Quadrant 4 Systems Corporation
(OTCQB: QFOR)

November 14, 2013
Target Price: $7.00
Recent Price: $0.33

Market Data

Fiscal Year	December 31
Industry	IT Services
Market Cap	$27.6M
Price/Earnings (ttm)	N/A
Price/Book (mrq)	3.4x
Price/Sales (ttm)	0.8x
EV/EBITDA (FY13)	8.4x
ROE (ttm)	N/A
Institutional Ownership	10.4%
Shares Outstanding	83.5M
Float	55.2M
Avg. Daily Vol. (3 mos.)	79,147

As of November 13, 2013

Income Snapshot

	TTM
Revenue	$34.8M
Gross Profit	$9.6M
Gross Margin	27.6%

Balance Sheet Snapshot

	3Q13
Cash	$0.5M
Debt	$12.5M

Undervalued Social Media, Mobility, Analytics and Cloud (SMAC) Company Projected to Triple Revenue with over 650% Increase in EBITDA from 2013-2015

Company Overview

Quadrant 4 Systems Corporation is an IT software company that develops and implements mission-critical cloud-based enterprise systems for both Fortune 500 companies and smaller enterprises. Operating in several countries, Q4 services over 150 companies in North America. The Company is a leading provider of Health Exchange platforms (QHIX) and a proprietary set of SMAC (social media, mobility, analytics and cloud computing) technology solutions to enterprise clients in the Financial Services, Health Care, Retail and Manufacturing sectors.

Investment Highlights

Focused on Social Media, Mobile, Analytics and Cloud (SMAC) technologies; four technologies that are shaping the future. SMAC projected to be worth $5T by 2020. QFOR is at the forefront of the next major advancement in tech. Social Media, Mobile, Analytics, and Cloud are four areas of tech that QFOR has identified as fundamental attributes of modern business strategy, but which are not being utilized properly. New SMAC-based products (examples are QFOR's healthcare exchange and RetailSphere platforms) are projected to create a substantial rise in revenue growth, margins, and EBITDA for QFOR, leading to our 2015 projections of $128 million in revenue, 48.4% gross margins and $35.1 million in EBITDA. According to Cognizant, SMAC will represent $5 trillion in spending by 2020. The Company's strategy is to develop SMAC technologies and then apply these to specific industry verticals. Initially, QFOR will be targeting three multibillion dollar verticals: healthcare, retail, and financial services, with the initial focus on the healthcare market.

QFOR's healthcare exchange platform (QHIX) projected to reach a yearly run rate of $48 million in revenue by end of 2014. QHIX currently has 50,000 members and four exchange partners in implementation, and the Company believes it can enroll up to five million lives within 36 months. With a total market size of over 100 million lives, this would represent approximately 5% market penetration. QFOR has been investing heavily in SMAC innovation and adoption of proprietary technologies for healthcare. This gives the Company a huge advantage of a very clean and scalable QHIX platform which is necessary for implementation of new business models evolving out of the recent disruptions in healthcare. Other competitors' solutions have evolved incrementally over time and may face legacy issues in terms of adoption to requirements of the new business models we are expecting to see from healthcare reform. With advantages such as flexibility for employers and ease of use for members, QHIX is poised to become a leading private healthcare exchange platform. In addition, QFOR's payment gateway allows for broker partners, insurance companies, and third party administrators to allow for the purchase of voluntary products sold by AFLAC, ALLSTATE, UNUM, and HUMANA to be billed through QFOR's consolidated invoice system or allow the employee to pay by credit, debit or ACH. This eliminates the need for an additional payroll deduction slot or forcing the employer to reconcile insurance company invoices against payroll. The best news of all is QFOR's ability to assist its broker partners with retention when an employee leaves an employer. Most payroll deduction policies are portable (the non-portable rate is upwards of 75% according to QFOR's insurance company partners) but the vast majority of employees do not transfer these policies over. This helps both broker partners and the insurance companies in marketing worksite products.

QFOR has a multi-pronged strategy to deploy the platform through strategic partnerships across the Health Insurance and Benefit Administration segments. Being a technology company and a neutral player, we believe QFOR is well positioned to partner with insurance carriers and health plan providers to implement customized private health exchange solutions. Carriers and plan administrators are looking to aggregate additional health and non-health related products under one platform. In addition to working directly with the carriers and health plans, the Company is establishing relationships with broker networks in various states to implement private health exchanges for large global agencies and help them consolidate the distribution channels. The third element of QFOR's go-to market strategy involves forming alliances with Third Party Administrators (TPAs) and Human Resource (HR) solution providers. WageWorks (NYSE: WAGE), on its November 5, 2013 conference call, announced that it was entering into a strategic relationship with QFOR. WAGE currently has 2.8 million lives (source: WAGE 2012 10-K). WAGE is a leading provider of pretax benefit solutions including enrollment services and administration of flexible spending accounts for small and medium employer groups of employees ranging from 50 – 500. With the integration of QFOR's technology platform and enrollment technology, WAGE can expand its core product portfolio of pre-tax benefit administration through to a full private health exchange solution. Partnering with WAGE provides market validation of QFOR's healthcare exchange platform and access to additional products as well as new market segments. QFOR also has established several other partnerships for rolling out its private health exchange platforms in several states. QFOR's exchange partners will have a readily available and complete suite of products ranging from member engagement portals and financial back office functions without the cost of integrating another company's products.

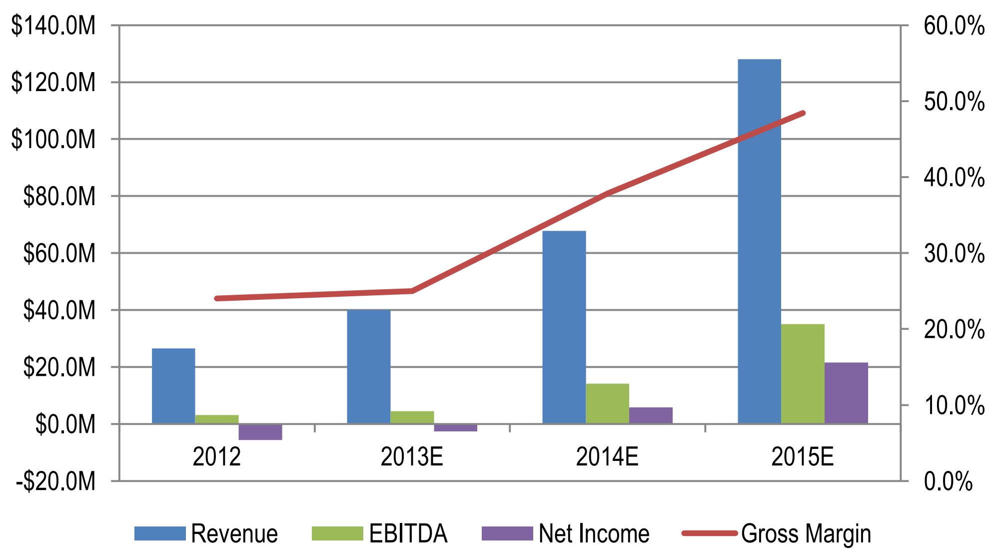
Given this announcement, we believe that five million lives within 36 months are achievable for QFOR. Revenues are expected to be $2-$6 per member each month, which would lead to revenue of $120-$360 million per year, with gross margins ranging from 60-80% (similar to other SaaS products). In the short-term, management projects that it can enroll two million members by the end of 2014, which would generate minimum yearly revenue of $48 million.

QHIX has been working on partnering with human resource (HR) service providers, allowing for greater market exposure with millions of additional lives. QFOR already has working relationships with a number of HR providers, including Paychex. QFOR can cross-sell QHIX to HR providers; we believe that QFOR's existing relationships will make adoption of QHIX happen at a fast rate. In addition to establishing JVs for technology deployment through Human Resources (HR) and Third Party (TPA) Administration leaders, QFOR has announced its plans to build private exchanges for large brokers as well as insurance companies. We are projecting QHIX to generate $16.8 million in revenue in 2014 and $60.0 million in 2015.

Market size for e-commerce and cloud-based retail software projected at $3 billion for 2013 (source: Gartner). QFOR's RetailSphere already implemented by dozens of retailers and franchises. While much has been made with regards to online shopping, PricewaterhouseCoopers's 2012 Multichannel Retail Survey stated that in most categories, including clothing, furniture, and groceries, the majority of consumers prefer to research and buy products in store. QFOR's RetailSphere can provide much of the same information (and more) that brings together consumers and products that can be found online into a physical storefront, driving large increases in product purchases.

Real-time analytics is already being used to an extent to drive purchases. For example, Qdoba Mexican Grill has had up to a 40% redemption rate for mobile coupons delivered during peak hours, and e-mails from Microsoft to use the Bing search engine are customized for each individual, leading up to a 70% increase in conversion rates. QFOR's RetailSphere is an improvement on many current technologies (for instance, coupons can be sent to an individual's phone in real-time, taking into account user preferences and info on demand during particular times). Initial sales efforts have been targeted at newer retailers that are looking to use the technology to provide an improved, multichannel customer shopping experience that distinguishes them from larger competitors in a positive way. While we expect most sales to be targeted to these smaller retailers, QFOR will sell to some larger retail chains as well, as evidenced by its recent sales of RetailSphere to 4G Wireless. RetailSphere has already been implemented by dozens of companies, and we believe that sales will ramp quickly as the Company sells its product more aggressively. We are currently using conservative estimates with sales of $5 million in 2014 and $15 million in 2015.

Gross margin and EBITDA improvement from new SMAC products. Revenue growth is poised to accelerate with QFOR's new suite of SMAC-based products, and these products contain higher gross margins (65-75%) associated with SaaS-based products. This is going to drive strong EBITDA growth as well, and we expect QFOR to begin showing positive net income as the Company's debt load is anticipated to remain relatively stable going forward.



Source: RedChip projections

Legacy consulting business provides stable, recurring revenue (retention rate 90%+). Over the past few years, QFOR has developed a strong blue-chip client base (Walgreens, Ford, Chrysler, Vulcan, Kodak, Paychex, etc.) that produces stable, recurring revenue ($28M in FY12). Management projects this business to continue to show solid growth going forward (15-20%). Improvements continue to be made to QFOR's consulting and solutions business, with an example being the use of the Company's Einstein platform, which has saved customers over 40% in managed services costs. QFOR also has the opportunity to sell its new SMAC-based products to its blue-chip clients, which should lead to faster product adoption and lower overall selling and marketing costs.

Development of SMAC-based technologies provides QFOR with a strong first-mover advantage. QFOR has spent the past few years creating and developing its SMAC-based technologies, giving the Company a competitive advantage over other companies just beginning to develop SMAC products. QFOR has built a number of different SMAC technologies that can now be deployed into various industry verticals. An example of this is its "Reach and Teach" video platform that was originally designed for libraries; this has now been put into the Company's health exchange platform. QFOR's strong foundation of SMAC-based technologies allows it to create and improve products in different verticals much faster than competitors with less SMAC experience. We believe this will accelerate revenue growth over the long-term.

Market

SMAC technologies are expected to drive tech spend over the next decade, providing $5T SMAC market opportunity by 2020. Business models that were made for yesterday's world are experiencing inefficiency. Some examples of brick-and-mortar companies that have failed to adapt and were overtaken by a more nimble competitor are as follows:

Industry	Widget Winners	Digit Winners	Tipping Points
Book retailing	Borders	Amazon	Borders bankrupt 2011; Amazon market cap, $164 billion
Movie rentals	Blockbuster	Netflix	Blockbuster bankrupt 2011; Netflix (market cap, $20 billion) streaming volume exceeds rentals in 2012 and constitutes one-quarter of U.S. Internet traffic
Mobile phones	Nokia	Apple, Google	Nokia market share at 1997 levels, 3% of peak market cap; Apple market cap, $481 billion; Google market cap, $340 billion
Online communication platform	AOL	Facebook	AOL value 95% from peak; Facebook market cap, $128 billion
Photographs	Kodak	Flickr, Shutterfly	Kodak files for bankruptcy in early 2012, Shutterfly market cap $2 billion
Maps	Rand McNally	TomTom, Garmin, Google	Garmin market cap, $9.5 billion

Source: Cognizant 2012, "Don't Get SMACked"

Company valuations as of October 24, 2013

Going forward, companies that fail to adequately implement proper SMAC technologies are in danger of losing market share, providing both short-term and long-term market opportunity to SMAC providers. According to Cognizant, SMAC will represent $5 trillion in spending by 2020.

Each of the SMAC components has independently become an essential need in the business world; however, there is still an overwhelming need for proper integration of these four technology segments. As the power of SMAC-based technologies becomes more well-known, we believe that providers such as QFOR will experience strong revenue, EBITDA, and profit growth.

Healthcare exchange market projected to reach $2B-$6B; Booz & Company study shows 70%-80% of employers prefer private exchanges, and over 50% of employers prefer multiple-carrier exchanges. The private exchange market is expected to show strong medium- to long-term growth for a number of reasons, including increasing healthcare costs that are pushing employers from defined health benefits to defined contribution models and the desire by employees to have more healthcare choices, while being given enough information and guidance to make quality decisions. This shift is similar to what happened with the transition from retirement and pension plans to the 401k plan. Already, large numbers of both small and large employers have made the transition to the fixed contribution model and encouraging employees to purchase their healthcare plans through private exchanges.

Insurance companies are also being pushed onto private exchanges, as the Affordable Care Act mandates that insurance companies cannot offer different rates because of an individual's health status. The trend toward private exchanges is not reversible and we expect private exchange adoption to accelerate. Over 100 million people are projected to be looking to buy insurance through exchanges, and QFOR aims to capture at least 5% market share (5 million lives) over the next 36 months. We believe that market forces are going to push many people onto private exchanges, which will lead to strong growth for QFOR's health exchange product. The healthcare industry is poised to see the development of a handful of technology companies focused on healthcare disruption. Given market dynamics, QFOR has the opportunity to create an Amazon.com type of play in the healthcare market.

Cloud-computing growth rate is 5x overall IT growth rate; SMAC improves cloud usage, and we believe that SMAC as a whole will outpace cloud growth. The overall cloud-computing growth rate is 5 times more than the overall IT growth rate globally. SMAC will use the cloud in a more effective manner, and we expect SMAC to outpace the robust growth seen in cloud computing. We believe that as the market becomes more aware of the opportunity in SMAC, that trading multiples of SMAC companies will be equal to or greater than high-growth SaaS companies.

Exponential growth in data; IDC forecasts big-data technology services market to grow at a 31.7% CAGR with revenue reaching $23.8 billion by 2016. A May 2011 report by McKinsey & Company show the potential advantages to be gained by effectively using big data and analytics, giving the following examples:

- U.S. healthcare could use data to create more than $300 billion in value every year
- Using personal-location data properly could capture $600 billion in consumer surplus
- Retailers could increase operating margins by over 60% using big data
- Determined that the finance and insurance industries (among others) would be among the leading industries to benefit from an explosion in data

We expect QFOR's focus on analytics to be a driving force, and note that QFOR's three initial industry verticals (healthcare, retail, and insurance) are all industries that are expected to use and benefit from proper big data and analytics use.

Benefitfocus (NasdaqGM: BNFT), a private healthcare exchange provider with negative EBITDA, is trading at a P/S of 12.0x. Many companies that offer healthcare benefits or would like to offer healthcare benefits have begun searching for private healthcare exchanges like QHIX. The influx of major names, including Walgreens, IBM, Sears, Darden, and Time Warner, moving to private exchanges has spurred premium valuations for exchange providers. Benefitfocus, a cloud-based private exchange platform with negative EBITDA, is trading at a P/S of 12.0x. Benefitfocus' private exchange platform, HR InTouch Marketplace, has been available since late-April 2012. While BNFT has a large user base (20 million+), it's only a small portion of the overall market opportunity, which is estimated at

100 million subscribers. Another important observation relative to BNFT is a large portion of BNFT's business is based on enrollment and benefit communications services. BNFT's technology has evolved over the last 10 years incrementally and may face some legacy issue in terms of adoption to requirements of the new business models we are expecting to see from healthcare reforms. Taking into account the size of the market, the amount of development QFOR has put into its own health exchange, QFOR's positive EBITDA, and QFOR's complementary business lines, we believe the valuation gap between the two companies is wholly unwarranted. Given the amount of R&D used to develop QHIX, Chairman and CFO Dhru Desai states that they have a two-year lead on any other competitor in the marketplace and with the Company's history and track record of innovation and adopting SMAC technologies for industry applications they will continue to maintain this lead.

Peer Comparison

Name	Ticker	Price	Market Cap	P/B (mrq)	P/S (ttm)	Fwd. P/S	EV/EBITDA (ttm)	Revenue (ttm)	Fwd. Rev. YoY Growth
XHIBIT CORP	XBTC	1.24	139.23	5.43	5.45	N/A	N/A	27.67	N/A
DATAWATCH CORP	DWCH	36.06	236.25	23.09	8.41	5.41	239.78	27.49	N/A
CALLIDUS SOFTWARE INC	CALD	10.70	432.05	229.29	4.59	3.44	N/A	94.17	16.89%
CORNERSTONE ONDEMAND INC	CSOD	48.61	2529.26	47.90	14.88	9.84	N/A	166.70	57.01%
JIVE SOFTWARE INC	JIVE	10.97	759.56	7.01	5.22	4.34	N/A	138.98	29.87%
BENEFITFOCUS INC	BNFT	47.49	1161.79	N/A	12.01	9.34	N/A	96.70	26.07%
WAGEWORKS INC	WAGE	56.77	1963.93	8.42	8.72	8.14	50.23	210.90	25.11%
Average			***1031.72***	***53.53***	***8.47***	***6.75***	***145.00***	***108.95***	***30.99%***
Median			***759.56***	***15.75***	***8.41***	***6.77***	***145.00***	***96.70***	***26.07%***
QUADRANT 4 SYSTEMS CORP	QFOR	0.33	27.57	3.36	0.79	0.47	8.37	34.79	67.39%

As of November 13, 2013

Source: BloomBerg, RedChip Estimates

Valuation Conclusion

We are valuing QFOR using a P/S multiple of 6.0x, which is an 11% discount to the average forward P/S multiple of other cloud computing software companies. Given robust revenue, EBITDA, and net income growth over the next few years, we believe this multiple is conservative. We apply this multiple to our FY15 estimated revenue per share projection of $1.34. Assigning a 10% discount rate to this total over 1.5 years we derive a target price of $7.00.

SMAC is expected to become the next big innovation in tech, and we believe that QFOR deserves to be valued comparatively to other fast-growing cloud companies. We believe the Company's healthcare exchange will be the main growth driver in 2014 and 2015. Assuming the low-end of projected revenue per user ($2 per month or $24 per year) and conservative user assumptions (average lives of 700,000 in 2014 and 2.5 million in 2015), we project QFOR Health to generate revenue of $16.8 million in 2014 and $60.0 million in 2015 at 65% gross margins.

We also conservatively project RetailSphere to generate $5 million and $15 million in revenue in 2014 and 2015, respectively. This assumes an average yearly sales price per retail chain of $200,000, and total customers of 25 retail chains in 2014 and 75 retail chains in 2015. Our projections for the consulting, solutions, and cloud segments of QFOR are in line with management ($46 million in combined revenue in 2014, $53 million in combined revenue in 2015). Our projections do not currently account for a financial services industry SMAC product, which management anticipates bringing to market in late 2014-early 2015. This adds additional upside to our projections. As QFOR's SMAC products make up a larger proportion of revenue, we expect gross margins to accelerate rapidly (37.9% in 2014, 48.4% in 2015). We expect general and administration expenses to more than double in both 2014 and 2015; however, we expect this to increase at a slower rate than a typical cloud-based company, as QFOR has already cultivated relationships with many blue-chip clients, thus lowering the amount of expenses needed for sales and marketing.

	2010	2011	2012	2013E	2014E	2015E
Revenue	15,233,596	29,141,433	26,561,723	40,000,000	67,800,000	128,000,000
COGS	12,883,772	22,265,260	20,185,244	30,000,000	42,130,000	66,000,000
Gross Profit	**2,349,824**	**6,876,173**	**6,376,479**	**10,000,000**	**25,670,000**	**62,000,000**
Gross %	*15.4%*	*23.6%*	*24.0%*	*25.0%*	*37.9%*	*48.4%*
General & Administration	(900,119)	(2,262,420)	(3,389,246)	(5,500,000)	(11,526,000)	(26,880,000)
Amortization	(1,502,549)	(3,132,666)	(6,985,242)	(5,000,000)	(5,000,000)	(5,000,000)
Interest Expense	(2,225,566)	(1,629,743)	(1,833,018)	(2,120,000)	(1,331,001)	(1,331,001)
Derivative Gain		0	154,165	0	0	0
Net Income before Income Taxes	**(2,278,410)**	**(148,656)**	**(5,676,862)**	**(2,620,000)**	**7,812,999**	**28,788,999**
Income Taxes	0	0	0	0	1,953,250	7,197,250
Net Income	**(2,278,410)**	**(148,656)**	**(5,676,862)**	**(2,620,000)**	**5,859,749**	**21,591,749**
Net Income per Common Share	**(0.09)**	**(0.00)**	**(0.11)**	**(0.04)**	**0.07**	**0.23**
Weighted Average Common Shares	24,845,602	47,754,470	52,498,492	62,586,716	89,566,297	95,579,636
EBITDA	**1,449,705**	**4,613,753**	**2,987,233**	**4,500,000**	**14,144,000**	**35,120,000**

We believe that the greatest risks to our projections come from sales of the QFOR healthcare exchange ramping up at a slower than expected rate and from general and administrative expenses accelerating faster than anticipated, which would lead to lower EBITDA and net income.

Management

Dhru Desai, Chairman of the Board and Chief Financial Officer

Mr. Desai has successfully built both private and public companies in the IT and Telecommunications field over the past 25 years. Early in his career, Mr. Desai worked for AT&T Bell Labs and Teradyne. Mr. Desai was the founder and CEO of Cronus Technologies, Inc. where he successfully built the industries' first IP signaling gateway business and divested it to Cisco, FastCom and Advanced Fiber. In April of 2005, Mr. Desai served as Chairman of the Board of eNucleus Inc., and served in several executive capacities until he resigned in July, 2006. Between July 2006 and June 2009 Mr. Desai acted in the capacity of an advisor to a number of companies in the real estate and Information Technology sectors. Mr.Desai has an M.S. in Computer Science from the Illinois Institute of Technology.

Nandu Thondavadi, Ph.D., Chief Executive Officer, Director

Dr. Thondavadi is the founder of Global Technology Ventures, a consulting firm providing mergers and acquisition advisory services to companies in the information technology sector. He has served in various roles from software development to heading a global IT firm with companies such as EDS, Square D, Coleman and others. Dr. Thondavadi also served as the Clinical Professor of Management at the Kellogg School of Management, Northwestern University, IL where he developed and taught graduate courses in Operations Management, Total Quality Management, Enterprise Resource Systems and also developed and taught Executive programs in Strategic Cost Management and Business Process Reengineering. Dr. Thondavadi received his MBA from Northwestern University, Kellogg School of Management, IL in 1992; his Ph.D. in Chemical Engineering and his M.S. in Industrial Engineering, both from the University of Cincinnati, OH, in 1982; his M.Sc. (Tech) in 1977 and his B.Sc. (Tech) in 1975, both in Chemical Technology and both from the University of Bombay, Mumbai, India and his B.Sc. in Chemistry and Physics from the University of Mysore, India in 1971.

Eric Gurr, Director

Eric F. Gurr is presently owner and sole officer of Gurr CPA, LLC, a small accounting firm based in Orem Utah, a position he has held since November 2007. This firm provides forensic accounting, business valuation, business plans, due diligence, consulting, tax planning and preparation, accounting services, wealth management, business systems support (software, hardware etc.) and other related services and has developed a niche accounting and financial services for authors. Mr. Gurr has been a licensed independent public accountant for more than 25 years. Prior to acquiring his own firm, Mr. Gurr was the CEO of NACT Holding LLC, a position he held from January 2005 through November 2007 and where he led a management-led buyout from Verso. Prior to the formation of NACT Holding LLC, Mr. Gurr was president of Verso Switching Division, a division of Verso Technologies, Inc. from February 2002 to January 2005.

Thomas E. Sawyer, Ph.D., Director

Dr. Sawyer is presently the Chairman/CEO of Brazil Gold Corp. a position he has held since 2009 where he is responsible for the strategic planning and organization of this small publicly-traded independent gold exploration company working in Brazil's Western Amazon basin. Prior to that, he was the Chairman/CEO of Innova Enterprises, Inc. from 2007 to 2009 where he led the development of patented oil purification technology to reduce waste oil and extend useful life of diesel engines and engine components. Dr. Sawyer presently serves as a director of Digifonica International Inc., a publicly-traded company exploiting telecommunications patents related to VoIP services, a position he has held since 2007. He is presently chair of the compensation and audit committees of Digifonica International Inc. Dr. Sawyer also presently serves as a director of Chief Consolidated Mining, Inc., a position he has held since 2007. In addition, Dr. Sawyer owns his own consulting business of which he is President and Chief Executive Officer, under the name Sawyer Technologies, LLC, a business he has owned and operated since 2002. Dr. Sawyer has also served as a trustee of the First European Investment Foundation since 2004 and a senior director of AIM Holdings LTD, Economic Research Institute since 2002. His prior engagements were as the Chief Technology Officer of Global Light Telecommunications, Inc. from 1998 to 2002, a public company; and as the Chief Executive Officer of NACT Telecommunications, Inc. from 1988 to 1998, a public company. Dr. Sawyer served in the executive office of three presidential administrations, including serving as a director in the Office of Economic Opportunity, Executive Offices of the President in Washington, D.C. from 1973 to 1974. Dr. Sawyer has previously served on a number of boards of civic and charitable organizations and as a professor of Brigham Young University from 1974 t0 1978. Dr. Sawyer received his Ph.D. in Management from Walden University and his Ph.D. in Clinical Psychology from Florida State University. He also received an M.A. in Business/Urban Affairs from Occidental College and his B.S. in Engineering from U.C.L.A.

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SEC filings

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