



**Quadrant 4 Systems Corporation**  
(OTCQB: QFOR)

**qHIX Healthcare Exchange and Media Vertical are Poised to Drive Substantial Growth**

**August 15, 2014**  
**Target Price: \$7.00**  
**Recent Price: \$0.50**

**Market Data**

Fiscal Year	December 31
Industry	IT Services
Market Cap	\$49.6M
Price/Earnings (ttm)	N/A
Price/Book (mrq)	3.3x
Price/Sales (ttm)	1.3x
EV/EBITDA (ttm)	12.1x
Insider Ownership	9.1%
Institutional Ownership	12.2%
Shares Outstanding	99.2M
Float	78.0M
Avg. Daily Vol. (3 mos.)	98,286
As of August 14, 2014	

**Income Snapshot**

	TTM
Revenue	\$39.6M
Gross Profit	\$10.5M
Gross Margin	26.4%

**Balance Sheet Snapshot**

	MRQ
Cash	\$0.3M
Debt	\$9.2M

**2Q14 revenue increased 31% YoY; positive net income reported.** QFOR continued to show strong revenue growth, with 2Q14 revenue up 31% YoY to \$11.9 million. Gross profit increased 28% YoY to \$3.1, EBITDA was reported at \$1.7 million (17<sup>th</sup> consecutive quarter of positive EBITDA), and net income was \$23,530. While we are pleased to see the strong growth this quarter, we believe the biggest focus should be on QFOR's growth initiatives, particularly in the healthcare and media divisions. We believe that these divisions could drive substantial results over the next 12-24 months. The Company reiterated 2014 guidance of \$50 million in revenue and being net income positive in FY14. In FY15, it appears that the Company is poised to show extremely strong growth, particularly in the healthcare and media divisions.

**Projecting 2.5 million lives on its healthcare platform by YE15; Earning Web Broker Entity agreement should accelerate addition of health exchange lives.** QFOR continues to be very confident about its ability to grow the number of lives on its qHIX healthcare exchange platform. QFOR is projecting that 2.5 million lives will be on qHIX by year-end 2015, up from approximately 115,000 – 120,000 lives currently. QFOR currently has implemented 6 private healthcare exchange platforms and is targeting to ultimately reach 25 private healthcare exchanges. Overall, QFOR has about 25-30 prospects in the pipeline, and over half of these prospects are in the technology assessment phase, meaning that there is potential for many of these prospects to be added in the near-term. The Company has some very large potential customers in the pipeline (some with 2 million+ potential lives), and it appears QFOR could be in line to start earning substantial revenues from qHIX beginning in early 2015.

QFOR recently earned Web Broker Entity Agreement status with the Centers for Medicare & Medicaid Services. QFOR is the only pure technology company to earn this status, and this should be a strong factor behind adding additional healthcare exchanges. This status was a big factor behind its most recent client, JA Benefits, LLC, adding QFOR as its healthcare exchange developer.

**Signed 5-year, \$50 million contract with the Enthusiast Network.** QFOR recently signed a 5-year, \$50 million contract with the Enthusiast Network, which should provide approximately \$10 million in annual revenue. Overall, the market opportunity is robust, with about 50 companies spending \$25-\$30 million per year on digital media. QFOR's solution saves these companies an estimated 30% on their platform, along with providing scalability that allows these companies to grow and expand their offerings over time. We expect QFOR to add additional contracts in future quarters.



**Reiterating \$7.00 target price.** The Company continues to show strong potential in all of its industry verticals, driven by its core proprietary SMAC (social, mobile, analytics, and cloud) technologies, and we expect revenue and cash flows to begin to ramp up significantly beginning in FY15. Considering both future growth and current multiples (P/S – 1.3x EV/EBITDA – 12.1x), we continue to believe that the Company is extremely undervalued and there is large upside relative to the current share price.

## **Additional Information**

Legal: Ellenoff Grossman & Schole LLP

Auditor: Sasseti, LLC

Transfer Agent: Securities Transfer

[Company Information](#)



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