the filing range is \$4.50 and SOPA owns 16 million shares representing a pro forma value of \$72 million. Dividing this by the 3.15 million SOPA shares outstanding (as of August 16 per the cover of the 10Q), Society Pass's ownership in TMGX would be worth \$22.86 per share. SOPA is trading at just \$0.93 per share as we write this. Markets are oftentimes inefficient, but not generally this inefficient. So, if the IPO is successfully completed at anywhere near the terms in the filing, we see a significant increase in SOPA shares. We have today published our initiation report on TMGX, repeating our opinion that it is worth roughly \$87.5 million. Additionally, due diligence we have conducted on TMG, including recent Zoom calls with representatives of each of the four countries it operates in, suggests that the business is on track.

The other notable news was the filing of SOPA's second quarter 10-Q. As our TMGX report covers that subsidiary's results in more detail, the other major business unit to focus on is NusaTrip, the company's online travel business. It reported a significant drop in revenue, mainly due to delays in introducing an updated software stack. Year-over-year comparisons are somewhat skewed as the company began reporting travel revenue on a net basis this year, but gross profit was still down significantly. The company is making progress on the software front as it has updated the Java version it is using. The vendor it hired to perform software work last year did not produce a satisfactory product, so the company has turned to a new vendor. The new timeline calls for this software to be implemented starting in November, in time for the year-end travel rush, with updates continuing into 2025. We also understand that NusaTrip management plans to ramp up its marketing efforts, instead of waiting for the new software, so 3Q revenue should accelerate from the low 2Q level. NusaTrip's planned IPO is still on track, but we would not expect this to occur until the new software is in place and results start to improve.

Financial Situation Looks Greatly Improved

Previously, SOPA was running out of cash and was still EBITDA negative, causing its auditors to issue a going concern warning. In the last quarter, things have greatly improved, in our opinion. First, the company has undertaken a small share sale program that is bringing in capital without too much dilution. Second, in July it completed a \$5 million convertible bond sale at TMG, reducing the need to fund that business. Third, SOPA has dramatically cut its G&A costs narrowing its EBITDA loss to just \$1.7 million in the quarter, versus \$3.0 million a year ago.

If the TMGX IPO goes off, it has \$1.7 million in inter-company loans due to SOPA, that will likely be repaid. SOPA is also registering 2 million of the 16 million TNGX shares it owns, but we don't expect it to need to sell these shares immediately.



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Society Pass, Inc. – Income Forecast

Dollars in thousands, except per share data
Fiscal years ended Dec. 31

	2023					2024E					2025E				
	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
Revenue	2,042,580	2,187,232	2,269,066	1,672,757	8,171,635	1,847,079	1,710,510	2,925,000	3,825,000	10,307,589	4,025,000	4,725,000	6,625,000	8,025,000	23,400,000
YoY growth	358.9%	338.3%	10.7%	-36.7%	45.0%	-9.6%	-21.8%	28.9%	128.7%	26.1%	117.9%	176.2%	126.5%	109.8%	127.0%
Seq growth	-22.7%	7.1%	3.7%	-26.3%		10.4%	-7.4%	71.0%	30.8%		5.2%	17.4%	40.2%	21.1%	
Cost of Revenue	1,356,343	1,610,073	1,706,502	1,028,727	5,701,645	1,354,430	1,246,205	1,978,000	2,308,000	6,866,854	2,248,000	2,548,000	3,528,000	4,228,000	12,552,000
Gross Margin	686,237	577,159	562,564	644,030	2,469,990	492,649	464,305	947,000	1,517,000	3,440,735	1,777,000	2,177,000	3,097,000	3,797,000	10,848,000
As a percent of revenue	33.6%	26.4%	24.8%	38.5%	30.2%	26.7%	27.1%	32.4%	39.7%	33.4%	44.1%	46.1%	46.7%	47.3%	46.4%
Operating Expenses															
Sales and marketing	130,664	98,714	236,874	111,679	577,931	127,135	143,698	204,750	267,750	743,333	281,750	330,750	463,750	561,750	1,638,000
As a percent of revenue	6.4%	4.5%	10.4%	6.7%	7.1%	6.9%	8.4%	7.0%	7.0%	7.2%	7.0%	7.0%	7.0%	7.0%	7.0%
Software development	13,919	15,209	12,649	13,868	55,645	13,504	13,833	10,000	10,000	47,337	10,000	10,000	10,000	10,000	40,000
As a percent of revenue	0.7%	0.7%	0.6%	0.8%	0.7%	0.7%	0.8%	0.3%	0.3%	0.5%	0.2%	0.2%	0.2%	0.1%	0.2%
General and administrative	5,991,886	3,879,049	4,455,546	5,470,351	19,796,832	3,243,671	2,461,968	2,500,000	2,500,000	10,705,639	2,500,000	2,500,000	2,500,000	2,500,000	10,000,000
As a percent of revenue	293.3%	177.3%	196.4%	327.0%	242.3%	175.6%	143.9%	85.5%	65.4%	103.9%	62.1%	52.9%	37.7%	31.2%	42.7%
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	(5,450,232)	(3,415,813)	(4,142,505)	(4,951,868)	(17,960,418)	(2,891,661)	(2,155,194)	(1,767,750)	(1,260,750)	(8,055,574)	(1,014,750)	(663,750)	123,250	725,250	(830,000)
Other Income															
Interest income	39,986	59,208	34,613	26,895	160,702	(5,086)	(1,043)	-	-	(6,129)	-	-	-	-	-
Interest expense	(352)	(300)	(278)	695	(235)	173	285	-	-	458	-	-	-	-	-
JV Incomr	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	20,999	48,729	190,870	(534,250)	(273,652)	58,460	216,082	-	-	274,542	-	-	-	-	-
Pretax Income	(5,389,599)	(3,308,176)	(3,917,300)	(5,458,528)	(18,073,603)	(2,838,114)	(1,939,870)	(1,767,750)	(1,260,750)	(7,786,703)	(1,014,750)	(663,750)	123,250	725,250	(830,000)
Taxes	614	1,054	746	22,901	25,315	1,110	3,884	-	-	4,994	-	-	-	-	-
FX adjustment															
Non-controlling interest	(95,286)	6,028	(56,117)	180,585	35,210	701	(5,411)	(5,411)	(5,411)	(15,532)	(40,000)	(40,000)	(40,000)	(40,000)	(160,000)
Net Income	(5,294,927)	(3,315,258)	(3,861,929)	(5,662,014)	(18,134,128)	(2,839,925)	(1,938,343)	(1,762,339)	(1,255,339)	(7,776,165)	(974,750)	(623,750)	163,250	765,250	(670,000)
Diluted shares outstanding	1,805,530	1,878,102	1,898,924	2,143,343	1,931,474	2,341,300	2,656,697	2,972,094	3,287,491	2,814,396	3,288,491	3,289,491	3,290,491	3,291,491	3,289,991
Seq change	60,451	72,572	20,822	244,419		197,957	315,397	315,397	315,397		1,000	1,000	1,000	1,000	
EPS	(\$2.93)	(\$1.77)	(\$2.03)	(\$2.64)	(\$9.39)	(\$1.21)	(\$0.73)	(\$0.59)	(\$0.38)	(\$2.76)	(\$0.30)	(\$0.19)	\$0.05	\$0.23	(\$0.20)
Adjusted EBITDA															
Operating income	(5,450,232)	(3,415,813)	(4,142,505)	(4,951,868)	(17,960,418)	(2,891,661)	(2,155,194)	(1,767,750)	(1,260,750)	(8,055,574)	(1,014,750)	(663,750)	123,250	725,250	(830,000)
Addback: depreciation an amortization	863,917	71,614	167,669	168,273	1,271,473	165,115	162,296	170,000	170,000	667,411	170,000	170,000	170,000	170,000	680,000
Addback: stock based compensation	1,886,793	380,457	1,143,957	558,185	3,969,392	131,858	326,842	135,000	135,000	728,700	135,000	135,000	135,000	135,000	540,000
EBITDA	(2,699,522)	(2,963,742)	(2,830,879)	(4,225,410)	(12,719,553)	(2,594,688)	(1,666,056)	(1,462,750)	(955,750)	(6,659,463)	(709,750)	(358,750)	428,250	1,030,250	390,000

Source: Company reports and Litchfield Hills Research LLC



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