



RESEARCH

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WRIT Media (WRIT) – \$0.15]

Rating: Strong Buy

18-Months Price Target: \$1.65/Share

Summary: WRIT Media is a leading technology company in the digital currency business in more than one way. First, one has to understand digital currency as an asset class and how it has grown, continues to grow, and is being used, in order to understand the large scale of the opportunity in the space itself. Digital currency is used by people to transact business – buy and sell items – and also as a potential store of value, like holding gold, silver, or a dollar bill. The dollar bill may go up and down on the world market in terms of value, and it can be used at any time to buy and sell goods. Digital currency works the same way.

Global growth for both store of value players and in transactions is substantial. As a store of value play, digital currency is used as investment alternative, like gold. Simply stated- there is \$7 trillion in gold today. If just 1% of that moves to digital currency, that's \$7 billion, and that's a lot of money. As the popularity of digital currency increases, this movement from gold and other forms of currency will naturally occur.

Use for transactions domestically or internationally is robust. It's still a small market, however, when the entirety of the financial transactions markets are taken into account, but the growth could be explosive for a few reasons. First, it costs the user less in terms of fee's and exchange rates to use digital currency to buy something overseas than pulling that dollar bill out of your pocket - or certainly your credit card - which will charge you an exchange fee (potentially) and a transaction fee (certainly). One pundit, Roger Hamilton, who writes often on digital currencies, states that 2017 will be the year of mass adoption, and the author of this report agrees, due to the fact that it is getting easier and easier for the average person to use them. For example, consumers can now buy products on Amazon.com using Bitcoin. Another company in the space known as Stripe (an online payments processor that helps online retailers accept all forms of payments, including digital currencies) just raised \$150 million at a \$9 billion valuation November 25, 2016...and it's still considered a startup. The space is active for companies that have good technology and a critical mass of users. If one wants to transact business using digital currency, it can be much less onerous in terms of exchange rate and transaction fees than a credit card or paper currency. On a recent business trip, I saw that there were a growing number of places that would accept digital currency. The most dramatic increases in acceptance of digital currency, according to CNBC, has been Brazil, Philippines, Indonesia, France, Bangladesh, UK, New Zealand, India and Canada. There have been over 100 million actual transactions in digital currency since it began. If I want to buy a product online from a manufacturer in Greece, he may offer me a payment choice of Western Union, wire transfer or digital currency like bitcoin or Pelecoin. Since there are massive issues with wire transfers, this has become a method that is just not being used as in the past. Secondly, many do not trust their respective governments that they live under, and don't want them necessarily knowing everything they are doing. After all, some degree of privacy is still desirable to most people. Many do not want to use a traditional credit card as they may not want that information floating around credit card thieves. Digital currency provides lower costs, more privacy than a wire transfer or credit card transaction, and potentially more personal security in most cases. Western Union and the like charge fee's that are so high that people don't use them unless as a last resort. For example, a \$15 charge on a \$75 transfer is not unusual. That's 20%! And this impacts some

of the people that can least afford high fees, which might be immigrants that simply want to send money back to their families in another country.

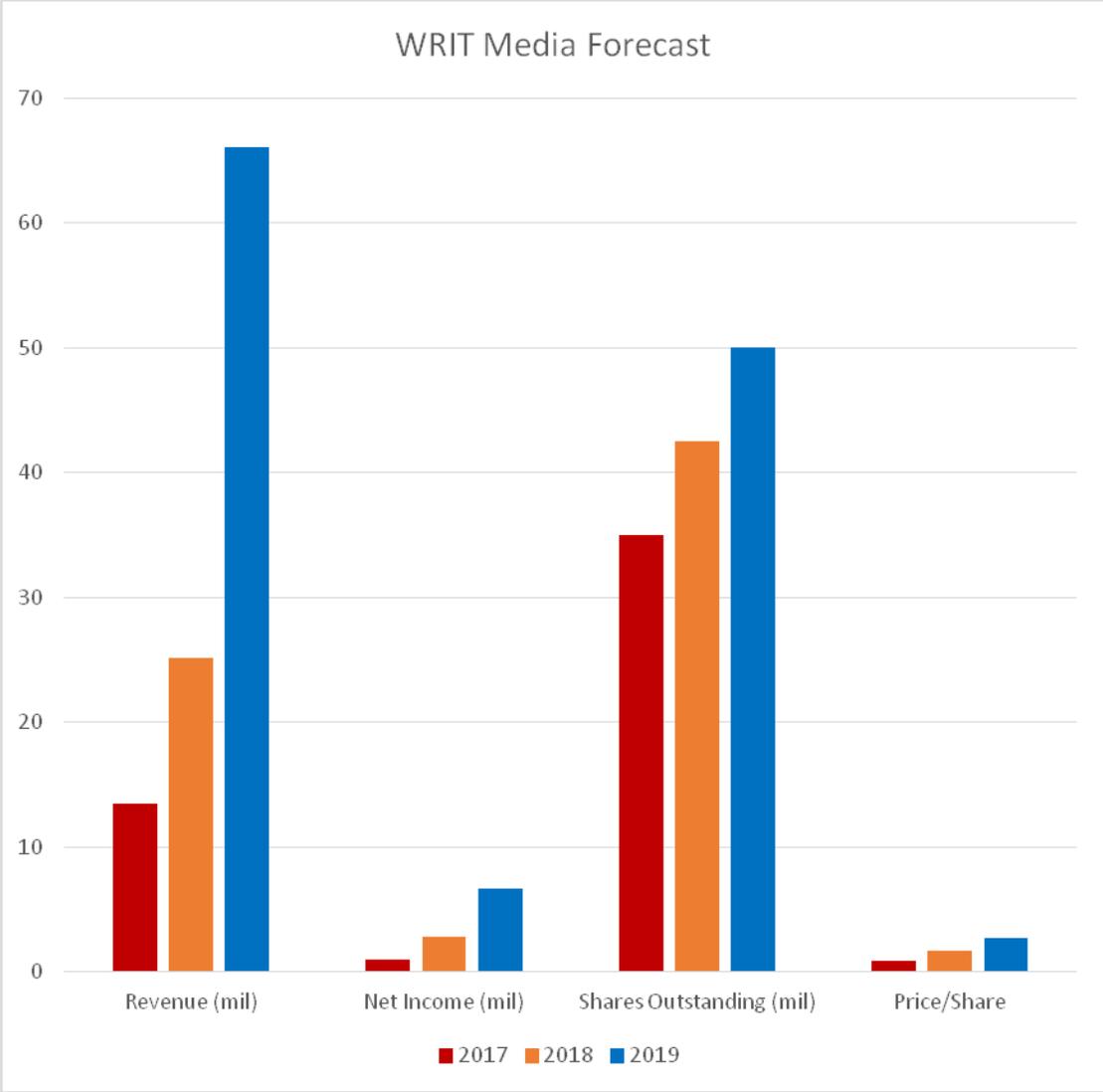
As an example, I want to buy a piece of modern pottery, and my international pottery maker friend just wants to sell it to me, and we want the ability to do that with as little hassle and transaction costs as possible. I open my digital wallet and deliver the digital currency to him. He sends me my item. There is no trust issue. The technology behind the currency (called "blockchain" technology) validates it as good in a permanent digital ledger, the currency shows up in his wallet and is taken out of mine, and the fee is fractional - much lower than almost any other method we can find. Lower fees, fast and trusted transactions. It's an efficient transaction for the consumer and the seller. Not so much for the governments that want to regulate it or the companies that want to make money from the consumer through high transaction fees. Wherever you see a disruptive technology with incumbent players that make money "the old way" you will see a measurable amount of resistance. We initially saw this when digital currency hit the market, but I suspect that we are through the majority off that now. What is clearly undeniable is that people are ever increasingly adopting digital currency with validated underlying blockchain technology as a means of exchange and investment, regardless of what private or public institutions may have to say about it. Attempts to regulate or put a "stop" to the use of digital currency will be nothing more than sandbags against a rising flood of demand for it. It's better, cheaper, faster, more efficient, transparent, and secure for the consumer.

Very prominent investors throughout the world have invested in the space. These include Marc Andreessen, the co-founder of Andreessen Horowitz with over \$4 billion in AUM, Barry Silbert, who owns Digital Currency Group, Genesis, and Grayscale, all companies focused on digital currency trading and investing, and Blythe Masters, a former MD at JP Morgan Chase and currently head of Digital Asset Holdings which builds encryption-based processing tools that improve the efficiency, security, compliance and settlement speed of securities trading, particularly in digital currencies.

WRIT Media has three potential revenue generating assets which stem from its creation and acquisition of key IP over the past year. Think of them as three business "silos". First is the creation of the digital currency, Pelecoin, a Bitcoin-like digital currency with very attractive user friendly features, which it acquired when it bought Pandora Venture Capital in June of 2016. The second is WRIT's proprietary blockchain technology which can be used for video game loyalty rewards, crowd funding, currency trading, smart contracts, and secure content distribution. Finally, the third silo is its CryptFXPro exchange in which trading and market making of the digital

currency will occur along with other exchanges as the distribution and use of Pelecoin becomes more popular.

CHART I - FINANCIAL AND VALUATION FORECAST



VALUATION DISCUSSION

The Company will likely be valued more on the basis of the number and growth of wallets (users) in the short term, which makes a fundamental valuation interesting. What we know is that there is a method of arriving at a customer lifetime value ("CLV") for a credit card user. Assuming a CLV of \$50 per wallet, then a market cap of \$150-\$175 million (\$5-6/share) is achievable with 3 million wallets in use, assuming no dilution. An argument can be made for a higher CLV, but with new entrants into the market and valuations varying so widely from one to another, the conservative route to a valuation may be to look at the digital wallet in the same way as a credit card customer CLV. Further, it can be argued that each wallet has a stored value of Pelecoin in it, and that this stored value should be added to the market cap of the Company. This method is actually valid in that other currencies do seem to trade or be valued using this method. Ethereum has 3.3 million wallets and had a valuation of just over \$1 billion – a market cap per wallet of \$317, much higher than the \$50 CLV value we have discussed above for WRIT. Ripple has 170,000 wallets and a valuation of \$212 million, or \$1250 per wallet. (See Chart II) We don't necessarily buy into this method for valuation in the long term, however, our target is only inside an 18 month time frame, so this could be seen as a valid approach. Long term, we see the stored value as belonging to the wallet owner, so we discount this valuation method for the long term although we understand its validity at this stage of the growth in the segment as a way to value companies comparably. If we use this more aggressive measure of valuation to arrive at an implied valuation for WRIT after it achieves 3 million wallets, one could see a valuation of around \$1.2 billion, or around \$24-25/share – in which we assume some dilution through additional fund raising, although that is not the stated plan of the Company, from 39.67 million shares to 50 million shares outstanding.

CHART II – Comparable Valuation to Other Digital Currencies

CURRENCY	BITCOIN	ETHEREUM	STEEM	RIPPLE
MARKET CAP (Bil)	\$ 10,353,990,825	\$ 1,045,801,553	\$ 273,641,352	\$ 212,575,278
NUMBER OF WALLETS	12768000	3300000	11000000	170000
MARKET CAP PER WALLET	\$ 811	\$ 317	\$ 25	\$ 1,250
MEAN MARKET CAP/WALLET	\$ 405			
IMPLIED COMPARABLE VALUATION - PELECOIN	\$ 1,216,399,298			
PRICE/SHARE (50MM SHARES OUTSTANDING)	\$ 24.33			

Pelecoin: Billions in transactions are completed annually using digital currency. Ten years ago there were virtually none. In August 1996 Tatseo Tanaka wrote a report for FIRST MIND in which he predicted that digital cash will become popular because of its efficiency, its low cost to the consumer, and its ability to be agnostic to political or geographic borders. Finally, he said that instead of having to be an authorized person, such as a merchant using a Visa account, digital cash allows for person to person transactions. How brilliant. Twenty years later we now see adoption reaching critical mass.

The key to a successful digital currency is wide use and mass acceptance. To get that, it needs to be trusted. To obtain consumers trust in a digital currency, simplicity cannot be overrated. It's a must. The more complex the digital currency in terms of how it is created and how its value changes, the more likely people will shy away. Pelecoin was created with this in mind, using a proprietary algorithm and simple, easy to understand rules surround the creation and value of the currency. Competitive currencies have found tens of millions of users with more confusing and complex technology and rules.

Without any marketing spend, the Company has approximately 500,000 users of the currency already, up from 0 in late 2015, which is a testament to its potential explosive popularity derived in large part to its simplicity and transparency which in turn drives trust and use. This is actually a meaningful differentiator for Pelecoin and not an insignificant point. This is meaningful in that the Company can generate \$10.5 million in gross revenues with just 3 million "wallets" using the currency. This revenue is derived from a) fee's for usage, like a visa card charge fee, b) for the issuance of a small percentage of purchased coins to the Company itself as a way to provide liquidity and enhance its balance sheet, and c) for trading, or making a market in the coins after they've been issued, through its trading platform, CrypFXPro exchange. It is estimated that having 3 million users can occur in as little as 2-3 years and ramp to a run rate of over \$10 million in revenue in that time frame.

Block Chain Technology: First, we had "The Internet of Information". Now with blockchain technology, we are seeing the emergence of "The Internet of Value". WRIT owns its own proprietary blockchain technology. Blockchain technology started with Bitcoin as a way to validate that the Bitcoin is legitimate, a way to have a digital ledger of transactions for the digital currency in order to validate its authenticity and cause people to trust it and use it. The differentiator with blockchain is that the "ledger" isn't held a one central location, it is "distributed" and rides along with the currency. It's like a data-base with built in validation. It also ensures that nobody can tamper with the records. Old transactions are preserved forever and new transactions are added to the ledger irreversibly. Anyone with an interest

can check the ledger and see the same transaction history as everyone else. The technology is a “suped-up” audit trail that allows users to validate the currency and therefore results in the needed trust to be widely used.

The reason so many technology experts are excited about blockchain technology is because of how broadly it can be utilized. This technology has uses far beyond financial services. Since it solves the issue of trust and ensuring non-malleable permanence of data, it could be invaluable for managing the provenance of many types of assets, date-stamping events, stock certificates, oil, property, art, geo-stamping those events in a specific location, establishing identity, and so on. Blockchain technology may become the norm for all data records. In the future, technology people will be looking at an application and asking the question, “Does it have a distributed ledger?” In fact, Bitcoin as a financial vehicle is often viewed by technologists as a distraction to the real value of the cryptocurrency, which experts say is the true breakthrough that Bitcoin brought to the world...the blockchain technology. The blockchain doesn’t care what asset or unit of value it is tracking or putting on the ledger. This technology is likely to drive the internet of value, providing the core of a paradigm shift that drives efficiency, transparency and validation to all sorts of value transactions across multiple asset classes. As Forbes Magazine stated, “...blockchain technology is a distributed ledger of transactions that can record everything of value and importance to humankind.”

WRIT intends to enter into discussions with potential users of its proprietary blockchain technology for various types of uses, but it is currently being tested for validation to be used in financial transactions by one of the largest financial transaction companies in the world. Once this event occurs WRIT and Pelecoin will have reached a new level of success most likely rapidly increasing the number of Pelecoin users and wallets. We expect to see this validation occur in the first half of 2017. This “validation event” alone could cause the stock to move to our initial \$1.50 target.

Exchange: WRIT has its own trading platform in Beta testing now. This exchange, when activated, will ensure that transactions in the currency will have a market and a prime market maker. As the primary market maker for the currency this will serve to establish necessary liquidity and create revenue for WRIT. It is in the interest of WRIT to have multiple exchanges making a market for Pelecoin over time, as the more it is used, the wider it is accepted as a digital currency, the more WRIT will make from handling buyers and sellers of Pelecoin. Companies like Stripe are now making it easier for e-Commerce sellers of just about everything to take payment in digital currency.

Management: The Company is run by Chairman/CEO Eric A. Mitchell, a graduate of Carnegie Mellon University and MIT's Sloan School of Management, and owns a controlling interest in the Company.

Capitalization: Financially the Company has approximately \$450,000 in debt, not including advances and accrued salary owed to management. To date the Company has raised and spent around \$4.775 million in the acquisition key intellectual property and development of the business lines that will create revenue when commercialized, which should begin to occur within the 18 month time frame for our price target of \$1.65 per share.

Recommendation: STRONG BUY.

TARGET: \$1.65/share. With 39.67 million shares outstanding and approximately 6.8 million in the float, the Company has a market cap of around \$4.7 million. With such a low valuation entry point and good float, an investor can reasonably establish a strong long position in WRIT over the next 90-180 days. We expect that the Company will be making announcements during this time frame that would be supportive to the stock. Our target is dependent upon our belief that management can execute upon its plan and that a major global financial services company essentially validates its technology and then potentially enters into partnership discussions and contracts with the Company. Pelecoin will continue to execute on its user growth plan regardless, we believe, and eventually hit the critical mass of 3-5 million users, but this partnership could deliver millions of users to Pelecoin digital currency much faster, making Pelecoin a larger player in the space ahead of schedule. Further, but not essential to our price target, we would expect to see announcements that reflect the licensing of the company's blockchain technology which is a line of business that is an independent revenue generator and does not require the success of Pelecoin in order to create a stream of income for the Company. Finally, we would expect the Company to announce the launch of its CrypFXPro exchange which has entered beta testing as a key component of our price target assumptions. All three of these events would represent a breakthrough into scalable revenue for the Company. As a result, we see a market cap expectation of \$50 million (\$1.65/share non-diluted) as reasonable, if not conservative. The stock has traded to \$1.50/share in the past year and has built a 6 month base at the current level. Any good news in this kind of pattern can result in a move towards its previous highs.

The stock itself is essentially "sold out" at this level. This low valuation/entry point, the overall growth of the digital currency marketplace, a decent amount of invested capital and created value in its proprietary IP and infrastructure, a small amount of debt all give me comfort in WRIT's current entry point. As for the future, the growth in digital currency is like a

prevailing wind. It just keeps growing, and WRIT being in that jet stream early is what can allow investors to see outsized returns. First, from the validation of the blockchain technology as an event, and secondly from the increase in the number of wallets and transactions to a critical mass of 3-5 million wallets as a milestone. This is where we can see the stock move to an initial \$1.50 target. We believe that once the stock clears \$1.50 there we see nothing technically that would prevent the stock from moving up from there.

There are two basic characteristics that great speculative investments have, (i) reward potential that is vastly larger than downside risk and (ii) the probability of a favorable outcome is reasonably high and, hopefully, well-defined. With WRIT, the upside potential to downside risk may be as much as 15 to 1 in the next 18 months and it appears that the probability of success becomes greater simply by the increase in the number of users which is already occurring without much marketing spend. This “drafting” of the increases in other digital currencies is a nice positive that could put “wind in the sails” of the stock. With a triggering event in the near term, WRIT could move to \$1.65 quickly. If WRIT progresses as expected from that point, it might only take until the second half of 2018 before the stock achieves meaningful value recognition. That specific timeframe was chosen to conservatively allow the company some leeway in achieving more users, validation of its blockchain technology with a major partner, and launching the exchange. ***If the Company has a validation event for its blockchain technology, hits 5 million users, shows visibility to a \$10 million in revenue run rate, and is successful at signing up a major financial trading partner, this stock could be \$10/share.*** Mind you, it might not be worth \$10 on a discounted cash flow basis or other typical fundamental valuation basis, but this is disruptive technology that is going mainstream now, and combining the above with the excitement around the space and a cap table free of overhang, it can happen. Another way to look at it - if these critical execution elements were to occur, we would far more expect the market to value the company at \$390 million (\$10/share) than at its current \$4.76mm.

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