

FTE Networks, Inc.

(OTCQX: FTNW, Target Price: \$1.20)

We initiate coverage on FTE Networks Inc. (OTCQX: FTNW, "FTE Networks") with a price target of \$1.20. FTE Networks has nearly a decade of experience providing end to end network infrastructure solutions for Tier 1 and Tier 2 communications service providers, government agencies, OEMs, and network infrastructure providers. The company's solutions are focused on helping customers build smarter networks, which are more capable of handling the increasing complexity and bandwidth needs of services provided over wireless and wired data networks. Based in Naples, FL, FTE is led by a seasoned leadership team with deep experience at industry technology leaders such as Zayo, Level3, and Qwest, among others. We see several potential catalysts ahead for FTE Networks, as it introduces an innovative new Managed Network Services platform, seeks to uplist shares to a national exchange, and benefits from several large contract wins, which should support visibility on future revenue and EBITDA growth.

INVESTMENT HIGHLIGHTS

Experienced player poised to benefit from industry technology shift

FTE Networks is an established fiber infrastructure solutions provider, having provided end-to-end solutions for numerous Tier-1 and Tier-2 customers in the communications service provider space, including more than 25,000 rack and stack integrations and the construction of more than 7,000 miles of fiber. The company is positioned to benefit from the robust growth in demand for internet bandwidth over wired and wireless connections, driven by the increasing proliferation of internet-enabled devices, growing penetration of cloud computing and virtualization, and rising popularity of bandwidth-hungry applications such as mobile video. Indeed, according to Cisco's *Visual Networking Index for 2015 – 2020*, global IP traffic will surpass the zettabyte level in 2016, and will increase by approximately 3x over the next five years, growing at a CAGR of 22% from 2015 to 2020E. This growth has strained networks in bandwidth and performance, creating an opportunity for FTE to benefit from what could be a multi-year upgrade cycle.

Recent news shows growth accelerating; positive EBITDA to follow

We have been impressed by the size and pace of the new contract announcements coming out of FTE in 2016. On October 28, 2016, while announcing a new win at a competitive local exchange carrier (CLEC), FTE management announced that the cumulative backlog for deals over the next three years had reached \$170mn. The backlog level suggests a sharp jump in revenues beginning in 2017E, as management stated that the company should reach \$55mn in annualized revenues by year-end – implying more than 200% growth over the company's 2016E outlook of \$16-\$18mn. Important, too, considering the company's relatively weak balance sheet, is management's outlook for EBITDA to turn positive in 2H16, and expand in 2017E as revenues grow, and gross profit dollars from new business flow through to EBITDA.

Initiate coverage with a price target of \$1.20

We see FTE Networks as undervalued when considering its \$170mn deal pipeline relative to its market capitalization of \$37.3mn – particularly given management's guidance that the company would begin to generate EBITDA in 2H16E. Moreover, FTE Networks should have strong visibility in its core business, lowering risk, as these deals represent 3-year contracts. The target of \$1.20 represents potential upside of 160.9% from the recent price of \$0.46.

Stock Details (11/1/2016)

| | |
|----------------------|----------------------------|
| OTCQX: | FTNW |
| Sector / Industry | Technology / Data Services |
| Price target | \$1.20 |
| Recent share price | \$0.44 |
| Shares o/s (mn) | 81.0 |
| Market cap (in \$mn) | 35.7 |
| 52-week high/low | \$2.10 / 0.10 |

Key Financials (\$000 unless specified)

| | FY16E | FY17E | FY18E |
|------------|-----------|----------|----------|
| Revenues | 16,379.2 | 52,783.0 | 60,313.0 |
| EBITDA | (567.3) | 4,648.4 | 8,951.1 |
| EBIT | (1,057.3) | 3,483.0 | 7,539.8 |
| Net income | (3,437.5) | 1,567.8 | 5,625.1 |
| EPS (\$) | (0.04) | 0.02 | 0.07 |

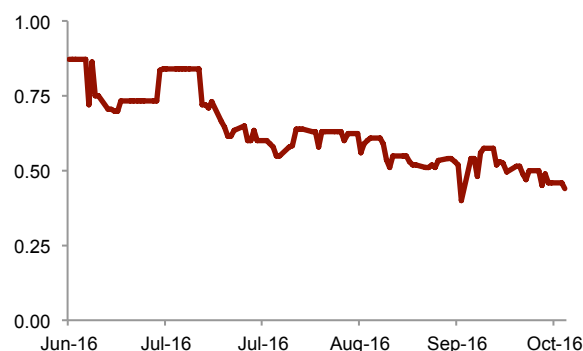
Source: SeeThruEquity Research

Key Ratios

| | FY16E | FY17E | FY18E |
|----------------------|--------|-------|-------|
| Gross margin (%) | 35.4 | 34.9 | 36.2 |
| Operating Margin (%) | (6.5) | 6.6 | 12.5 |
| EBITDA margin (%) | (3.5) | 8.8 | 14.8 |
| Net margin (%) | (21.0) | 3.0 | 9.3 |
| P/ Revenue (x) | 2.2 | 0.7 | 0.6 |
| EV/Revenue (x) | 2.9 | 0.9 | 0.8 |

Source: SeeThruEquity Research

Share Price Performance (\$)



Source: Bloomberg

SUMMARY TABLE

Figure 1. Summary Table (Pricing data as of October 30, 2016)

| Share data | | Balance Sheet data (2Q16) | | Key personnel: | |
|-------------------|--------------------|---------------------------|----------|----------------|-------------------|
| Recent price: | \$0.46 | Total assets: | 9.7mn | CEO & Chairman | Michael Palleschi |
| Price target: | \$1.20 | Total debt*: | 11.8mn | CFO | David Lethem |
| 52-week range: | 2.20 - 0.10 | Equity: | (10.3mn) | COO | Lynn Martin |
| Average volume*: | 12,483 | W/C: | (3.5mn) | CBDO | Anthony Sirotko |
| Market cap*: | \$37.3mn | ROE: | NM | CTO | Mike Bonewitz |
| Book value/share: | (\$0.13) | ROA: | -44.5% | CCO | Kirstin Gooldy |
| Cash/share | \$0.00 | Current ratio: | 0.7 | | |
| Dividend yield: | N/A | Asset turnover: | 1.1 | | |
| Risk profile: | High / Speculative | Debt/Cap: | 778.6% | | |

* three month average volume (number of shares)

** 2Q16 Balance Sheet data

| Estimates | | | | Valuation | | |
|-------------|-------------|----------------|----------|-----------|------------|---------|
| FY December | Rev (\$000) | EBITDA (\$000) | EPS (\$) | P/Rev (x) | EV/Rev (x) | P/E (x) |
| 1Q16A | 2,093.4 | (443.2) | (0.02) | 5.8x | 4.5x | NM |
| 2Q16A | 3,162.7 | (308.5) | (0.02) | 3.9x | 2.9x | NM |
| 3Q16E | 4,185.4 | (114.2) | (0.01) | 2.9x | 2.2x | NM |
| 4Q16E | 6,937.8 | 298.6 | (0.01) | 1.8x | 1.3x | NM |
| 2016E | 16,379.2 | (567.3) | (0.04) | 3.0x | 2.3x | NM |
| 2017E | 52,783.0 | 4,648.4 | 0.02 | 0.9x | 0.7x | 24.9x |
| 2018E | 60,313.0 | 8,951.1 | 0.07 | 0.8x | 0.6x | 7.0x |
| 2019E | 66,370.0 | 8,735.2 | 0.06 | 0.7x | 0.6x | 7.7x |

Source: SeeThruEquity Research

INVESTMENT THESIS

We initiate coverage on FTE Networks Inc. (OTCQX: FTNW, "FTE Networks") with a price target of \$1.20. FTE Networks is an established company in the communications industry, with nearly a decade of experience providing end-to-end network infrastructure solutions for Tier 1 and Tier 2 communications service providers, government agencies, OEMs, and network infrastructure providers. The company's solutions are focused on helping customers build smarter networks, which are more capable of handling the increasing complexity and bandwidth requirements of services provided via wireless and wired data. Based in Naples, FL, FTE is led by a seasoned leadership team with deep experience at telecom and technology leaders such as Zayo, Level3, Qwest and Nexius, among others. The company appears to be experiencing strong demand in its core fiber infrastructure business, and is also evolving up-market with an innovative platform of Managed Network Services,

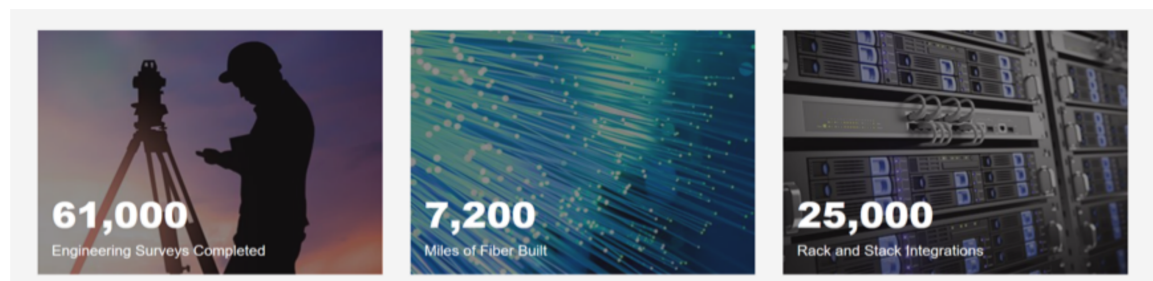


which are designed to take a data center computing methodology and push it to the network's edge.

In our view, FTE Networks represents an attractively valued small capitalization growth opportunity in technology sector. Indeed, shares trade at a steep discount to CommTech industry peers, despite improving visibility on revenues and EBITDA following several new large fiber infrastructure contract awards. At the recent closing price of \$0.46, FTE Networks traded at an EV/ Revenue multiple of just 0.9x our 2017E estimates – and the company's enterprise value is just 29% of the value of its three-year contracted backlog. We see several catalysts ahead for FTE Networks, as revenues begin to ramp in 2H16E and 2017E from approximately \$170mn in new contracts awards, positioning the company to benefit from operating leverage with guidance for positive EBITDA going forward. On the corporate development front, the company has stated its intention to uplist shares to a national exchange, likely the Nasdaq CM, which would serve to increase the company's prestige in the industry and likely grant access to institutional investors who are restricted from investing in OTCQX-listed shares.

New contract momentum points to rapid growth

FTE is an established participant in the communications and technology industry, with a heritage in designing and building fiber networks for leading service providers on the telecom and cable side, as well as for network infrastructure providers, government agencies and ISPs. The company has provided end-to-end infrastructure solutions for a number of large customers, including Tier 1 and Tier 2 carriers, as well as Fortune 100 and Fortune 500 companies. Core competencies established by the company include specialized design and network engineering services, data center infrastructure, fiber optics, and wireless integration. This core group of services is positioned to benefit as networks adjust to the increased strain and complexity encountered with the proliferation of mobile internet-enabled devices, increased adoption of cloud computing and virtualization, web-enabled video, and the ever increasing number of new cloud-based applications. This end demand for bandwidth appears to be on pace to grow unabated, with Cisco forecasting that global IP traffic will surpass a zettabyte in 2016, and reach 3 zettabytes by 2020.

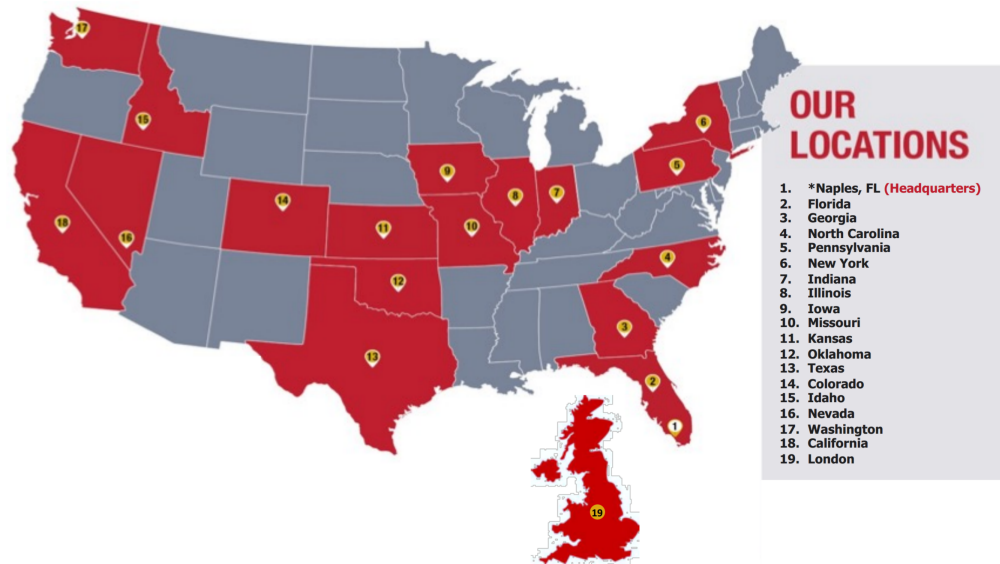


Large deal announcements point to robust growth ahead for FTE Networks

FTE Networks appears to be positioned to capitalize from robust growth in bandwidth-using services. We have been impressed by FTE Networks' robust outlook for its core business, which is driven by a strong backlog of fiber projects, geographic expansion, and new services. Recently, FTE Networks management updated investors and stakeholders with new revenue guidance for annualized revenues to reach \$55mn in the next twelve months, due to the impact of substantial new contract wins at the company. The guidance of approximately \$55mn in 2017E revenue implies 200%+ YoY growth from 2016E revenues.

FTE contracts value reaches \$170mn over next three years. The primary driver of the company's impressive growth outlook is that FTE Networks has secured multiple large contracts, which carry a value of approximately \$170mn over the next three years. Chief among the deals in the pipeline is a multi-state expansion projects with Edge Communications, a Plano, Texas-based provider of end-to-end communications and data solutions for businesses. FTE Networks believes the project could contribute as much as \$100mn over the next three years. In addition to the Edge Communications deal, FTE Networks

also recently announced an agreement with a Fortune 500 Telecommunications carrier to provide secure fiber optic infrastructure, which is a contract valued at \$53mn over the next three years. Considering these new deals, we see strong demand for FTE's core products and services for at least the next three years, and likely continuing thereafter, assuming the company executes on schedule with its design, construction, and services efforts. We also note the company continues to benefit from geographic expansion, which increases its capability to service national customers as well as to win more regional carriers who are ready to upgrade their fiber infrastructure.



New Managed Network Services platform to create new Compute to the Edge platform offering innovation and recurring revenue stream with higher margins

With a heritage in designing and building fiber networks, FTE is planning to leverage its experience and customer relationships to launch a new Managed Network Services platform solution, which it believes has the potential to be disruptive on the industry. The Managed Network Services platform is purpose-designed to address the problems of complexity that have come from the rapid evolution of internet bandwidth needs and usage. The platform intends to address constrained network capacity and high latency, while also allowing for the smart provision of new services by applying a “compute to the edge” network management approach.

According to management, a key tenant of this approach is taking the best practice computing principles of data center management and pushing them to the edge of the network, using a combination of white box hardware, open source software, and proprietary elements to allow for real time provisioning of advanced services, latency reductions, and performance monitoring – all as a managed service for which FTE will receive an ongoing revenue stream with high incremental margins.



FTE Networks is in the process of launching its Managed Network Services platform, and management expects to it be a pivotal growth pillar in future years. The company will initially be targeting REITs, communications carriers, and retailers. Key benefits of the service will include competitive costs and ease of management for the customer. FTE will also enable customers to have access to network infrastructure that supports a rich consumer experience benefitting from computing power that has pushed to the edge. This should allow for the ability to sell additional services, reduce latency - allowing for improved customer experience – and to install future applications more easily given that a significant portion of the network will be software-based.

Initial Managed Services target market to be REITs and developers

FTE Networks announced that the first pillar of this new Managed Service platform would be tailored for REIT and developer customers on November 2, 2016.. The new solution is a multi-edge computing platform, which enables a real-time connected experience for residents, employees and visitors. Importantly, the platform takes into account the rapidly evolving needs to support new cloud-based applications and other advanced services by leveraging an open source, edge computing model, which should enable a low-latency network and the ability to easily manage and provision new services. Importat to the REIT and developer market is that the platform is purpose-built to provide a base infrastructure for “smart building” conversion including the automation of building management systems, such as HVAC and utilities, while also supporting new applications and IoT devices that require extremely low latency and reliable network availability. Management expects to introduce similar edge computing products for the commercial data market in 2017E.

Experienced management team

FTE Networks has an experienced management team which includes leadership roles at many of the top companies in telecom and data networking. CEO Michael Palleschi brings 20+ years in senior roles in the telecom industry including experience at Level3 Communications (LVLT), where multi-billion-dollar fiber and network expansions across the country, as well as MCI, and Qwest. FTE recently expanded its team to include COO Lynn Martin, an industry veteran with 25+ years of experience including industry leaders such as Level3, and CTO Mike Bonewitz. Martin joined FTE Networks after leading the communications, software, and technology division of Nexius. Bonewitz has 20+ years of industry experience including roles at Level3, Zayo and Ericsson and is expected to play a key role in the company's new Managed Network Services initiatives, including developing next generation business of data center and compute-to-the-edge services. We have included full bios of the company's management team and advisors at the conclusion of this report.

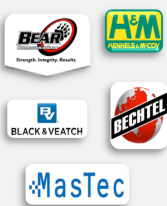



COMPETITIVE LANDSCAPE

FTE Networks operates at the nexus of the technology industry and the communications services industry. The communications industry is characterized by several large service providers, such as network operators and telecommunications carriers, and a wide range of companies that sell technology and services to improve network speed and performance. FTE Networks provides advanced solutions for designing, deploying and optimizing fiber infrastructure and connectivity. The company's core end markets are telecommunications carriers, cable operators, ISPs, government agencies and network infrastructure providers. In our view, this communications market is advantaged towards carriers and large operators, at the expense of vendors; however, demand for bandwidth is growing rapidly and is expected to continue to do so, forcing an unavoidable capital investment burden on carriers. This presents an opportunity for companies that provide innovative and valuable services to achieve outsized earnings and profitability, as is illustrated in the table below.

| Company | Mkt Cap (\$mn) | Gross Profit % | EBIT % |
|----------------------|----------------|----------------|--------|
| Clearfield, Inc. | 232 | 35.4% | 13.0% |
| Ubiquiti Networks | 4,269 | 48.8% | 35.0% |
| BroadSoft, Inc. | 1,302 | 64.1% | 7.2% |
| Sonus Networks, Inc. | 280 | 62.1% | -1.0% |
| Equinix, Inc. | 25,228 | 45.3% | 19.6% |
| MasTec, Inc. | 2,321 | 11.2% | 2.5% |
| ADTRAN, Inc. | 874 | 43.6% | 5.0% |
| Finisar Corp | 3,040 | 27.5% | 5.0% |
| Cisco Systems, Inc. | 153,256 | 62.9% | 27.0% |
| FTE Networks, Inc. | 37 | 38.9% | -13.8% |

Source: Thomson Financial

The market for providing fiber connectivity solutions is heavily affected by pace of growth in demand for bandwidth to deliver high speed data through wireless and wired connections. This is a large and quickly growing market, as the pace of demand for data continues to grow quickly, driven by broad adoption of cloud computing, internet-enabled video service, virtualization, and social media, as well as a growing list of new internet applications including e-learning and smart grid technologies, among other items. FTE Networks has identified four key end markets where it expects to compete for new business: Fiber to the X (FTTX), Wireless Integration, Data Centers, and Network Engineering. As shown in the graphic below, there represent multi-billion dollar opportunities with a number of competitors. We expect FTE Networks to seek to compete by offering smart, low-latency solutions with a focus on modularity and flexibility to add and modify service offerings, supported by a new Managed Network Services platform

| | Fiber-to-the-X | Wireless | Data Center | Network Engineering |
|--------------------------|---|---|--|---|
| Market Forecast | \$2.5B-\$15.2B 2016-2019 | \$10B-\$55.6B* 2015-2019 | \$130B-\$170B 2016-2021 | \$258M-\$209M 2016-2019 |
| Growth Rate | 82.5% | 40.93% | 5.5% | -6.78% |
| Representative Companies |  |  |  |  |

Source: Independent Market Study

Source: IGR Research
*Includes 5G starting in 2018

Source: Knowledge Sourcing
Intelligence DCI Forecast

Source: IGR Research

FINANCIALS AND FUTURE OUTLOOK

Revenue Assumptions

FTE Networks has four primary lines of revenue: Outside the Plant (OSP), Inside the Plant (ISP), Engineering, and Managed Network Services. Historically, the company's revenues stem from OSP, ISP and Engineering, which are typically project-based in nature, and are heavily reliant on fiber connectivity upgrades and new builds. FTE Networks recently announced several large new project wins, which drive our model for 2017E-2019E. These deals represent a \$166mn backlog, according to management, and include impressive wins with a Fortune 500 telecommunications carrier and a \$100mn multi-state expansion projects with Edge Communications, which provides end-to-end communications and data solutions for businesses.

FTE Networks sees annualized revenues reaching \$55mn over the next twelve months due to these deals, which implies substantial growth over 2016E, during which the company is targeting between \$16mn and \$18mn in revenues. Our model assumes 2016E revenues of \$16.4mn, with growth to \$52.7mn in 2017E and \$60.3mn in 2018E. We forecast revenue of \$66.4mn in 2019E. This outlook would likely prove to be conservative if the company executes on its current backlog and continues to win new business.

While fiber projects are likely to drive revenues in the short run, FTE Networks management is focused on growing a new solution line, Managed Network Services, which it believes has the potential to be disruptive in the industry. Managed Network Services represents a new compute-to-the-edge solution. The contracts are likely to carry higher gross margins than the traditional business and offer an annuity-like revenue stream, which may be less susceptible to industry cycles than OSP and ISP. Broadly, our model assumes high growth rates of the Managed Network Services business from a small initial base in 2017E, becoming a larger portion of the business mix by 2020E, as detailed in the table below.

| Revenue by Segment (\$000) | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| OSP | 6,500 | 17,200 | 18,500 | 20,720 | 22,170 | 23,279 |
| ISP | 3,708 | 15,250 | 16,500 | 18,150 | 19,602 | 21,170 |
| Engineering & Other | 6,171 | 16,333 | 17,313 | 15,000 | 15,900 | 16,854 |
| Managed Network Services | 0 | 4,000 | 8,000 | 12,500 | 20,000 | 26,000 |
| Total | 16,379 | 52,783 | 60,313 | 66,370 | 77,672 | 87,303 |
| Business Mix (%) | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
| OSP | 39.7% | 32.6% | 30.7% | 31.2% | 28.5% | 26.7% |
| ISP | 22.6% | 28.9% | 27.4% | 27.3% | 25.2% | 24.2% |
| Engineering & Other | 37.7% | 30.9% | 28.7% | 22.6% | 20.5% | 19.3% |
| Managed Network Service | 0.0% | 7.6% | 13.3% | 18.8% | 25.7% | 29.8% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

es

Margin Assumptions

In the past FTE has discussed target gross margin levels in the mid-30% range, assuming a blend of OSP, ISP and Engineering. We assumed OSP (outside the plant) carries relatively lower gross margins in the 20% - 30% range, with IST (inside the plant) having margins that range in the range of 35% - 45%. Although historically pricing has been a key risk in the telecom business, management has indicated that the specialized nature of its work, the high demand for new bandwidth services, and the high impact of well-engineered projects on internet performance, provide insulation against pricing pressure in other areas of the telecom industry. We note that gross margins in 2Q16 expanded significantly, rising from the low-20% range in 1H15 to the high 30% range in 1H16. Longer term, management expects gross margins to rise as Managed Network Services becomes a larger part of its business mix. This business is characterized by annuity-like revenue streams, which should carry attractive margins well above the corporate average.

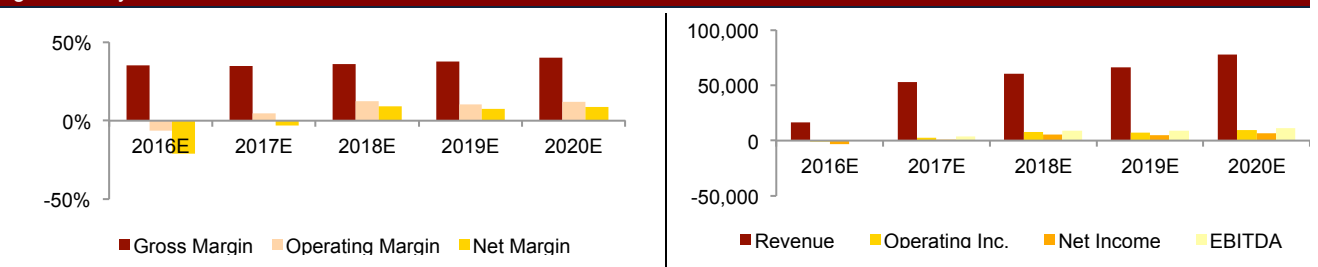
While FTE Networks has reported negative profitability in 1H16, the company expects this to improve in 1H16 and beyond. In its 2Q16 earnings release FTE Networks stated that it expected to reach positive EBITDA in 2H16. If achieved, this would be a significant milestone for the company. With the impact of several large contracts hitting their stride in 2017E, the company should be able to show positive EBITDA for the full year 2017E and leverage thereafter, give the three-year project visibility of \$166mn.

Balance Sheet & Financial Liquidity

We see the balance sheet as a key item to watch for FTE Networks, as the company has substantial debt and will require capital, in our view, to fulfill its substantial growth projections in 2017E. Additionally, we note that while FTE Networks has improved its balance sheet with the conversion of a majority of its preferred stock in the least year, the company does have a "going concern" qualification in its financial statements and a significant debt load. We expect FTE Networks will seek to raise \$10mn over the next year in order to fund working capital and capex needs for its new projects. We would expect the company to seek to tie capital raising efforts to its goal of achieving a listing on a national exchange, such as the Nasdaq CM.

At the end of 2Q16, FTE Networks has cash on hand of \$0.2mn, and total debt of \$11.7mn. This debt included \$2mn in short term notes payable, and long term debt of \$9.7mn – consisting of \$2.5mn in notes payable and \$7.3mn in senior notes payable.

Figure 4. Key Performance Indicators of FTE Networks thru FY2020E



Source: SeeThruEquity Research

VALUATION

We valued FTE Networks using the discounted cash flow (“DCF”) method as well as a Peer Valuation analysis. Our valuation, which includes both methodologies, yields a fair value of \$1.20 per share. If achieved, the target of \$1.20 per share represents potential upside of 160.9% from the recent price of \$0.46, as of October 29, 2016.

DCF

FTE Networks is an established company in the telecom and technology industry, with customers that include Tier 1 and Tier 2 carriers, as well as Fortune 100 and Fortune 500 companies. Although the company did not generate free cash flow in 2015, and we do not expect it to generate free cash in 2016E, in its 2Q16 earnings release, FTE Networks management stated that it expected to begin generating EBITDA in 2H16 due to a growing topline, increasing gross margins, and cost rationalization initiatives. Moreover, FTE Networks has stated publicly that the company’s pipeline over the next three years includes \$170mn in revenue from recently won contracts, which would represent robust growth. Considering these factors, as outlined in more detail in the *Financials & Future Outlook* section earlier in this report, we expect the company to begin generating free cash flow from operating activities during 2017E. We expect growth in free cash flow thereafter as more gross profit dollars from these contracts are spread across operating expenses. Key assumptions to our model include: 1) that revenue accelerates beginning in 2H16E and reaches management’s outlook for \$55mn in annualized sales in 2017E; 2) that FTE Networks secures necessary capital to fulfill demand; and 3) that its new managed services business drives an expansion of gross margins over time.

The following DCF valuation of FTE Networks runs through 2024E. Overall we assumed a use of working capital due to the investments required for rapid growth and expansion. We forecast moderate capital spending in future years to support new customer deployments, which are likely to be structured with initial capital spending followed by a long tail of customer revenue thereafter. We discounted cash flows at a weighted average cost of capital of 14.4% and assumed a terminal growth rate of 5% at the end of FY2024E, as shown in the table below. We then considered 81mn shares outstanding as well as \$11.8mn in total debt outstanding.

| \$' 000 | FY17E | FY18E | FY19E | FY20E | FY21E | FY22E | FY23E | FY24E |
|-----------------------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| EBIT | 3,483.0 | 7,539.8 | 6,992.2 | 9,336.5 | 12,248.1 | 15,417.1 | 18,744.3 | 21,155.0 |
| Less: Tax | 0.0 | 0.0 | 0.0 | 742.2 | 1,860.1 | 3,645.8 | 6,058.9 | 6,926.7 |
| NOPLAT | 3,483.0 | 7,539.8 | 6,992.2 | 8,594.2 | 10,388.0 | 11,771.3 | 12,685.4 | 14,228.3 |
| Changes in working capital | (830.0) | (107.3) | 474.4 | 53.5 | (339.6) | (352.7) | (326.9) | (326.0) |
| Depreciation & Amortization | 1,165.4 | 1,411.3 | 1,742.9 | 2,007.0 | 2,289.8 | 2,589.4 | 2,893.5 | 3,200.4 |
| Capex | (1,200.0) | (2,050.6) | (2,256.6) | (2,640.9) | (2,968.3) | (3,308.5) | (3,623.3) | (3,937.0) |
| FCFF | 2,618.4 | 6,793.2 | 6,953.0 | 8,013.9 | 9,369.9 | 10,699.4 | 11,628.7 | 13,165.7 |
| Discount factor | 0.9 | 0.7 | 0.7 | 0.6 | 0.5 | 0.4 | 0.4 | 0.3 |
| PV of FCFE | 2,235.8 | 5,069.6 | 4,534.9 | 4,568.1 | 4,668.0 | 4,658.6 | 4,425.1 | 4,378.6 |
| Sum of PV of FCFE | | | | | | | | 34,538.6 |
| Terminal cash flow | | | | | | | | 146,751.7 |
| PV of terminal cash flow | | | | | | | | 48,805.6 |
| Enterprise value | | | | | | | | 83,344.2 |
| Less: Debt | | | | | | | | 11,771 |
| Add: Cash | | | | | | | | 200 |
| Equity value | | | | | | | | 71,773.2 |
| FD Shares Outstanding | | | | | | | | 81,035.0 |



Fair value per share

0.89

| Summary conclusions | | Key assumptions | |
|-----------------------------|-------|-------------------------|-------|
| DCF FV (\$ per share) | 0.89 | Beta | 2.0 |
| Recent price (\$ per share) | 0.46 | Cost of equity | 17.5% |
| Upside (downside) | 92.5% | Cost of debt (post tax) | 9.8% |
| WACC | 14.4% | Terminal Growth Rate | 5.0% |

Source: SeeThruEquity Research

Figure 5. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

| | | WACC (%) | | | | |
|--------------------------|-------|----------|-------|-------|-------|-------|
| Terminal growth rate (%) | | 13.4% | 13.9% | 14.4% | 14.9% | 15.4% |
| | 4.00% | 0.94 | 0.88 | 0.82 | 0.77 | 0.72 |
| | 4.50% | 0.98 | 0.91 | 0.85 | 0.80 | 0.75 |
| | 5.00% | 1.03 | 0.95 | 0.89 | 0.83 | 0.77 |
| | 5.50% | 1.08 | 0.99 | 0.92 | 0.86 | 0.80 |
| | 6.00% | 1.13 | 1.04 | 0.96 | 0.89 | 0.83 |
| | 6.50% | 1.20 | 1.10 | 1.01 | 0.93 | 0.87 |

Source: SeeThruEquity Research

Peer Group Analysis

We also evaluated FTE Networks on using a relative valuation analysis with peer companies in the communications and technology sector. Our peer group includes companies with innovative solutions and services for enabling fiber and wireless connectivity for service operators, enterprises, data centers, private networks. FTE is seeking to cause disruption in its market by leveraging its network expertise and relationships as it advances a distributed software-based network approach to provide converged cloud, and multi-access network services to enterprises, REITS, retailer and carriers. We considered this strategy, which is a focus for management, when selecting peer companies. We also the company's outlook for robust growth in 2017E – guidance is for \$55mn in annualized revenue in 2017E – when selecting peer companies.

Our peer group includes Clearfield, Inc. (CLFD), a peer company in providing innovative fiber connectivity solutions, as well as BroadSoft (BSFT), a leader in managed cloud solutions for enterprise communications, as well as Ubiquiti Networks (UBNT), which is commercializing disruptive connectivity solutions in the wireless communications sector. We also included a group of companies whose businesses are leveraged to providing solutions that help address the rising demand for internet bandwidth for service providers, data centers and enterprises, including Equinix (EQIX), Cisco (CSCO), and Finisar (FNSR), among others.

As illustrated in the table below, FTE Networks trades at a steep discount to these companies based on 2017E its outlook for 2017E and beyond, in which management sees annualized revenues reaching \$55mn. Considering this we utilized forward EV/ Revenue and P/Sales multiples to determine fair value of range of \$1.63 to \$1.81 per share, respectively. We arrived at these values by applying the peer group average multiple of forward revenues on each metric.

Figure 6. Comparable Valuation *

| Company | Mkt cap (\$ mn) | EV/Revenue | | P/ Revenue | |
|----------------------|--------------------|-------------|-------------|-------------|-------------|
| | | TY | NY | TY | NY |
| Clearfield, Inc. | 232 | 2.7x | 2.3x | 3.1x | 2.7x |
| Ubiquiti Networks | 4,269 | 5.2x | 4.7x | 5.6x | 5.2x |
| BroadSoft, Inc. | 1,302 | 3.7x | 3.1x | 3.9x | 3.3x |
| Sonus Networks, Inc. | 280 | 0.8x | 0.8x | 1.1x | 1.1x |
| Equinix, Inc. | 25,228 | 8.8x | 7.8x | 7.0x | 6.2x |
| MasTec, Inc. | 2,321 | 0.7x | 0.6x | 0.5x | 0.4x |
| ADTRAN, Inc. | 874 | 1.2x | 1.2x | 1.4x | 1.3x |
| Finisar Corp | 3,040 | 1.8x | 1.7x | 2.1x | 1.9x |
| Cisco Systems, Inc. | 153,256 | 2.3x | 2.3x | 3.1x | 3.0x |
| Average | | 3.0x | 2.7x | 3.1x | 2.8x |
| FTE | 37 | 3.0x | 0.9x | 2.3x | 0.7x |
| Premium (discount) | | (1.4%) | (66.0%) | (26.1%) | (74.6%) |

Source: Bloomberg, SeeThruEquity Research, data as of October 29, 2016

RISK CONSIDERATIONS

Seasonality

FTE Networks is affected by seasonal factors and weather. A significant portion of current revenues stem from new network projects, which are generally outside, and therefore exposed to weather. Further, the company's customer premise equipment services for operators typically slows at year end.

Pricing

FTE Networks area of focus in the technology includes services related to the deployment and management of internet and telecom solutions. This industry has historically been exposed to pricing risk. In some past cases, capital investment in the sector was justified by assumptions about future pricing of services, which eroded over time to due competition and technological advances.

Technology Risk

FTE Networks operates in the technology industry. The technology industry is characterized by innovation and rapid change. As such, FTE Networks will be required to invest in research and development to ensure that its products are competitive, comply with current industry standards, and maintain differentiation versus existing and emerging competitors.

Competition

FTE Networks operates in a competitive sector of the technology industry. Consolidation among network operators may affect the company's ability to negotiate attractive pricing for new projects, as telecom equipment and service providers compete for business from fewer operators. Additionally, consolidation among operators could cause customers and potential customers to delay new capital investment as they rationalize their networks.

Regulation

FTE Networks is subject to various regulations and laws related to new fiber-based network projects. These include permitting, licensing, and inspection requirements, as well as safety and environment concerns. Additionally, the company's customers are affected by regulation, which may affect their willingness to invest in new capital equipment and fiber builds.

Management Team

Michael Palleschi, Chief Executive Officer and Chairman of the Board

Mr. Michael Palleschi serves as the Chief Executive Officer and Chairman of the Board of Directors of FTE Networks since being appointed in January 2014. Mr. Palleschi has over 16 years of experience in the telecom industry and in his current position as CEO, he is taking a hands-on approach of overseeing day-to-day operation for all core business structures. Responsibilities include supervising the managerial team, ensuring project efficiency from on-boarding to completion, maintaining corporate communication, new business development, office advancement, vendor and client relations, corporate compliance continuance, procurement and contracts, and operations budget management.

As a customer focused and results driven executive, he has a proven talent for harnessing cutting-edge technology to strengthen corporate systems and maximize operations. He is an established business cultivator that has aggressive experience in managing small to large firms, through the period of company launch to multi-million dollar success and has done so in highly technical fields. With his expert knowledge in developing and delivering communications networks, he has maintained a reputable record of aligning corporate processes with the company growth strategy. His core competency is based on streamlining operations, improving service-delivery efficiency and enhancing the bottom line. Being a decisive, results-driven project and program leader he has remained committed to reducing costs and increasing ROI through constant technical innovation.

Mr. Palleschi joined FTE Networks in October, 2010 where he served as COO of Focus Venture Partners, which featured investments in growing telecom companies including Focus Fiber Solutions, Jus-Com and Townsend Careers. Prior to Focus Venture Partners, from June 2007 until 2010, he was the Director of Infrastructure Services for South Florida facilities based Telecommunications Company start up. From 2000 to 2007, he held several Senior Management roles at Level 3 Communications in New York and Georgia. Prior to that, Mr. Palleschi held several Sr. Management/Executive roles at major telecommunications companies such as Qwest Communications and MCI. Mr. Palleschi holds multiple degrees in both Engineering and Business Management. Mr. Palleschi also holds several professional and technical certifications.

David Lethem, Chief Financial Officer

Mr. David Lethem was named Chief Financial Officer of FTE in June 2014. He is responsible for the financial management of the Company. Mr. Lethem was originally hired by FTE in April 2014 as VP of Corporate Compliance. Prior to joining FTE, Mr. Lethem was the Director of Finance and Audit for Audit Management Solutions, Incorporated since November of 2007. He was directly responsible for the financial, operational, and audit management of both public and private companies during that time, working the banking, telecommunications, mobile marketing, manufacturing, and finance sectors. Additionally, his experience during that time involved reverse mergers, SEC compliance, international operations, and technical accounting matters.

Mr. Lethem earned his Bachelor of Arts degree at the University of Dubuque, his MBA from California Coast University, and holds his CIA and CRMA from the Institute of Internal Auditors.

Anthony Sirotko, Chief Business Development Officer

Anthony Sirotko joined the FTE Networks team in 2014 as Chief Business Development Officer. Mr. Sirotko brings more than 20 years of experience in the telecommunications and construction industry to FTE. Mr. Sirotko is responsible for overseeing engineering, analyzing and developing new market initiatives, customer relationships, negotiating contracts and closing deals. Prior to joining FTE, Mr. Sirotko was Principal of LQ Optics, a NYC based telecommunications infrastructure solution firm.

In 1999, Mr. Sirotko served as the Senior Northeast Program Manager with Level 3 Communications. There, he was responsible for more than \$500 million of mission-critical new construction in the northeast. Since 2009, Mr. Sirotko has been serving as an active board member on the 1420 York Avenue Condominium Board.

Lynn Martin Chief Operating Officer

Lynn Martin serves as Chief Operating Officer of FTE. Prior to joining the company, Lynn was head of the communications, software, and technology division of Nexius where he was responsible for growing the business by delivering end-to-end network solutions for emerging technologies, such as Open Source/NFV/SDN and infrastructure services that provided relevant value to customers and helped them to optimize their businesses. In addition to leading the software and technology teams, he created several new business offerings in Engineering, Fiber and Open Source development where he joined efforts with Open Compute Project and Telecom Infra Project communities both founded by Facebook to provide new network architectures and solutions with greater simplicity and efficiency. Before Nexius, Martin served as Executive Director of Telcordia Technologies, where he ran the company's next generation software product line, was a senior strategist in Accenture's Network Practice, and spent over a decade at Level 3 Communications at VP of Operational Integration and Process Management.

Kirstin Gooldy, Chief Compliance Officer

Kirstin Gooldy is responsible for leading Compliance, Capital Markets, Merger and Acquisitions, Corporate Strategy and Investor Relations. Ms. Gooldy has over 22 years senior management experience in telecommunications and technology. Her experience spans across public and private, internal and domestic companies leading strategy, operations, finance/accounting, capital markets and compliance. Prior to joining FTE Networks, she was the CFO and Board Member of Powerstorm ESS leading the team in its Investor Relations, Capital Raise, Financial Accounting and Public Reporting, Corporate Governance. She led the organization's key strategic initiatives; public company NASDAQ uplist, international expansion, aggressive growth strategies. She was a founding member of TelePacific Communications where she served as the Director of Finance and Treasury. She managed and led the company's Capital Raise initiatives, investor relations, treasury management, financial controls, corporate compliance, merger and acquisitions, and contract management. Her background and experience provide for the demonstrated ability to streamline business operations, drive growth and increase efficiency delivering top line growth and bottom-line profit. Ms. Gooldy possesses solid leadership, strong qualifications in developing and implementing financial controls and processes in addition to productivity, improvements and change management. She currently serves on the board for National Waste Management Holdings (NWMH).

Michael Bonewitz, Chief Technology Officer

Michael Bonewitz serves as Chief Technology Officer for FTE. Mr. Bonewitz has over 20 years of senior management experience in communications network engineering and information technology industries developing cutting edge capabilities via advanced IT automation and data analytics driving operational and financial performance. Prior to FTE, he was VP of Strategy and Product Development for Cloud services, Fiber engineering and construction at Nexius where he developed and launched the company's first fiber deployment program supporting multiple Tier 1 service providers in the US. He also led the company strategy and participation in Open Compute Project (OCP) as a Platinum member and as an original member of Facebook's Telecom Infra Project (TIP). He has held previous technology and engineering leadership positions focused on NFV/SDN, Network Optimization and integration with Ericsson, Zayo and Level 3.

FINANCIAL SUMMARY

Figure 7. Income Statement

| Figures in \$000 unless specified | FY16E | FY17E | FY18E | FY19E | FY20E |
|-----------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | 16,379.2 | 52,783.0 | 60,313.0 | 66,370.0 | 77,672.4 |
| YoY growth | 13.8% | 222.3% | 14.3% | 10.0% | 17.0% |
| Cost of sales | 10,587.6 | 34,362.5 | 38,479.0 | 41,457.9 | 46,587.7 |
| Gross Profit | 5,791.6 | 18,420.5 | 21,833.9 | 24,912.2 | 31,084.7 |
| Margin | 35.4% | 34.9% | 36.2% | 37.5% | 40.0% |
| Operating expenses | 6,848.9 | 14,937.6 | 14,294.2 | 17,919.9 | 21,748.3 |
| EBIT | (1,057.3) | 3,483.0 | 7,539.8 | 6,992.2 | 9,336.5 |
| Margin | (6.5%) | 6.6% | 12.5% | 10.5% | 12.0% |
| EBITDA | 4,648.4 | 8,951.1 | 8,735.2 | 11,343.5 | 14,537.9 |
| Margin | 28.4% | 17.0% | 14.5% | 17.1% | 18.7% |
| Other income/ (expense) | (2,340.4) | (1,915.1) | (1,914.6) | (1,914.1) | (1,914.1) |
| Profit before tax | (3,397.7) | 1,567.8 | 5,625.1 | 5,078.1 | 7,422.3 |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | 742.2 |
| Net income to Common | (3,437.5) | 1,567.8 | 5,625.1 | 5,078.1 | 6,680.1 |
| Margin | (21.0%) | 3.0% | 9.3% | 7.7% | 8.6% |
| EPS (per share) | (0.04) | 0.02 | 0.07 | 0.06 | 0.08 |

Source: SeeThruEquity Research.

Figure 8. Balance Sheet

| Figures in \$000, unless specified | FY16E | FY17E | FY18E | FY19E | FY20E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Current assets | 9,704.7 | 17,733.7 | 23,058.2 | 25,276.0 | 33,570.0 |
| Other assets | 2,995.4 | 3,330.0 | 3,975.4 | 4,495.2 | 5,135.2 |
| Total assets | 12,700.1 | 21,063.7 | 27,033.5 | 29,771.2 | 38,705.2 |
| Current liabilities | 11,007.3 | 11,527.3 | 13,016.2 | 14,305.9 | 15,831.5 |
| Other liabilities | 10,091.6 | 10,747.3 | 8,903.1 | 4,558.9 | 4,558.9 |
| Shareholders' equity | (8,398.7) | (1,210.9) | 5,114.2 | 10,906.4 | 18,314.8 |
| Total liab and shareholder equity | 12,700.1 | 21,063.7 | 27,033.5 | 29,771.2 | 38,705.2 |

Source: SeeThruEquity Research

Figure 9. Cash Flow Statement

| Figures in \$000, unless specified | FY16E | FY17E | FY18E | FY19E | FY20E |
|------------------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| Cash from operating activities | (4,216.0) | 3,179.0 | 8,285.0 | 8,665.3 | 9,469.0 |
| Cash from investing activities | 2,558.7 | (1,200.0) | (2,050.6) | (2,256.6) | (2,640.9) |
| Cash from financing activities | 3,527.5 | 5,000.0 | (2,500.0) | (5,000.0) | 0.0 |
| Net inc/(dec) in cash | 1,870.2 | 6,979.0 | 3,734.3 | 1,408.7 | 6,828.1 |
| Cash at beginning of the year | 0.0 | 1,870.2 | 8,849.2 | 12,583.5 | 13,992.2 |
| Cash at the end of the year | 1,870.2 | 8,849.2 | 12,583.5 | 13,992.2 | 20,820.3 |

Source: SeeThruEquity Research

About FTE Networks, Inc.

FTE Networks is on the leading edge of network transformation helping communications service providers, government and enterprise customers evolve their networks to meet advancing technology requirements via network infrastructure, and edge computing solutions to quickly enhance service innovation and deliver new revenue streams. With a focus on smart design, open architectures and consistent standards, along with expertise in building, operating, and maintaining networks, FTE solves complex network and system challenges that reduce costs and deployment time to accelerate delivery and optimize performance of network infrastructure. Operating five (5) industry segments; Data Center Infrastructure, Fiber Optics, Wireless Integration, Network Engineering, and Compute to the Edge, FTE Networks is headquartered in Naples, Florida, with offices throughout the United States and Europe. For more information, please visit: www.ftenet.com.



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