

Technology

StationDigital Corporation

Buy

SDIG – OTCQB

March 20, 2015

Closing Price 03/20/2015	\$0.39
Rating:	Buy
Target Price:	\$0.81
20-Week Range:	\$0.30 - \$0.60
Market Cap (M):	\$33.4
Shares O/S (M):	83.5
Avg. Daily Volume (3 mos):	3,918

Multimedia Digital Broadcasting

Initiating Coverage of StationDigital Corp. with Buy Rating and \$0.81 Price Target

Investment Highlights

- Opportunity to invest in an innovative, early stage next generation multimedia broadcast company with a unique and differentiated service and business model aimed at a rapidly growing and large market opportunity
- The Company's music streaming service has over 30 million songs for its 2.4 million users that offers customized listening, music discovery, a personal recommendation engine, a value-added social layer, and e-commerce platform
- Key competitive differentiation factors are its unique listener rewards program/online store and wide variety of entertainment content options beyond music
- Music streaming industry is still in its early stages and is experiencing rapid growth and market share capture from a large addressable \$15 billion US radio market
- Our valuation analysis results in a target price of \$0.81 per share which represents significant upside of over 2 times the current stock price

Analyst:

Jeffrey Song



ANALYST BACKGROUND

Jeffrey Song has over 10 years of investment banking, private equity, and public equity investing experience including 3 years of investment banking at Goldman Sachs, 4 years at a private equity firm, and 4 years as the investment manager for private family wealth. Mr. Song started his career at Goldman Sachs where he spent 3 years as a financial analyst in their mergers & acquisitions and private equity groups covering a broad range of industries and closing 8 transactions with a total value of over \$6 billion. He then spent 4 years as a senior associate at Friedman, Fleischer, & Lowe, a \$1 billion SF-based private equity firm where he focused on leverage buyouts and growth equity investments in middle market companies. After working briefly at Gandhara Capital, a \$2 billion equity hedge fund in Hong Kong, Mr. Song spent 4 years as the investment manager for private family wealth. Most recently, he was the consulting CFO and founder of two early stage internet startup ventures and provides ongoing consulting to startups across a variety of industries. Mr. Song graduated from Stanford University with a Bachelor's degree in Industrial Engineering.

COMPANY PROFILE

StationDigital Corporation

Highlands Plaza Two
St. Louis, MO 63110
www.stationdigital.com

Company Description: StationDigital Corporation is a multimedia digital broadcast company that offers free music streaming of over 30 million songs. StationDigital features both genre-based and artist-based music discovery stations to suit an endless variety of musical tastes, and a personal recommendation service to its more than 2.4 million unique listeners – all available both online and through its iOS and Android mobile apps. StationDigital’s users can customize their listening experience by selecting playlists and stations based on themes, interests, and location, as well as favorite artists, songs, genre, and by providing feedback on the music they hear.

Louis R. Rossi: Chief Executive Officer. Mr. Rossi has enjoyed a long career in the technical industry as an engineer, entrepreneur, and executive, since graduating Florida State University in 1992 with a B.S. in Physics, he has been an entrepreneur, first as an independent consultant and a trainer, then as CEO of CCPrep.com and Qoncert. While at CCPrep.com, Mr Rossi sold of the company to Earthweb and later re-purchased of the company in 2003. While CEO of Qoncert, Mr. Rossi grew revenue over 100% annually from 2008-2012 and in 2013 executed the sale of Qoncert and CCPrep.com.

Edward L. Storm: Chief Operating Officer and Director. Mr. Storm was formerly President and CEO of Reward Wall Systems until he sold the company in 2014. Mr. Storm took the company from \$4 million to over \$18 million in revenue. Prior to Reward Wall Systems, he was an advisor at EF Hutton, Shearson Lehman Brothers and RW Baird, as well as a CPA with Arthur Andersen. Mr. Storm currently manages a real estate development company with holding in NE, KS, CO, and AZ. Mr. Storm is a Certified Public Accountant and has a B.S. in Accountancy from University of Nebraska at Lincoln.

Jacob Morris: Chief Advertisement Officer. Mr. Morris is considered by many to be a digital strategist pioneer. His previous roles include Chief Operating Officer at Studio W/WOWIO, co-founder and COO of a boutique ad operations company (Commercial Road Media), consultant to various clients in ad operations, and a leader at Real Media.

Steven K. Marr: Chief Financial Officer. Mr. Marr has been a financial leader with over 30 years of experience in accounting, finance, financial planning, financial and technology audit, consulting, information technology and operations management. Mr. Marr’s prior roles include director of a professional services company, corporate controller for an international \$700 million manufacturer of automobile components, and finance director of a \$750 million printing and electronics media company.

Risks:

- Internet radio is an emerging and ever-changing market so future prospects are difficult to evaluate
- The music streaming market is highly competitive with strong first movers and competitive threats from traditional music/radio platforms, other entertainment providers, and new market entrants
- SDIG expects operating losses in the near to mid-term and may not be able to generate sufficient revenue to be profitable in the future
- Ability to maintain and protect proprietary technology leadership
- Potential future changes in regulation of radio, music, internet
- SDIG's success is dependent on access to future financings to fund its growth plans. Future equity or debt financings will result in additional dilution or leverage
- The Company has a very small market capitalization and low trading volumes/liquidity which could give rise to price volatility; categorized as a "penny stock" and subject to penny stock regulations which could restrict liquidity and investor interest/suitability

INVESTMENT THESIS

StationDigital Corporation (“StationDigital” or the “Company”) presents an opportunity to invest in an innovative, early stage next generation multimedia broadcast company with a unique and differentiated service and business model aimed at a rapidly growing music streaming market opportunity. The Company will offer the first agnostic, multimedia broadcast platform available on any device, from anywhere, at anytime. StationDigital offers free streaming music of over 30 million songs to its over 2.4 million unique listeners with customized listening experience, music discovery features, a personal recommendation engine, and value-added social features.

The Company’s key competitive differentiation factors are its unique listener rewards program/online store and a variety of entertainment options beyond music. StationDigital’s listener rewards program is a unique, industry first value proposition which drives user growth/brand awareness, user engagement, and e-commerce revenue. Users earn reward points for engagement and sharing and redeem rewards points in the Company’s online store for a wide variety of digital and physical merchandise. The rewards program incentivizes users to participate in the organic growth of the user base and enhances brand awareness. Additionally, the Company’s service is differentiated by providing other entertainment content options in addition to music streaming including TV/movie content, music videos, books, specialty content, and videogames. StationDigital’s multimedia offering will distance itself from competitors as users begin to recognize the Company as a one-stop shopping experience for a variety of media content.

SDIG’s future growth strategy is focused on building its brand awareness and user base, a mobile-first strategy, innovative product development, expansion of its content base, and development of key partnerships to expand distribution. The Company plans to boost its digital marketing plans with a focus on the mobile segment to further expand its user base and brand, while continuing to benefit from the network effect of its listener rewards program. To increase engagement with users the Company continues to develop enhanced features and expand its content base. As the markets for digital media consumption expand beyond computers and mobile devices to the living room and the car, StationDigital will aggressively pursue partnerships to expand their application to these platforms.

The music streaming industry is still in its early stages and is experiencing rapid growth and market share capture from a large addressable \$15 billion US radio market. With over 240 million US radio listeners and only 12% current Internet radio penetration there is a long runway for growth. The music streaming services market grew 50% in 2014 to \$5 billion and is expected to surge almost 10 fold to \$46 billion by 2018. While first movers such as Pandora and Spotify have validated the market opportunity, the market is still in its early stages with room for new, innovative entrants to capture share.

At the current stock price of \$0.40 per share and market capitalization of \$33.4 million, the stock is undervalued given the Company’s future growth potential as it captures share in the high growth music streaming market. Our valuation analysis results in a market capitalization of \$67.6 million or target price of \$0.81 per share. This potential price represents significant upside of over 2 times the current stock price. Further, this target price seems reasonable given that it is only 35% higher than the Company’s recent high of \$0.60 last October.

INDUSTRY OVERVIEW

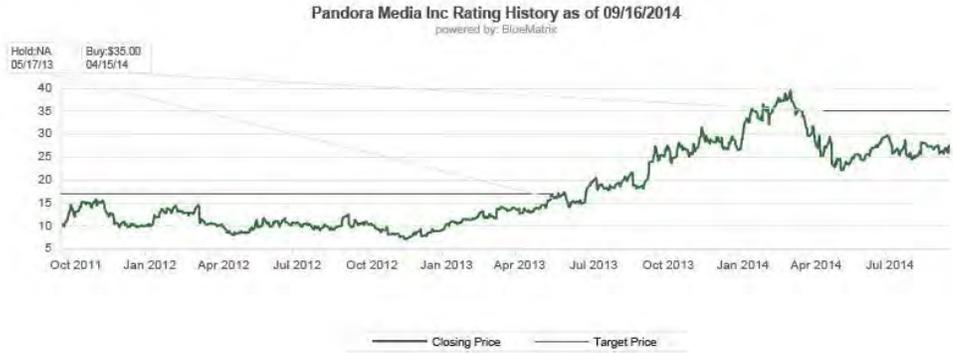
StationDigital's business model lies at the intersection of two large and high growth markets in the US – digital advertising and Internet radio. The US digital advertising industry is approximately \$20 billion with highest growth in the mobile segment which was \$1.7 billion in 2012 and is expected to grow at a 48% CAGR to \$12.4 billion in 2017 (IDC June 2013). In 2012, the US radio market was \$15.4 billion and is expected to grow to \$17.9 billion by 2017 (IDC June 2013).

The overall US radio listening audience is a large addressable market comprised of 92% of the US population or more than 240 million people. 80% of music listening is through the radio and the average radio listener spends 18 hours per week tuned into radio. Current penetration of Internet radio is still low at only approximately 12% of total US radio listening (Triton Digital). US radio listening is still dominated by terrestrial radio with 80% share, leaving huge upside for share penetration for the internet radio category. Radio listening predominately occurs in automobiles which accounts for 60% of radio listening, while 19% occurs at home and 12% in the office/other. The benefits of Internet radio over traditional terrestrial radio are that it is one-to-one, interactive, and highly personalized. Personalized radio customized for each listener offers a more value-added service for consumers and a more targeted and efficient platform for advertisers.

The streamed music market in the US is quickly gaining share in the music industry and has seen rapid growth over the last several years with a number of competitor entrants establishing market share positions and increasing awareness of the category as a whole. While digital music download sales continue to decline, US streamed music accounted for 27% of total music sales in the first half of 2014 up from 15% in 2012 (Recording Industry Association of America). Music streaming services revenue are expected to increase over 50% to over \$5 billion in 2014 and surpass \$46bn by 2018 (ABI Research).

Pandora is currently the leader in the Internet radio segment with first mover advantage and offers a personalized radio experience for its users and uses its proprietary technology, deep musical experience, and feedback from its ecosystem of engaged listeners to provide feedback to hone playlist technology and provide valuable insights to advertisers. The service is available at home, office, or in the car on any connected device and utilizes a “freemium” model with free service supported by ads and a paid service which is ads free and has enhanced features. The majority of revenue comes from advertisements, while paid subscriptions serves as a secondary revenue stream. Pandora's widespread use and growth have validated the Internet radio category and provide evidence for the large market opportunity and growth potential. With a \$3 billion market capitalization and over 80 million global active users, Pandora earned close to \$900 million in revenue in 2014, up from just \$55 million in 2010, and over 30% growth over the prior year. Pandora is the current market leader in Internet radio with a 78% share of Internet radio and no other competitor having more than 10% (Triton Digital). So far Pandora has had a first mover advantage but as the market approaches saturation and user awareness of alternative services increases, competitors will arise and erode Pandora's market position. The two other market entrants that have experienced success and early traction are Spotify and Soundcloud. Spotify is the second largest Internet radio competitor with 60 million active users and an estimated fair market valuation of close to \$6 billion (Manhattan Venture Partners). Spotify is estimated to have \$1.2 billion in 2014 revenue with 30% growth. Soundcloud, a music sharing platform, has 175 million unique monthly listeners and is in discussion to fundraise its next \$150 million at an estimated \$1.2

billion valuation. The significant valuations of these competitors with their large user bases and high growth rates provides validation for the music streaming market and demonstrates the potential for new competitive entrants.



Company	Revenue (mm)	Revenue		Valuation
		Growth	Active users (mm)	
Pandora	\$853 (a)	32%	80	\$3.1bn market cap, 3.4x revenue
Spotify	1,200 (b)	30%	60	\$5.7bn estimated valuation, 4.3x revenue (e)
Soundcloud	14 (c)	40%	175 (d)	\$1.2bn estimated valuation (f)

(a) LTM revenue, growth is LTM over 2013

(b) Estimated 2014 revenue, Manhattan Venture Partners

(c) 2013 revenue

(d) Unique monthly listeners

(e) Estimated fair market valuation by Manhattan Venture Partners

(f) Based on discussions of upcoming \$150mm fundraise

COMPETITION

StationDigital competes for the time and attention of listeners with other content providers based on the overall quality of experience, content relevance & diversity, ease of use, price, accessibility, and perceptions of advertising load. The music streaming segment is still in its early days and although there are a number of competitors, there is still an opportunity for a new service with an innovative and value-added offering to build a presence. Additionally, most competitors focus on one media such as music for Pandora and Spotify and video for Netflix and Hulu. StationDigital's offerings are much more than audio content including video and videogames. Additionally, the Company's unique rewards program gives StationDigital a competitive advantage by allowing users to be rewarded with tangible benefits for listening to StationDigital and sharing with friends.

Competitors for listeners include:

Competing with other radio providers. StationDigital competes with conventional terrestrial and satellite broadcasters, such as Clear Channel, CBS and Sirius XM, many of which own large numbers of stations or other media properties and generally enjoy a much larger established audience, have longer operating histories, have access to substantial financial resources, and could potentially enter the music streaming space.

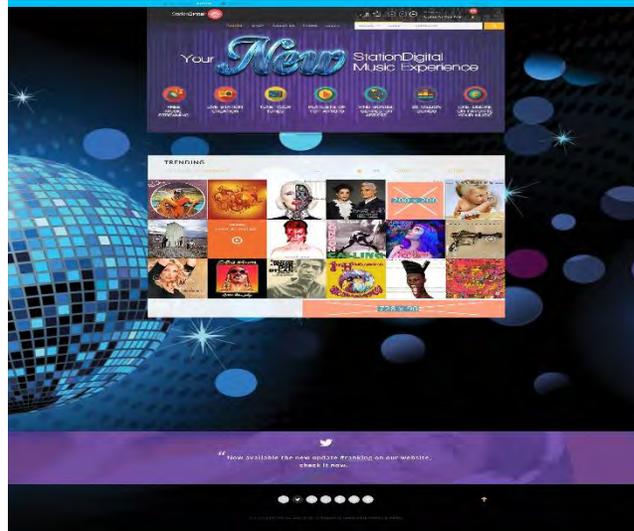
Competing directly with other established online radio providers such as Pandora, Last.fm, iHeartRadio, TunedIn Radio, Songza, and Slacker Personal Radio. Additional competition is possible if known incumbents in the digital media space choose to enter the Internet radio market.

Other Internet Audio Content Providers. The audio entertainment marketplace is evolving rapidly, providing listeners with a growing number of alternatives and new media platforms. StationDigital faces competition from interactive on-demand audio content and pre-recorded entertainment channels that allow listeners to select the audio content they stream or purchase, such as Apple's iTunes Music Store, Rdio, Soundcloud, Deezer, Rhapsody, Spotify, Amazon, and Google Play.

Other Media/Entertainment Platforms. Other in-home and mobile entertainment platforms also provide a source of competition for listeners' time and attention including streaming video

from on-demand services such as Netflix, Hulu, Vevo, YouTube, and interactive video games enjoyed on home entertainment systems, computers or mobile phones. Increased demand from these entertainment sources have taken share from more traditional sources such as broadcast television.

BUSINESS OVERVIEW

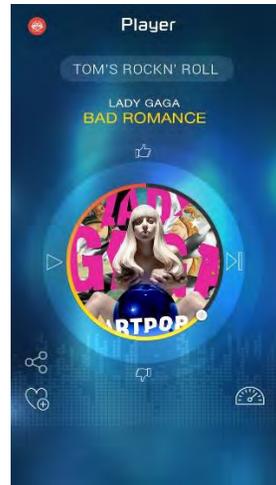


StationDigital is a multimedia digital broadcast company that offers free music streaming of over 30 million songs. StationDigital features both genre-based and artist-based music discovery stations to suit an endless variety of musical tastes, and a personal recommendation service to its more than 2.4 million unique listeners – all available both online and through its iOS and Android mobile apps. StationDigital's users can customize their listening experience by selecting playlists and stations based on themes, interests and location, as well as favorite artists, songs, genre, and by providing feedback on the music they hear.

StationDigital is the first truly next generation digital media broadcast platform. StationDigital's primary identity is as a sophisticated pure play music discovery Internet radio service, offering a competitive, state of the art product to capture market share in the Internet radio space. The Company has a unique, industry first value proposition - the StationDigital Listener Rewards Program, where all registered users earn listener rewards points:

- Every time users listen to StationDigital, either on the web or through their mobile apps
- Every time users share StationDigital with friends through social media

This rewards program directly incentivizes users for playing an active and ongoing part in the organic growth of the customer base and brand. StationDigital rewards points can be redeemed inside the Company's apps through the StationDigital online store for a wide variety of both physical and digital merchandise designed to appeal to users of all kinds. As the Company increases its brand awareness, user base, and engagement, it will benefit from the network effect of its user ecosystem with higher engagement resulting in increased referrals and music sharing, a more effective recommendation engine, valuable insights and targeting for advertisers, and drive increased activity at the Company's online store.



Key Features:

Social features and network effect – feedback on music, share music with friends and family, recommendations, post favorites on timeline, and earn reward points. Users can gain followers and build their own music social network of friends and fans.

Unique personalization of music to user's taste – choose genre, artist, decade and ability to narrow search to a very specific target to get to songs faster. Features include ability to adjust music preferences, create a station playlist, and leverage songs from community of users.

Music discovery – with over 30 million songs and hundreds of stations providing a wide variety of categories and genres, users are always able to discover something new. Add/remove stations with one touch, smooth intuitive song catalog, 30 million songs, choose decade, genre, artist.

StationDigital will become the first agnostic, multimedia, global broadcast platform – available on any device, from anywhere, at anytime. In addition to the StationDigital Rewards Program, the Company differentiates its service by providing many other entertainment content options in addition to music streaming. The Company's business model is to offer Internet radio, TV and movie content, music videos, books and specialty contents such as Latin American telenovelas, and videogames. StationDigital provides this breadth of content offerings as an ad-supported service that is **free** to its users, with revenue (and the user experience) enhanced by its e-commerce initiative. The Company's multimedia offering is expected to be a competitive advantage as users begin to recognize StationDigital as a one-stop shopping experience for a variety of media. The Company plans to extend its rewards program to each form of digital media offering on its platform.

STATIONDIGITAL REWARDS PROGRAM

The Company offers the StationDigital Listener Rewards Program (SD Rewards) as a unique differentiated feature for users to be rewarded for using the service and sharing content with friends through social media. The program provides users with significant incentive to use the system and redeem rewards in the Company's e-commerce store which will help the Company capture market share by increasing its user base and drive revenue through its online store. Registered users earn reward points when they listen to StationDigital via the Internet or a mobile app and when they share StationDigital with friends on social media. Since the service, launched in September 2013, StationDigital listeners have earned more than \$100,000 in rewards by listening to nearly 22 million songs.

Listeners can redeem rewards points through the Company's online store, which carries over 50 million physical and digital items. Management intends to form partnerships with other virtual currency systems to broaden the item selection available to users. Allowing users to trade their StationDigital points for other currencies or for use in other applications such as videogames, for example, would further enhance the rewards program.

Customer loyalty platforms that allow members to earn points each time they transact are becoming increasingly popular as a way to drive consumer loyalty and stickiness. According to Business Insider, from 2008 to 2012, US loyalty memberships increased by 10% per annum, reaching 23 memberships per household in 2012. A recent McKinsey study of 55 publicly traded companies showed that, despite some negative impact on profit margins reflecting that the reward essentially results in discounted pricing, market capitalizations for companies with strong loyalty programs outpaced those of companies that do not offer or emphasize a rewards program. The results of this study demonstrate the value creation a loyalty program can provide.

The Company believes its SD Rewards program creates brand awareness and user loyalty. As users listen, invite friends, or share music on StationDigital they earn more SD reward points. As the Company adds new items to its online store, this further enhances the attractiveness of the rewards program. Building its user base through user referrals to gain reward points will also lower the average customer acquisition cost over time versus more traditional marketing methods.

PLATFORM

StationDigital's free platform will offer all forms of digital media such as music, movies, television programming, eBooks, and video games that consumers demand. StationDigital's automated platform allows the evaluation of user behavior and can make suggestions to customers based on their indicated preferences. This allows StationDigital to cross-merchandise products that are more relevant to the listener or viewer thereby increasing the likelihood of purchase and thus increasing advertising rates. Through the StationDigital online store, customers can shop while they listen to their favorite music, which increases "stickiness" of the platform. This in turn increases the number of concurrent listeners and viewers, subsequently increasing sales and ad revenue. StationDigital's Apple iOS and Droid applications have received what Google Analytics, AdSense, and AdMob deem to consider above industry standard, if not exceptional, customer conversion rates and their retention rates show continuous improvement. The platform significantly reduces operating costs relative to competing platforms by automating the play listing and merchandising system. This will also help increase revenue as previously non-paying listeners directly purchase sales of digital and physical goods.

COMPETITIVE DIFFERENTIATION

StationDigital has demonstrated distinctive advantages over its current competitors. Launched in September 2013, StationDigital has already surpassed 2.4 million unique listeners, averaging 390,000 monthly active sessions from March 2014 (the launch of its mobile applications) through October 2014. StationDigital's initial success can be attributed not only to the music erudition and innovation of its Internet radio product, but also StationDigital's invention of what it considers to be the only listener rewards program available to the exploding Internet radio listener market. StationDigital offers a cutting edge combination of genre based and personalized music stations, music video playlists, as well as a huge assortment of downloadable digital merchandise.

The enormous demand for Internet-based music streaming services can be seen by StationDigital's ability to be ranked in the top 5 most downloaded iTunes free music apps, in only its 3rd month of existence. The mobile app will soon be available in the other application stores, with the ultimate goal of increasing reach to 100% of the mobile devices in use. Mobility is at the heart of the ever growing listener base in Internet radio, and StationDigital's marketing efforts are expanding rapidly beyond first browser focused initiatives and into a series of highly targeted mobile ad campaigns across multiple ad platforms with the goal of aggressively promoting brand recognition and driving hundreds of thousands, and eventually millions, of mobile app installs of StationDigital in the next two years.

StationDigital presently differentiates itself in the market in four ways:

- 1) SD has a catalog of over 30 million songs.
- 2) SD has fewer commercial interruptions than competitors
- 3) SD has a Listener Rewards Program
- 4) Unprecedented Social Networking

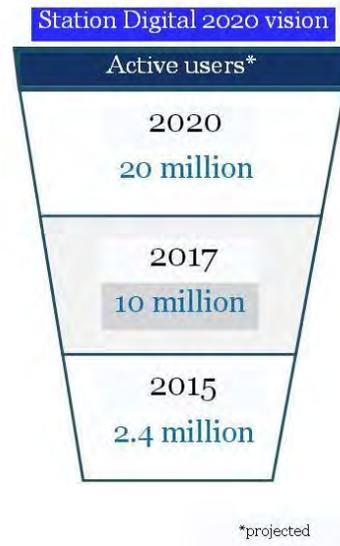
In the future, these same differentiators will distinguish StationDigital's TV and Movie service.

GROWTH STRATEGY

StationDigital launched its Internet radio service in September of 2013 with what it considered to be two significant disadvantages to competitors - an almost non-existent user base and very little brand recognition. StationDigital launched their website first and secured a marketing partnership with Google that enabled them to drive nearly 4 million unique visitors to stationdigital.com in their first three months of existence.

Shortly afterward, in March 2014, StationDigital published their mobile apps, for iOS and Android, in both iTunes and Google Play. This was a significant date since the Internet radio market is predominantly driven by mobile listening, and because they expect the vast majority of their present and future listener base to access StationDigital from mobile devices.

With the knowledge learned via the Google Ad buy in late 2013 and experimentation with paid customer application installs in early 2014, StationDigital is poised to exploit that knowledge with the launch of its version 2.0 web and mobile applications in March of 2015. The Company will acquire users through direct digital marketing acquiring regular and loyal customers directly by capturing click-throughs, mobile app installs, and building an expanding base of registered users who participate in the listener rewards program.



StationDigital will be partnering with top artists for exclusive music, video, and products allowing both the artist and StationDigital to monetize the artist's fan base. Today's digital age has made monetization of an artist's fan base extremely difficult but with StationDigital's unique blend of music radio, video, and e-commerce, artists will be able to capitalize on today's music and video consumers.

Additionally, as the markets for digital media consumption expand beyond laptops and mobile devices to the living room and the car, StationDigital will aggressively continue to expand their application to these platforms. The Company has already entered into development deals with several major set-top platform providers, such as Roku, Western Digital, and Amazon Fire platforms. In addition, the Company has signed a deal with Microsoft for inclusion on their XBOX One and XBOX 360 gaming systems. In the future, the Company will seek to establish partnerships with wireless providers and automobile manufacturers to further expand its user base.

The Company expects to substantially grow its user base and engagement reflecting its differentiating factors as it promotes the service to boost consumer awareness. Although the competitive field is wide, the niche is still young enough to reward an innovative new entrant as the streaming media market expands. Management believes that innovations such as its rewards program and e-commerce platform position it for rapid user base growth as it raises awareness of its service. As the Company grows its user base it will also seek to continually add innovative features, better monetize its engaged users, and expand its content base.

Management will be launching a number of mobile ad campaigns across multiple ad platforms to promote brand awareness and drive mobile app installations. As its mobile user base expands and reaches competitive critical mass, the Company's marketing efforts will focus on promoting increased frequency and duration of use in order to continue to engage its users. Moreover, with a digital multimedia platform, management expects to capitalize on the opportunity to cross-promote and cross-merchandise its various services and monetize them all through its online store.

TIMELINE / DEVELOPMENTS

March 2015 – upcoming national launch of service

Jan 2015 – announced it has entered into a letter of intent with Network Foundation Technologies to purchase certain assets which substantially reduces the cost of live broadcast TV over the Internet (also included are 16 patents). Will enable StationDigital to deliver online broadcasting at a dramatically lower cost, thus enabling larger online audiences to be reached, while ensuring excellent quality of service. Over-the-top TV streaming is predicted to grow to a \$10.1 billion market by 2018 from \$3.3bn in 2014 (Price Waterhouse Coopers)

May 2014 - the Company engaged CloudWebStore to develop a branded StationDigital e-store to sell and distribute a variety of digital and physical products. The online store sells digital music, movies, and videogames, among other items. StationDigital will receive 20% of the e-commerce revenue that the store generates.

April 2014 – IPO through a reverse merger

September 2013 – launch of service

FINANCIALS

INCOME STATEMENT / CASHFLOWS

	9 months ended September 30,	
	2013	2014
<u>Income Statement</u>		
Revenues	\$ 712	\$ 64,003
Cost of Revenue	373,167	520,023
Gross Loss	(372,455)	(456,020)
Operating Expenses		
Product development costs	50,400	801,259
Sales and marketing	250,311	3,682,277
General and administrative	290,961	1,933,781
Total operating expenses	591,672	6,417,317
Net Operating Loss	(964,127)	(6,873,337)
Other income / (expense)	-	(251,660)
Net Loss	(964,127)	(7,124,997)
Net loss per share	\$ (0.02)	\$ (0.12)
<u>Cashflow Statement</u>		
Cashflow from operations	\$ (963,006)	\$ (1,258,310)
Cashflow from investing activities	(227,659)	(484,060)
Cashflow from financing activities	1,191,209	1,768,812
Change in cash	544	26,442

Source: Company materials

BALANCE SHEET

	September 30, 2014
Assets	
Current Assets	
Cash and equivalents	\$ 32,129
Other current assets	<u>224,241</u>
Total current assets	256,370
Property and equipment, net	68,239
Other assets	195,299
Total Assets	\$ 519,908
Liabilities	
Current Liabilities	
Accounts payable	\$ 4,738,234
Derivative liability - convertible notes	653,440
Notes payable	301,937
Related party payable	142,559
Other current liabilities	<u>524,191</u>
Total current liabilities	6,360,361
Total Liabilities	6,360,361
Equity	(5,840,453)
Total Liabilities and Equity	\$ 519,908

Source: Company materials

VALUATION

Given that StationDigital is in the early stages of its growth plans and has limited revenue, it is difficult to apply most standard valuation methodologies. To determine a target valuation and price per share for the Company we have applied a valuation methodology using market capitalization per active user. Starting with Pandora's market cap per user of \$38.63 and then applying a 65% discount to account for Pandora's first mover advantage, dominant competitive position, and execution track record, we arrived at a market cap per user of \$13.52. Based on management's aggressive marketing plan, it can be estimated that StationDigital will have approximately 5 million monthly active users by the end of 2016. Applying this \$13.52 market cap per user to 5 million monthly active user results in a StationDigital target market capitalization of \$67.6 million or price per share of \$0.81.

Pandora market capitalization (M)	\$ 3,090.6	
Pandora active users (M)	80.0	
Pandora market cap per user	\$ 38.63	
StationDigital 2016 active users (M)	5.0	<i>management estimate</i>
Market cap per user	\$ 13.52	<i>65% discount to Pandora</i>
StationDigital market capitalization (M)	\$ 67.6	
Price per share	\$ 0.81	

Our target price of \$0.81 is over 2.0 times the current share price of \$0.40 providing significant upside price potential while also being only 35% above the Company's recent high of \$0.60 last October.

Forward-looking statements:- The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, including those described in the Company's Financial Statements, Management Discussion and Analysis and Material Change Reports filed with the with the United States Securities and Exchange Commission and available at www.sec.gov.

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