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WhereverTV Broadcasting Corp.'s (OTCQB: TVTV) Rally Not Supported by Solid Fundamentals

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Emerging Growth Companies

MIAMI, FLORIDA, USA, January 16, 2018 /EINPresswire.com/ -- Emerging Growth Newswire - Over the past year, WhereverTV Broadcasting Corp.'s (OTCQB: TVTV) stock has been on a sustained uptrend, reflecting positive investor sentiment linked to the Internet TV service provider's business strategy and positive analyst recommendations.

In a research report published in May 2017 by Rob Goldman Research, TVTV was rated a speculative buy with price target of $0.50. It was trading at $0.14 at the time the research was published, but has now soared to $0.45 (at the time of writing). If this trend is anything to go by, TVTV may hit its price target in the short-term. The Goldman Research report says the $0.50 price target is conservative, reflecting their belief that there could be more potential after it hits its mark.

But is this rally based on solid fundamentals? No it is not. TVTV's share price has instead been driven by well-timed corporate announcements and a business strategy that is convincing on paper but still unsuccessful in the market.

At its current price of $0.40 and with shares outstanding of around 68 million, TVTV has a market cap of approximately $27 million. However, in the past seven years, its revenue have been unimpressive—$6000 in 2016; $19,000 (2015).

TVTV has a price/sales ratio of 40,116. This absurdly high valuation is based on TVTV's business strategy, which though compelling has not yet produced any meaningful revenue . TVTV is still stuck in the business idea stage, and is not a cash producing operation.

Business strategy

TVTV, which offers pre-paid, no-contract live streaming and genre-specific content via an Over-The-Top (OTT) platform, is in a high growth industry. With over 140 channels in multiple languages from the U.S. and around the world, TVTV is well positioned to ride on the popularity of OTT platforms.

OTT platforms have outpaced cable TV in popularity in the U.S., where industry leader Netflix

(NASDAQ: NFLX) has more U.S. streaming subscribers (50.85 million) than the number of combined customers for the country's largest cable companies (48.61 million), according to research by Leichtman Research Group. Popularity of the OTT model is also picking up in other markets outside the U.S., as evidenced by Netflix's bold foray into markets in Asia and Africa in 2016. TVTV's content offerings for markets outside the U.S. such as Algeria, competitively position it to capitalize on the growing global popularity of OTT platforms.

TVTV's prepaid model allows a subscriber to pay for content that they want. This is in contrast to the post-paid contract model, which typically give subscribers the illusion of variety by bundling a limited number premium channels with dozens of generics.

The company has also taken steps to improve its offering to the Latino market.

WhereverTV Latino, its Latino division, recently launched on Google's (NASDAQ: GOOG) Chromecast, Google's answer to Roku (NASDAQ: ROKU) and Apple's (NASDAQ: AAPL) Apple TV that allows users to stream video content to their TV. This marketing alliance, which is already operational, will allow TVTV to access the Mexican market and will be offered nationwide through 200 retail stores that include Best Buy (NYSE: BBY), Coppel, Liverpool, Radio Shack & Sears (NASDAQ: SHLD).

The company's March 2017 acquisition of 4 genre-specific music channels—Digital RodeoTV (Country Music), Digital CrossTV (Faith Based), Digital PopTV and Digital RockTV—also strengthens its competitive positioning in the market.

Weak financials

There is no doubt that TVTV is competitively positioned. . However, the Company needs to spend big money in advertising while looking for and executing endorsement deals, to unlock its potential and grow subscribers. Above the line advertising—such as billboard and high budget production commercials—is a key driver of performance in pay TV business and cinema.

The company also needs licensing deals in order to compete with other OTT providers who offer premium content at affordable rates.

In a press statement announcing a revamp of the WhereverTV website earlier this year, Edward Ciofani, TVTV's CEO noted that the company would focus its marketing efforts towards cord-cutters and cord-nevers (industry speak for OTT TV customers) everywhere."

It is encouraging that TVTV's management appreciates the important role that marketing plays in unlocking growth in the subscription TV business. Revenues of $6000, as recorded in 2016, and zero revenue for the first nine months of 2017, obviously need improvement to justify the current market valuation. YouTube amateur videographers make much more than this.

Despite a compelling business model, at this time, TVTV does not have the financial muscle to execute any strategic advertising or licensing deals. The company's financials, as published in its 10-Q report for the quarter ended September 30, 2017, paint a picture of a cash strapped company that is fighting off unpaid suppliers and progressively diluting stock through convertible debt.

The Internet TV service provider is embroiled in a standoff with a former supplier called Zigron over outstanding invoices that date as far back as 2012. Zigron, which is owed $141,798 and accrued interest of $20,629, wants to convert these invoices into common stock, a move that TVTV is fighting because it could put it into a death spiral. This issue has the potential to undermine relationships with other suppliers, a situation that could prompt TVTV's existing and future suppliers to demand cash upfront or work on unfavorable credit terms.

The company is also taking convertible debt from insiders. Its 10-Q partly reads that: "The company has received loans from the prior CEO as well as loans from the current CEO. The prior CEO's note bears no interest and was payable on demand and was paid in full in October 2016. The current CEO's note bears 10% simple interest and is convertible into the Company's common stock at $.05 per share. The balance of the notes for the periods ending September 30, 2017 and December 31, 2016 was $845,730 and $727,404, respectively. On March 7, 2017 the current CEO converted a portion of his notes and accrued interest into 6,150,038 shares of common stock. At September 30, 2017 the remaining notes payable and the accrued interest are convertible into 18,659,386 shares of common stock. During January 2017 the Company also secured two separate convertible lines of credit with members of its board."

Convertible debt, specifically if a company has no other immediate source of finance, needs to be closely monitored. As noted in our previous article on Cannabis stock, Terra Tech Corp (OTCQX: TRTC), convertible debt allows lenders to convert their debt to shares at discounts of as high as 70% of the prevailing share price. In other words, convertible debt holders always make money and there is always an incentive to lend more in order to convert the debt to shares and offload them in the market at a profit. This ends up diluting common shareholders by increasing the shares outstanding. It can also be an incentive for share price manipulation as debt holders are keen to convert shares to debt when share prices are low and offload them to the public when share prices are high.

Conclusion

The issuance of convertible debt by TVTV insiders, including board members and a former CEO, leaves a lot to be desired. For a company that is making next to zero in revenue, share price dilution due to convertible debt is the last thing an investor wants. All this is headlined by a net loss of $1.05 million in 2016 and $1.2 million in the first nine months of 2017, underlining the company's precarious financial position. TVTV has a good strategy on paper. However, until it translates this strategy into revenues, it remains a sell.

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