EQUITY RESEARCH REPORT

December 12, 2024

FLEXSHOPPER, INC.

(NasdaqCM: FPAY)

Founded in 2013, Boca Raton, Florida–based FlexShopper Inc. is a leading national financial technology company that offers innovative payment options to consumers. FlexShopper provides a variety of flexible funding options for underserved consumers through its direct-to-consumer (DTC) online marketplace at FlexShopper.com and via partnerships with merchants (B2B) both online and at brick-and-mortar locations. FlexShopper's solutions are crafted to meet the needs of a wide range of consumer segments through lease-to-own (LTO) and other flexible lending products.

COMPANY HIGHLIGHTS

* **Leader in the LTO Financing Market:** In our view, FlexShopper is executing on a growth strategy to establish leading DTC and B2B solutions for nonprime consumers (typically those with FICO scores below 660). The company operates an Amazon-like marketplace to purchase goods in their DTC channel and provides multiple financing options (including internal and third-party) to serve a wider base of customers with limited access to credit. FlexShopper also works with B2B retail channel partners, both online and offline, to provide financing for customers that traditional "buy now pay later" (BNPL) companies, suchwas Affirm, would typically not fund.

* **New Leadership Drives Transition to Profitability**: Over the past two years, a new leadership team has repositioned FlexShopper's operating model, which resulted in the achievement of positive net income in 3Q24. We expect the company's profitability to continue to expand moving forward, and see multiple operational catalysts in 2025 that should continue to drive improved investor sentiment.

* **Analytical, Risk-Based Algorithms Driving Loan Growth and Improved Asset Quality**: We view positively FlexShopper's investments in its digital and analytics infrastructure, which is supporting improved underwriting decisions and improving portfolio asset quality. Since late 2022, FlexShopper has seen growth

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PRICE CHART

KEY STATISTICS

Key Stock Statistics	
Recent price (12/11/24)	$1.85
Fair Value Estimate	$5.50
52 week high/low	$2.19/$0.97
Shares outstanding (M)	21.8
Market cap ($M)	40.3
Dividend	NA
Yield	NA

Sector Overview	
Sector	Financial
Sector % of S&P 500	13.9%

Financials ($M, as of 9/30/24)	
Cash & Mkt Securities	7.3
Debt	148.2
Working Capital	130.6
Current Ratio	8.0
Revenue (TTM)	134.6
Net Income (TTM)	NM
Net Margin (TTM)	NM

Risk	
Beta	1.40
Inst. ownership	16%

Valuation	
P/E Forward EPS	4.9
Price/Revenue (TTM)	0.3
Price/BV	NM

Top Holders

Waterfall Asset Management LLC
Vanguard Group Inc.
Perkins Capital Management Inc.

Management	
CEO/CFO	Mr. J. Russell Heiser
COO	Mr. John Davis
Company website	www.flexshopper.com

in loan originations, with better asset yield and with bad debt declining by nearly 1000 basis points year over year. In 3Q24, improved asset quality drove a $2 million benefit compared to the prior-year period.

* **Expanding Retail Channel and Payment Provider Partnerships**: Across 2024, FlexShopper has expanded a retail partner channel built upon largely exclusive relationships that we see driving loan originations both in-store and on retailer websites while driving traffic back to FlexShopper's e-commerce marketplace. Year-to-date, the company has signed partnerships for approximately 7,800 retail locations, representing a 250% increase over the end of 2023, and has exceeded its initial 2024 retail store count goal by the third quarter of the year. FlexShopper has also launched partnerships with multiple payment solution providers to expand customer payment options and expand its reach. Despite these results, we still see the company as being in the early stages of its growth cycle.

* **Discount Purchase of Series 2 Preferred Stock:** In October 2024, FlexShopper entered into a purchase option agreement with the majority holder of its Series 2 preferred stock, which gives FlexShopper a one-year option to redeem 91% of the preferred stock at a substantial discount of more than 50% to its liquidation value of around $43 million. If fully executed, the deal would transfer $23 million of equity value to shareholders, around $1 per share, while eliminating more than $4 million currently paid in annual dividends to operating income. We expect the retirement of this obligation in an accretive manner to help FlexShopper to delever its balance sheet from a position of strength, further accelerating its growth trajectory.

* **Rights Offering Launched to Equitize its Balance Sheet**: FlexShopper has filed an S-1 with the SEC for an up to 70 million share rights offering, at a price of $1.70 per share, which we see as accretive to pro forma 2024 results and increasingly accretive the more capital that is raised. In its filed free writing prospectus in November 2024, FlexShopper said for every $25 million of capital raised, the company would enhance its bottom line by reducing its annual dividend and interest by $4.5 million, representing an immediate yield of 13% for new investors, starting with the elimination of the Series 2 preferred stock.

* **Defending IP Position:** On September 30, 2024, FlexShopper filed patent infringement lawsuits against Upbound Group Inc. and Katapult Holdings Inc., alleging infringement and unauthorized use of five key FlexShopper patents that protect FlexShopper's computer-implemented LTO technology. We expect initial responses to be filed by early 2025 and view the Eastern District of Texas, a jurisdiction that tends to move quickly, positively for a swift adjudication pathway, which we think could lead to similar suits against other LTO companies.

* **Fair Value**: FPAY is trading below its LTO peers, even those low-growth companies whose operations are largely offline and operate out of legacy brick-and-mortar locations. We expect this gap to narrow significantly over time, as FlexShopper executes on its growth strategy and commands multiple expansion. Based on our enterprise value (EV)/EBITDA analysis, we see a fair value of $5.50 per share.

COMPANY/INDUSTRY BACKGROUND

FlexShopper is a financial technology company that provides a variety of funding options through LTO with risk-based pricing, in serving a customer base that falls within the near-prime or subprime credit score categories and that often has difficulty purchasing or financing durable goods or services.

FlexShopper's primary LTO sales channels include direct to consumer (DTC) and B2B channels. FlexShopper.com has expanded its marketplace to enable nonprime consumers (typically those with FICO credit scores below 660) to purchase goods in their DTC channel, in a model similar to Amazon. The site has expanded its financing options (both internally and through third parties) to serve visitors with limited access to credit who can purchase goods at appropriate rates. FlexShopper also works with B2B retail channel partners, both online and offline, to provide financing for customers that traditional BNPL companies, such as Affirm, would typically not fund.

FlexShopper's e-commerce marketplace, its primary revenue contributor across its history, allows customers to shop for brand name electronics, home furnishings, and other durable goods. Through FlexShopper.com, its DTC customers can acquire its well-known brands such as Apple, Samsung, Sony, Frigidaire, General Electric, LG, Whirlpool, Hewlett Packard, Asus, Dell, and Ashley. Recently, it has added multiple providers of capital so that customers, based on their credit ratings and shopping cart size, can receive the lowest-priced financing offer. FlexShopper currently internally services the bulk of the site's financing on an LTO basis. The company recently launched a streamlined microsite focused on electronics and plans sites in other categories for the 2024 holiday shopping season to help support expedited item purchases and lease originations.

Key components of FlexShopper lease options include flexible pricing, typically ranging from 1.5 times to 2.5 times the retail cost of

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PEER COMPARISON

Company	Ticker	Recent Price ($)	52-Week High ($)	52-Week Low ($)	Mkt. Cap ($MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
FLEXSHOPPER INC	**Nasdaq: FPAY**	**1.85**	**2.19**	**0.97**	**40**	**8**	**6**	**NM**	**NM**	**1.40**	**NA**
KATAPULT HOLDINGS INC	Nasdaq: KPLT	6.59	23.54	5.79	28	-34	6	NM	NM	1.08	NA
UPBOUND GROUP INC	Nasdaq: UPBD	33.71	38.72	26.50	1844	6	NM	NM	NM	2.04	4.6
PROG HOLDINGS INC	NYSE: PROG	48.12	50.28	27.84	2010	61	NM	57	16.1	2.14	1.0

the product. Customers can obtain merchandise with "90 day, same as cash" options and weekly/biweekly payment options, with no long-term obligation or penalties for early termination or early or multiple payments. Importantly, its underwriting does not impact consumers' credit with the three main credit bureaus. With short-duration leases and loans with monthly payments, FPAY is able to react to credit changes more quickly and effectively than many of its peers, in our view.

The company approves consumers through a proprietary, risk analytics–driven underwriting model, usually within minutes. After receiving a signed consumer lease, it purchases the item from its drop-ship partners and leases it to its customer, without holding inventory. The company then collects payments under a consumer lease.

In late 2022, FlexShopper acquired and implemented a direct origination model for consumers in 11 states, enabling some applicants to obtain underwritten and funded loans through its platform. We note that revenues and cash flow driven through this channel are immediately recognized, compared with leases, which are amortized over a 12-month lease period. In our view, the direct loan business has seen strength across 2024, due to improved collections, which has increased customer origination dollars, helping to offset origination count declines resulting from FlexShopper's bank partner exit in 2023. We see the loan business contributing to an expansion in repeat customer activity across the platform.

In addition to its own e-commerce platform, FlexShopper is also expanding its reach by partnering with retail channel players to enable seamless checkout on merchant partners' e-commerce sites or through partner in-store terminals. We view these partnerships, which are often exclusive, supporting loan originations on attractive pricing terms, given lower related marketing cost obligations, which can reduce a loan's return profile, and a lower customer acquisition cost.

Across 2024, FlexShopper has rapidly expanded its retail channel partnerships to include automotive, electronics, pawn, and other categories. As of September 30, 2024, FlexShopper cited more than 7,800 retail locations in which FlexShopper is either the sole or first-look LTO provider, enabling them to continue to grow B2B lease originations. Its online presence and its instant underwriting process for all consumer channels promote a highly scalable platform that can set up technology within days, followed by training to help get these locations online in short order. FlexShopper estimates that its retail partners have achieved an 80% active rate (completing a lease transaction) within 60 days.

The expansion of its retail partnerships with companies in need of an LTO solution contributed to a 33% increase in total lease funding approvals in the third quarter of 2024 to $77 million, compared with the same period in 2023. Thus, we see expansion of the B2B model helping to subsidize D2C customer acquisition costs by driving additional site traffic to FlexShopper's ecommerce platform, where it can promote repeat customers, who deliver its most profitable transactions, and enhance the FlexShopper brand.

In addition, across 2024, FlexShopper has launched partnerships with a broad array of payment solution partners that provide funding solutions for customers that FlexShopper cannot serve through its lease offering. This has provided incremental revenue to the company while driving traffic to its website that would otherwise have been lost. We expect a growing number of new partnerships, including a group of waterfall financing platforms, to help drive conversion and sales growth rates while continuing to scale the business through lower customer acquisition costs.

We also see these partnerships supporting further expansion of its retail channel network. In December 2024, FlexShopper announced an exclusive strategic partnership with United Wheels Inc., whose portfolio of brands includes Huffy, Niner Bikes, Batch Bicycles, VAAST Bikes, and Buzz E-Bikes. The company ships over 5 million bicycles annually to more than 50 countries, generating approximately $1 billion in revenue each year. The partnership, which will integrate FlexShopper's financing options across United Wheels' family of websites, was driven by FlexShopper's relationship with PayPossible, which was announced in October 2024.

Lastly, FlexShopper has recently launched the retail revenue model discussed earlier through which providers of capital, other than FlexShopper, are the financing option at checkout. In those instances, FlexShopper makes a retail margin on the products financed but does not have the financing exposure to the customer. FlexShopper has profited on the product margin for products sold, which has averaged 22%-23% to date. Through the first nine months of 2024, the company has recognized approximately $3.5 million, resulting in around $800,000 in incremental net income.

INVESTMENT THESIS

In our view, FlexShopper's "omnichannel" and scalable business model represents a key competitive advantage over its peers. The company is servicing a key and often underserved customer demographic that has seen reduced liquidity for many purchases. As average credit scores have been trending downward and customer indebtedness has risen, prime issuers have increasingly curtailed credit for certain users based on credit scores, which we see exacerbating the need for FlexShopper's solutions.

We see FlexShopper's business model driving traffic to its e-commerce platform while attracting new customers from retail partners, where FlexShopper assumes ownership of the relationship. In our view, this makes it more likely that customers become repeat customers, which we view as a key component of FlexShopper's business model. Under this model, FPAY benefits from customer lease payments, but being registered in its marketplace promotes repeat purchases, making return on the lease, as well as the retail margin on the item sold.

Importantly, FlexShopper does not take inventory of any products offered on its websites. Instead, its partnered distributors and manufacturers drop-ship products directly to customers, after loan origination. We think the lack of inventory and more modest capital requirements of its business enable more investment in its technology and management of its loan portfolios.

Over recent quarters, the cost of merchandise sold as a percentage of lease revenue and the depreciation and impairment of lease merchandise costs as a percentage of gross lease billings have been declining, which we attribute to the increasing product margin FlexShopper earns on goods sold through its platform, recently expanding into higher-margin categories. In addition, we see these benefits enabling higher marketing spend, which we see supporting organic growth across the platform.

We also view positively its proprietary risk-based pricing analytics engine that we think promotes scalability and regulatory compliance and also supports its ability to grow market share while assembling loan portfolios that produce desired asset return levels. These analytics help FlexShopper to expand loan originations and lower customer acquisition costs through expanding underwriting approval rates, rather than tightening its underwriting policy, while maintaining asset quality.

While we view bad debt expense as inherent in its operating model, we see this impact mitigated by its ability to increase revenue at a higher rate, given the higher product markup charged to higher-risk customers. We see FlexShopper benefiting from its underwriting algorithms that aggregate its loan portfolio to achieve target asset level returns, which are built in to the loan origination process. We view positively FlexShopper's investments in its digital and analytics infrastructure and note that with a still low conversion rate among unique website visitors, we think that FlexShopper remains at the early stages of its growth cycle.

The provision for doubtful accounts as a percentage of gross lease billings and fees was 22% in the third quarter of 2023, which was a 1,000 basis point improvement over the same period in 2023. New originations continue to demonstrate favorable early payments, which have reduced bad debt exposure and drive benefits towards the bottom line. We think that lowering bad debt while increasing loan originations signals the effectiveness of FlexShopper's operating model, instead of protecting bad debt while tightening underwriting standards. Thus, we view growing loan originations and the achieved asset return levels as important operating metrics and view FlexShopper's progress in these regards favorably. Year-to date in 2024, total lease funding approvals from this marketing activity and retail partner door expansion has resulted in doubling its total lease funding approvals versus the same period last year.

We view FlexShopper's intellectual property portfolio favorably. The portfolio covers a range of systems, including its underwriting model and technology that enables e-commerce servers to complete LTO transactions through its e-commerce website as well as its retail partners to complete transactions through their sites as well. To that end, on September 30, 2024, FlexShopper initiated legal action to defend its intellectual property against Upbound Group Inc. and Katapult Holdings Inc., alleging unauthorized use of FlexShopper's patented technologies. The lawsuits revolve around five key patents, granted between 2018 and the present, which protect FlexShopper's computer-implemented LTO technology.

The patents in question cover FlexShopper's innovative systems and methods for enabling retailers to partner with third-party LTO providers, facilitating seamless LTO transactions for consumers. We expect clarity to begin to emerge in early 2025, when initial responses by the defendants are received. We view positively the jurisdiction under the Eastern District, given its reputation of progressing quickly, often within 18 months or so from the date of filing. We also see potential for FlexShopper to file additional lawsuits against its LTO competitors. We note that FPAY has increased by approximately 80% since filing the lawsuit, while KPLT, the smaller of the defendants, has declined nearly 40%.

RECENT DEVELOPMENTS

FlexShopper shares trade on the Nasdaq Capital Market under the symbol FPAY. Year-to-date in 2024, the shares have increased by 25% compared with a 28% increase for the S&P 500.

In November 2024, FPAY reported third-quarter 2024 results, which were highlighted by a 33% increase in funding approvals, 22.9% growth in revenues, a 400 basis point gross margin expansion to 58%, and GAAP profitability of $0.05 per share, compared with a loss per share of $0.11 in the year-ago period.

In December 2024, FlexShopper announced an exclusive strategic partnership with United Wheels Inc., whose portfolio of outdoor brands includes Huffy, Niner Bikes, Batch Bicycles, VAAST Bikes, and Buzz E-Bikes. The partnership was fostered by FlexShopper's relationship with financing waterfall platform PayPossible, and will integrate FlexShopper's LTO financing options across United Wheels' e-commerce sites, helping to expand sales with credit underserved consumers.

In October 2024, FlexShopper announced a strategic partnership with financing waterfall platform PayPossible. Under the partnership, FlexShopper's LTO services will be integrated into PayPossible's platform, expanding consumer financing options for a wide range of retail merchants.

In October 2024, FlexShopper entered into a purchase option agreement with the majority holder of the company's Series 2 preferred stock in which FlexShopper has the option over a one-year period to redeem 91% of FlexShopper's preferred stock at a 50+% discount to the second quarter of 2024 liquidation preference of approximately $43 million. The agreement, if fully executed, would transfer $23 million of equity value to FlexShopper's common shareholders, representing approximately $1 per share, and be accretive to its annual operating income by approximately $4 million.

In September 2024, FlexShopper initiated legal action to defend its intellectual property against Upbound Group Inc. and Katapult Holdings Inc., alleging unauthorized use of FlexShopper's patented technologies. The lawsuits revolve around five key patents, granted between 2018 and the present, which protect FlexShopper's computer-implemented LTO technology.

In September 2024, FlexShopper announced a partnership with Versatile Credit that will integrate FlexShopper's robust LTO services into Versatile Credit's platform, enhancing consumer payment solution options across more than 1,600 tire and auto retail merchant locations in over 30 states.

In August 2024, FlexShopper announced a partnership with waterfall platform financing company Terrace Finance Corp. that will integrate FlexShopper's LTO services into Terrace Finance's multiprovider platform, enhancing consumer payment solution options for over 800 retail merchant locations at the end of the second quarter of 2024, with another 500 retail locations expected by the end of 2024.

In August 2024, FlexShopper announced a strategic partnership with leading waterfall financing platform PayTomorrow that will integrate FlexShopper's LTO services into PayTomorrow's flexible financing platform, enhancing consumer financing options for a wide range of retail merchants. The company sees potential to expand its 1,400 retail locations through its partnership with PayTomorrow to over 4,000 locations over time.

EARNINGS & GROWTH ANALYSIS

For 2024, we project revenue of $145 million, which would represent approximately 24% growth. For 2025, we project revenue of $173 million, which would represent around 20% growth. We expect its lease unit, which accounts for approximately 75% of total revenues, to benefit from higher lease origination dollars complemented by continued moderation in bad debt expense, which has declined by approximately 1,000 basis points over the past year, to 22% in 3Q24, which we attribute to AI-driven improvements in servicing and enhancements in its underwriting models.

We view positively the robust lease origination trends that have benefited from expanded activity on FlexShopper's marketplace, which is being supported by growth in its retail partnership channel, helping to drive repeat purchases. The company continues to add more SKUs to the site to gain a larger share of its customer spending and is launching microsites to help expand its product reach. As mentioned earlier, lease revenues are recognized over the life of the lease, while loan channel revenues are recognized at the time of origination.

In its loan portfolio, we are encouraged by improved collections that have significantly improved its return metrics and helped to offset the revenue loss from its banking partner exiting the business in 2023. However, we note that FlexShopper is pursuing a new partner so that it could continue to offer this service to its customers. We also see FlexShopper being in the early stages of collecting retail revenues from partners, as it collects a margin (22%-23% since inception) for products sold on its platform by third parties.

In addition to healthy revenue growth and lease demand, we view positively the expansion of its gross margin, which was 54% for the first nine months of 2024 and represented a 900 basis point improvement over the 45% achieved over the same period in 2023. During the third quarter of 2024, gross margin reached 58%, as product margins continue to improve and mature into the portfolio and improve overall lease profitability. FlexShopper has added higher margin products to its marketplace, including furniture, mattresses, jewelry, and other luxury items on its website, contributing to a decline in depreciation as a percentage of its lease revenue, which we forecast will be around 41% of lease revenues in 2024 and 40% in 2025. As the company grows revenue and expands its conversion rate among website visitors, we expect it to channel the margins back into marketing. Thus, for 2024 and 2025, we expect gross margins of 54.7% and 56.4%, respectively.

In our view, FlexShopper is working to simplify and equitize its balance sheet to eliminate preferred stock as well as some other high cost debt items. In October 2024, FlexShopper entered into a purchase option agreement with PIMCO, the majority holder of Series 2 preferred stock, that would provide FlexShopper a one-year option to redeem 91% of preferred stock at $20 million, which would represent more than a 50% discount to the second quarter of 2024 liquidation value of approximately $43 million. The deal would transfer $23 million of equity value to its common shareholders (approximately $1/share at present) and approximately $4 million that has been paid in dividends (at a 20% yield) to annual operating income.

The total offering will allow for the purchase of up to 35 million units, consisting of 1 share of common stock and a Series A, B, and C right, which expires 30, 60, and 90 days, respectively, after the initial offering, enabling participants to make additional share purchases after learning the impact on balance sheet improvements from the proceeds of the initial raise. The company estimates that for every $25 million in net proceeds, net income would increase by $4.5 million. We see an oversubscribed offering potentially enabling the redemption of the Series 2 preferred stock and eliminating the annual dividend. We also see reducing annual interest expense through the retirement of its $10.9 million subordinated notes balance and the paying down of a portion of its credit facility agreement from a position of strength due to the accretive nature of the transaction. Thus, we think the offering will enhance net income and accelerate its growth trajectory by improving FlexShopper's future cost of capital and simplifying its capital structure, as it delevers its balance sheet.

For 2024 and 2025, we project adjusted EBITDA of $36.5 million and $45.2 million, respectively, resulting in an adjusted EBITDA margin of 25% and 26%, respectively.

We forecast a net loss per share of $0.13 for 2024 and EPS of $0.38 for 2025. Our estimates assume a diluted share count of 21.8 million in both periods and does not reflect the potential impact of the recently announced rights offering.

FINANCIAL STRENGTH & DIVIDENDS

Our financial strength rating for FPAY is Low-Medium. As of September 30, 2024, the company had cash of $7.3 million, compared to $4.4 million a year earlier. The company has a credit agreement that allows for funding commitments of up to $150 million, which carries an interest rate of 14.4%, as of June 30, 2024. As of September 30, 2024, the outstanding balance under the credit agreement was $118.8 million, up from $96.5 million at the end of 2023. This agreement was revised in early 2024 and has a maturity date of April 2027. The revision decreased the company's interest cost by 2% per year. The company's total debt position also includes $10.6 million in promissory notes and a $7.3 million loan payable.

As of September 30, 2024, the company had positive working capital of $130.6 million and a current ratio of 8.0 on current assets of $149.3 million against current liabilities of only $18.7 million.

As of September 30, 2024, the company had loan receivables of $40.1 million, which is measured at fair value, up from $35.8 million at the end of 2023. FlexShopper seeks to collect amounts owed under its leases from each customer on a weekly or biweekly basis by charging their bank accounts or credit cards.

We note that FlexShopper currently experiences a lag in recognizing revenue over the course of a lease-cycle, which is typically 12 months, while expenses are recognized at the lease origination. As a result of the growth in lease originations, the increase in receivables has resulted in the company using $23.8 million in cash flow from operations over the first nine months of 2024, compared with $2.6 million in cash generated by operations during the same period. Importantly, provision for doubtful accounts declined by more than 20% during the first nine months of 2024, to $25.4 million, from $32.1 million in the prior-year period.

During the first nine months of 2024, net cash used for investing activities totaled $6.2 million, compared with $5.1 million in the same period in 2023, largely due to costs from data purchases.

Cash provided by financing activities in the first nine months of 2024 totaled $32.9 million, compared with $2.1 million in the same period in 2023, due to increased proceeds from its credit agreement to help support new loan originations in 2024.

The company's operations have historically had some seasonality, with peak periods around the back-to-school and holiday shopping seasons, as well as other periods, including Memorial Day and Labor Day. We also see increased loan payoffs occurring following tax refund season in the first half of the year.

In May 2023, FlexShopper's board authorized a share repurchase program to acquire up to $2 million of the company's common stock over an 18-month period. To date, the company has purchased more than 525,000 shares of common stock.

As of December 31, 2023, the company had federal and state level net operating loss carryforwards of approximately $78 million, 1000% of which it can use as an offset 90% of future earnings, until exhausted. As such, we expect the company's effective tax rate to be approximately 4% over the next several years, before reverting to a normalized rate.

FPAY does not pay a dividend on its common shares, and we do not expect the company to initiate such a program in the foreseeable future.

MANAGEMENT

Russ Heiser Jr. has been FlexShopper's chief executive officer since March 2023 and has served as its chief financial officer since December 2015. Mr. Heiser previously served as a financial advisor to a group of family offices in South Florida, providing guidance on matters relating to venture capital and private equity investments and was responsible for sourcing, financial analysis, transaction execution, and management of portfolio companies across a variety of sectors. Earlier in his career, Mr. Heiser served as an executive director in the Investment Banking division at UBS in New York and an associate in the Investment Banking division at Bear, Stearns & Co. in New York. Mr. Heiser has both CPA and CFA designations.

John Davis has served as FlexShopper's chief operating officer since November 2020. Previously, Mr. Davis was a consultant to the company through Woodlands Financial Advisory LLC, where he served as CEO. Earlier in his career, Mr. Davis served in executive roles with a range of specialty finance consultancies and retailers including Conn's Homeplus, GFC Advisors Ltd., DFC Global Corp., MEM Consumer Finance, and CompuCredit Corp.

As of November 2024, FPAY's board of directors consisted of five members, with four of them classified as independent directors. Importantly for corporate governance purposes, all members of the key audit, compensation, and corporate governance and nominating committees are independent. While not mandated in its bylaws, the board supports a current structure of separating the roles of chairman and chief executive officer.

As of September 30, 2024, insiders owned approximately 45% of the common shares, with most of this from board chairman Howard Dworkin (30% ownership).

RISKS

Risks to an investment in FPAY include exposure to uncertain trends affecting consumer spending; competitiveness in its industry and increasing price transparency; a need to manage its cost structure; maintaining exclusive relationships with its third-party retail partners and the company's need to meet expectations; managing its balance sheet and indebtedness to be able to realize net income from growing operations rather than satisfying debt obligations; maintaining sufficient levels of return on its leased asset portfolio; maintaining rigor in its underwriting standards while still growing loan origination levels; a customer base that inherently presents significant risk of default for nonpayment, requiring successful risk management and lease margin requirements; and reliance on protecting its intellectual property from infringement or unauthorized use.

VALUATION

With a recent stock price around $1.90, near the rights offering price of $1.70 per share, and a market capitalization of only $42 million, roughly 0.25 times our 2025 revenue estimate of $173 million, we do not see FlexShopper's valuation accurately reflecting its long-term growth potential or the scalability of its operating model that has generated lease origination and revenue growth, with declining bad debt and expanding gross margins from the introduction of higher margin goods into its portfolio.

We think the company is successfully expanding its payment options beyond the traditional LTO market and reaching a wider range of customers. We think this momentum has overcome the inherent risks in the company's business model related to its customer credit quality, which is factored into the higher product markup it charges its customers, which, as mentioned earlier, typically ranges from 1.5 times to 2.5 times the retail cost of the product.

FlexShopper is currently trading at a valuation below its right-to-own peers, including those of comparable size with a virtual business model (Katapult, KPLT) and those with virtual and brick and mortar exposure (Upbound, UPBD) and Progressive (PRG, virtual, but lower growth due to its larger size). As a group, these companies recently traded at a forward EV/2025 consensus EBITDA multiple around 7-times, compared with FlexShopper's multiple around 4.5-times. In addition, we note that Aaron's, a mature, low-growth company that operates under a traditional, store-based business model, was recently taken private at a trailing-12-month EV/EBITDA multiple above 3-times, which we think underscores the disconnect between FlexShopper's valuation to its much higher growth profile.

As FlexShopper executes on its growth strategy, we expect its valuation to warrant multiple expansion and for this gap to narrow over time. In addition, we see the rights offering, debt retirement, and a favorable outcome to its recent IP litigation as potential tailwinds and share catalysts in 2025.

As such, we apply a 6-times multiple, a narrowed discount to the peer average, to our 2025 adjusted EBITDA estimate of $45 million. After adjusting for net debt, we arrive at a fair value of $5.50 per share.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis ($MIL)	2022	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Revenue	113.1	117.0	33.9	31.8	38.6	40.8	145.1	39.1	42.8	44.6	46.9	173.4
Gross Profit	37.1	54.7					79.4					97.8
Operating Expenses	43.4	41.0					53.2					61.7
Operating Income	-6.3	13.7					26.2					36.1
Adjusted EBITDA	45.2	18.1	7.8	5.0	12.2	11.5	36.5	10.1	10.8	11.8	12.5	45.2
Interest Expense	11.2	19.5					21.8					22.8
Pretax Income	-3.0	-5.2					4.4					13.2
Tax Rate (%)	NA	NA					57					4
Preferred Dividends	3.7	4.1					4.4					4.6
Net Income to FPAY	9.9	-8.3					-2.8					8.0
EPS ($)	0.44	-0.38	-0.06	-0.23	0.05	0.11	-0.13	0.04	0.07	0.12	0.15	0.38
Diluted Shares	22.4	21.7					21.8					21.8
Dividend Per Share ($)	NA	NA					NA					NA

Growth Rates (%)	2022	2023	2024E	2025E
Revenue	8	3	24	20
Operating Income	NM	NM	91	38
Pre-Tax Income	NM	NM	NA	200
Net Income	NM	NM	NM	NM
EPS	NM	NM	NM	NM

Valuation Analysis	2022	2023	2024E	2025E
Price ($): High	2.19	2.47	NA	NA
Price ($): Low	0.97	0.59	NA	NA
PE: High	NA	NA	NA	NA
PE: Low	NA	NA	NA	NA
PS: High	NA	0.5	NA	NA
PS: Low	NA	0.1	NA	NA
Yield: High	NA	NA	NA	NA
Yield: Low	NA	NA	NA	NA

Financial & Risk Analysis ($MIL)	2022	2023	2024E	2025E
Cash	6.1	4.4	NA	NA
Working Capital	97.5	105.3	NA	NA
Current Ratio	9.0	9.7	NA	NA
LTDebt/Equity (%)	310.4	393.9	NA	NA
Total Debt/Equity (%)	314.9	395.4	NA	NA

Ratio Analysis	2022	2023	2024E	2025E
Gross Profit Margin	32.8%	46.8%	54.7%	56.4%
Operating Margin	NM	12%	18%	21%
Adjusted EBITDA Margin	40%	15%	25%	26%
Net Margin	9%	NM	NM	5%
Return on Assets	NM	NM	NA	NA
Return on Equity	NM	NM	NA	NA
Op Inc/Int Exp	NM	NM	NM	NM

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