

August 23, 2018

(909)996-9609

Conversion Labs, Inc. (OTCQB:CVLB)

Growth
Target Price: \$0.35

Investment Thesis

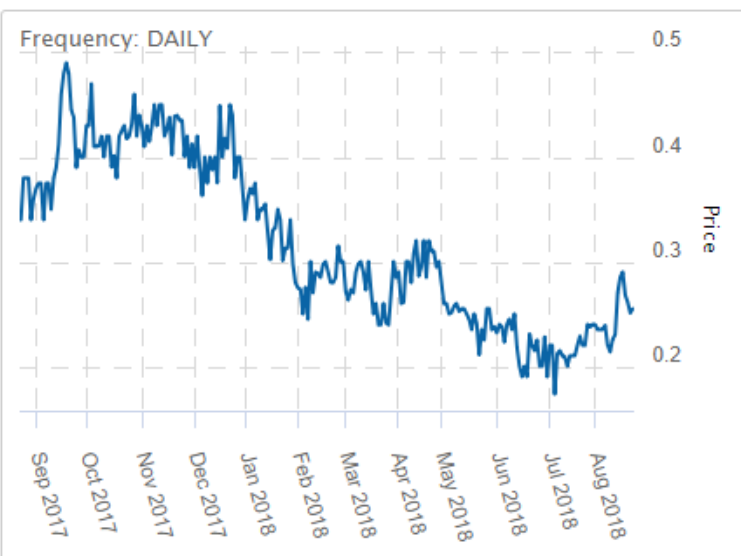
Direct to consumer marketing is a proven and effective means of product introduction. It has translated into sales for products around the globe for manufacturers everywhere. Conversion Labs has sold its Shapiro MD product line exclusively through this channel.

Catalysts

- 2 new product launches slated for 2018 – Scarology and Purpurex
- iNR Wellness product line, launched in Q2 '18

Potential Return

Conversion Labs presents shareholders tremendous profit potential with several new product additions into a proven business model and execution strategy. The company has the ability to grow rapidly years into the future. Management has guided 25 million in top line revenue for next year, once again seeking triple digit growth.



Q2 2018 Highlights

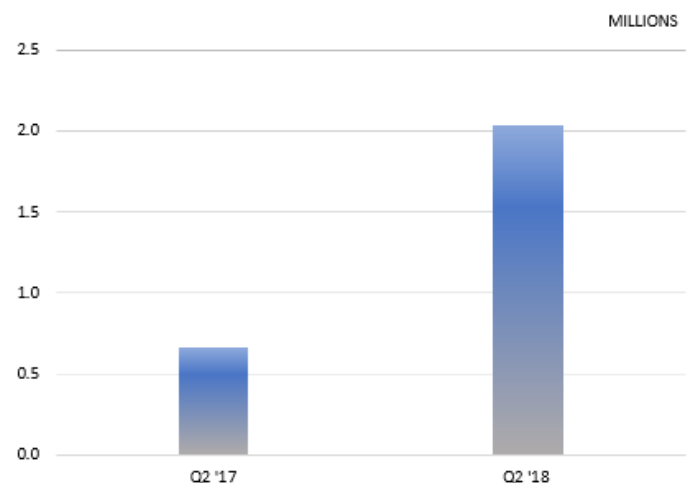
Conversion Labs reported an EPS of $-\$0.01$, not uncharacteristic of a young, operation expense heavy, enterprise. Marketing spend has paid off, however, translating into 208% YoY top line growth

Security Description



Market Cap	\$12.07 M
Q2 '18 EPS	\$ (0.01)
52 Week High	\$ 0.50
52 Week Low	\$ 0.17

REVENUE



Healthcare – Drug Manufacturers

Conversion Labs Inc. acquires, manufactures, and distributes proprietary healthcare products. The company leverages direct to consumer advertising and markets products through ecommerce platforms such as Amazon, Facebook, and Google.

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Conversion Labs Brands

Shapiro MD is a hair product developed for men and women. It holds two patents and was developed by dermatologists. The product generates nearly 100% of all the company's revenues thus far. Currently, Shapiro MD is selling at a run rate of about 12 million, and took less than a year to do so.

- \$65 customer acquisition cost
- \$145 initial order per customer
- 22.5% of customers subscribe for the product (recurring revenues)
- 20% of non-subscribing customers are recaptured
- Net of fees and marketing expenditure, Conversion Labs pays a 10% royalty on top line Shapiro MD sales

iNRWellness is a nutritional supplement - containing beta glucan – used for immune system support. Beta glucan is an over-the-counter supplement used for aiding cholesterol and blood glucose levels. iNR Wellness has been on market for Conversion Labs for under two months.

Scarology is another product developed by dermatologists. It is topical solution used to treat scars and achieve appearance benefits; it is administered by the patient twice a day, once in the day and once at night.

Purpurex is a treatment for solar purpura. A skin condition which, according to Conversion Labs, affects about 12% of individuals over the age of 50. Conversion Labs claims Purpurex is the only treatment available for the condition.

PDF Simpli is a software product used to convert, edit, merge, and split documents between platforms such as Microsoft Word or Adobe PDF. It also supports conversion into JPG, PNG, and provides e-signatures for PDFs. Unlike the rest of Conversion Labs' products, it is unclear how PDF Simpli will generate return similar to healthcare products. Thus far, 170 thousand users have created an account, and over 1.5 terabytes of data has been uploaded.

Catalysts – Scarology, Purpurex, iNR Wellness

Scarology and Purpurex will launch in this quarter. Management does not expect to make any more acquisitions while they work to bring all three products to the market.

Conversion Labs scaled Shapiro MD from zero to about 1.75 million within three months. Within its first year, sales from Shapiro MD were greater than 2 million. Conversion Labs has demonstrated – with Shapiro MD – it can take a new product with little to no sales and quickly generate revenue

- Management hopes marketing efforts will translate into 1 million in sales each month for all three of these new products
- Gross margins for all three products will be about 75%, and net margins are 30%, similar to the Shapiro MD line
- Management has guided 25 million in sales for the entire company in the next year, which would mark another year of triple digit growth



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Target Price: \$0.35

Forecast	FY 2019	FY 2020	FY 2021	FY 2022	FY 2033
Sales Growth	150.00%	100.00%	30.00%	10.00%	4.00%
Gross Margin	73.76%	73.76%	73.76%	73.76%	73.76%
EBIT Margin	3.56%	8.56%	9.56%	10.56%	10.56%
Profit Margin	2.85%	6.85%	7.65%	8.45%	8.45%

Forecast (US \$ million)		Estimated				
Year		FY 2019	FY 2020	FY 2021	FY 2022	FY 2033
Total Revenue		20.38	40.75	52.98	58.28	60.61
Cost of Revenues		5.35	10.69	13.90	15.29	15.90
Gross Profit		15.03	30.06	39.08	42.98	44.70
Total Operating Expenses		14.30	26.57	34.01	36.83	38.30
Compensation and related expenses		3.22	6.04	7.32	7.47	7.77
Professional fees		2.04	4.08	5.30	5.83	6.06
Marketing expenses		9.04	16.45	21.39	23.53	24.47
General and administrative expenses		1.97	3.94	5.12	5.63	5.86
EBIT		0.73	3.49	5.07	6.16	6.40
Tax Expense		0.15	0.70	1.01	1.23	1.28
NOPAT		0.58	2.79	4.05	4.92	5.12
EPS		\$ 0.01	\$ 0.06	\$ 0.09	\$ 0.11	\$ 0.12
Free Cash Flow		0.16	4.06	1.70	4.17	4.27

Guidance

- Conversion Labs guided a revenue of 25 million for next year. This is contingent upon the success of three new healthcare products, PDF Simpli, and Shapiro MD.
- Gross margins should remain the same or move closer 75%.
- The company expects to be profitable by the end of 2018.
- As a percent of sales, management targets a 40% spend on marketing.
- The company pays 10 - 12% royalty on top line sales for Shapiro MD, iNR Wellness and Scarolgy, net of marketing expenses and fees incurred.

Risks to Equity

- As the leading product line and the bulk of all current sales, poor performance with respect to Shapiro MD will hurt the company.
- Failure to successfully launch a new product line
- Inability to generate profit
- Emergence of strong competition, specifically beta glucan and PDF conversion substitutes
- Marketing and other operating expenses are contingent upon revenues; a drop in revenues may effect liquidity needs, especially for a growing business such as this one.
- Effectiveness of marketing efforts
- FDA regulation concerning healthcare products

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Disclosure

The analysis provided is based on financial information and speculation of future performance in statements associated with this company. All outside sources are perceived to be credible, and the analyst does not take fault for any changes in numerical or informational accuracy that may result. This report is for informational purposes only and is the opinion of the writers. This report has no regard for the specific investment needs or objectives of readers. Investors are encouraged to conduct their own research and come to their own conclusions before making the decision to invest in a company. Sources used in the making of this report are considered to be accurate.

Appendix**Income Statement, SEC 10Q Filing August 17, 2018**

	Three Months Ended June,		Six Months Ended June,	
	2018	2017	2018	2017
Net Sales	\$ 2,037,636	\$ 660,087	\$ 3,644,127	\$ 827,986
Cost of Sales	534,727	185,098	890,180	273,271
Gross Profit	1,502,909	474,989	2,753,947	554,715
Operating expenses				
Compensation and related expenses	322,319	125,417	465,965	389,303
Professional fees	310,043	121,690	442,158	220,534
Marketing expenses	1,271,021	289,070	2,168,185	299,870
General and administrative expenses	197,019	319,114	554,446	427,103
Total operating expenses	2,100,402	855,291	3,630,754	1,336,810
Operating Loss	(597,493)	(380,302)	(876,807)	(782,095)
Change in fair value of derivative liability	-	922,022	-	873,830
Interest (expense)	(51,078)	(250)	(57,528)	(649,607)
Income (Loss) from continuing operations	(648,571)	541,470	(934,335)	(557,872)
Income from discontinued operations, including gain on sale, net of income taxes	-	154,825	925,738	181,632
Net income (loss)	(648,571)	696,295	(8,597)	(376,240)
Net income (loss) attributable to noncontrolling interests	(41,539)	(41,194)	(28,842)	(68,924)
Net income (loss) attributable to Conversion Labs, Inc.	\$ (607,032)	\$ 737,489	\$ 20,245	\$ (307,316)

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Balance Sheet, SEC 10Q Filing August 17, 2018

	<u>June 30,</u> <u>2018</u> (unaudited)	<u>December 31,</u> <u>2017</u>
ASSETS		
Current Assets		
Cash	\$ 691,169	\$ 141,379
Trade accounts receivable, net	64,045	128,190
Other receivables	-	-
Product deposit	84,000	16,500
Inventory, net	507,211	681,258
Other current assets	124,942	-
Assets held for sale	-	296,483
Total Current Assets	\$ 1,471,367	\$ 1,263,810
Non-current assets		
Intangible assets, net	\$ 366,549	\$ -
Total non-current assets	366,549	-
Total Assets	\$ 1,837,916	\$ 1,263,810

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Balance Sheet Cont.**LIABILITIES AND STOCKHOLDERS' EQUITY
(DEFICIT)**

Current Liabilities

Accounts payable and accrued expenses	\$	446,384	\$	391,759
Notes payable		-		167,479
Convertible notes payable, net		63,098		-
Deferred revenue		1,987		-
Liabilities held for sale		-		81,733
Total Current Liabilities		511,469		640,971

Stockholders' Equity (Deficit)

Common stock, \$0.01 par value; 100,000,000 shares authorized, 43,943,063 and 44,493,063 shares issued, 43,427,863 and 43,977,863 outstanding as of June 30, 2018 and December 31, 2017, respectively		439,430		444,930
Additional paid-in capital		11,920,124		11,500,537
Accumulated (deficit)		(10,879,598)		(10,899,843)
		1,479,956		1,045,624
Treasury stock, 515,200 and 515,200 shares, at cost		(163,701)		(163,701)
Total Conversion Labs, Inc. Stockholders' (Deficit)		1,316,255		881,923
Non-controlling interest		10,192		(259,084)
Total Stockholders' (Deficit)		1,326,447		622,839
Total Liabilities and Stockholders' (Deficit)	\$	1,837,916	\$	1,263,810

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Statement of Cash Flows, SEC 10Q Filing August 17, 2018

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (Loss)	\$ (8,597)	(376,240)
Adjustments to reconcile net (loss) to net cash (used) by operating activities		
Change in fair value of derivative liability	-	(873,830)
Amortization of debt discount	46,789	81,558
Amortization and depreciation	10,473	-
Bad debt recovery	-	(44,543)
(Gain) loss on discontinued operations and disposal	(775,738)	(181,632)
Loss on settlement of notes and other payables	-	634,325
Stock compensation expense	340,395	113,522
Issuance of warrants for services	-	160,833
Changes in Assets and Liabilities		
Trade accounts receivable	64,145	177,800
Other receivables	-	-
Product deposit	(67,500)	(74,043)
Inventory	174,047	1,627
Other current assets	(124,942)	-
Deferred revenue	1,727	-
Accounts payable and accrued expenses	(29,463)	(120,087)
Net cash (used) by operating activities of continuing operations	(368,664)	(500,710)
Net cash used in operating activities of discontinued operations	140,488	(11,859)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of subsidiary, net of cash received	(148,555)	-
Proceeds from sale of legacy business	390,000	-
Net cash provided by (used in) investing activities	241,445	-

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Statement of Cash Flows Cont.**CASH FLOWS FROM FINANCING ACTIVITIES**

Investment in subsidiary by noncontrolling interest, net	154,000	63,378
Proceeds from notes payable	-	309,042
Proceeds from convertible note payable	550,000	-
Repayment of convertible note payable	-	(100,000)
Repayment of notes payable	(167,479)	(176,420)
Proceeds from options exercise	-	-
Sale of common stock and warrants	-	673,245
Purchase of treasury stock	-	(3,151)
Net cash provided by financing activities	<u>\$ 536,521</u>	<u>766,094</u>

Net increase in cash	549,790	253,525
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Cash at beginning of the period	<u>141,379</u>	<u>182,561</u>
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Cash at end of the period	<u>\$ 691,169</u>	<u>\$ 436,086</u>
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Supplemental Disclosure of Cash Flow Information

Cash paid during the period for interest	<u>\$ 4,383</u>	<u>\$ -</u>
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Issuance of company stock for notes and other payables	<u>\$ -</u>	<u>\$ 242,192</u>
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Retirement of stock	<u>\$ 460,000</u>	<u>\$ -</u>
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Stock repurchase from shareholder	<u>\$ 460,000</u>	<u>\$ -</u>
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Conversion of liability as consideration on sale of legacy business	<u>\$ 150,000</u>	<u>-</u>
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Conversion of equity invested in subsidiary to common stock and warrants	<u>\$ -</u>	<u>\$ 272,203</u>
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Reclassification of options, warrants and other contracts to derivative liabilities upon issuance	<u>\$ -</u>	<u>\$ 1,636,590</u>
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