ALTA FOX CAPITAL

Date: 7/24/2018

Disclaimer: As of the publication date of this report, Alta Fox Capital Management, LLC and its affiliates (collectively, "Alta Fox"), have long positions in 3PEA International, Inc. (the "company" or "TPNL"). Alta Fox stands to realize gains in the event that the price of TPNL's stock increases. Following publication, Alta Fox may transact in the security of 3PEA International, Inc. All expressions of opinion are subject to change without notice, and Alta Fox does not undertake to update this report or any information herein. Please read our full legal disclaimer at the end of this report.

3PEA International, Inc. ("TPNL") Long Idea

Executive Summary

3PEA International ("TPNL") is a high-quality payment provider to the domestic plasma industry with excellent returns on capital, a long growth runway with high incremental margins, an attractive duopoly industry structure, and multiple near-term catalysts. Insiders own ~50% of the company, including the founder/CEO, Marc Newcomer, who owns ~21% of the company and has not sold a single share despite a 10x+ increase in share price since 2016. Moreover, Dan Henry, a widely respected pioneer in the payments space, agreed in May of this year to join the company as Chairman of the Board. Shares currently trade for ~$2.50/share, but I believe TPNL's existing plasma payments business is worth over $5.00/share (~100% upside). Moreover, the company has two other initiatives that I believe have a reasonable chance of pushing fair value above $10.0/share over the next several years (300% upside).

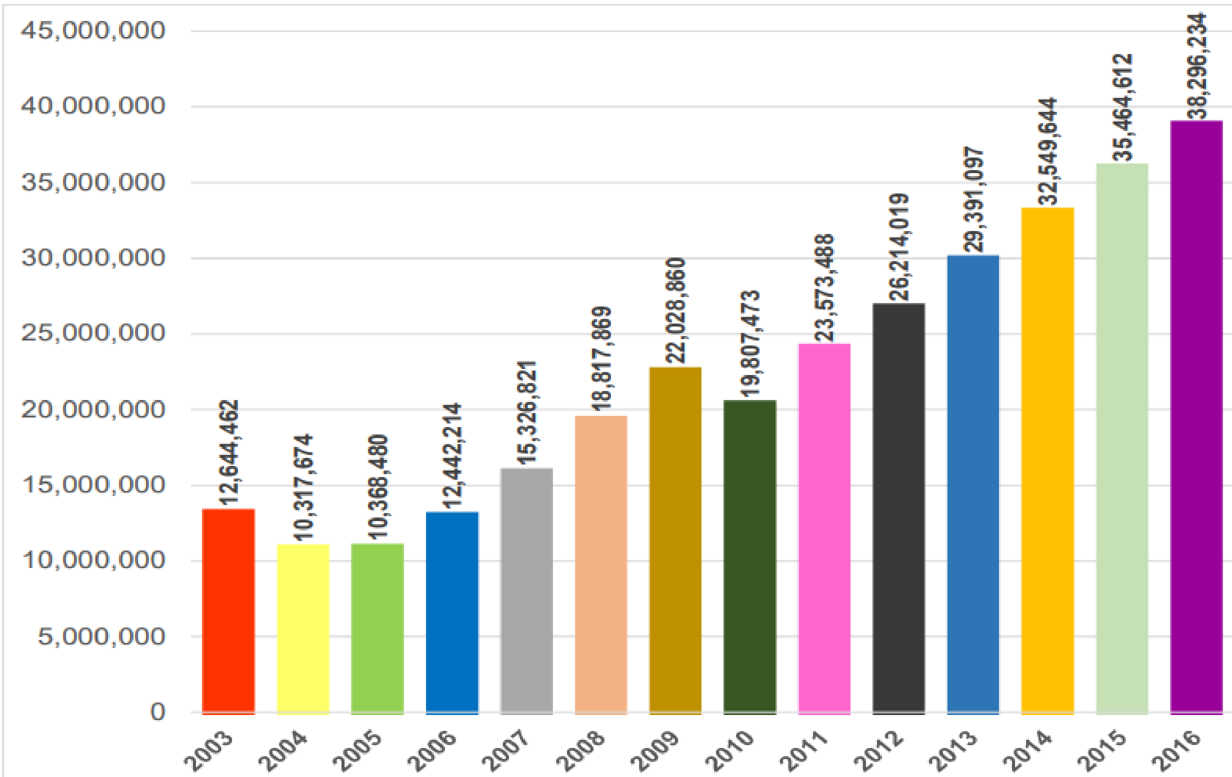
Business and Industry Overview

Almost 100% of TPNL's business today is providing and servicing pre-paid debit cards for the plasma donation industry.

At a high level, this is how the industry works: There are three main players that operate ~70% of the U.S. plasma donation centers: CSL (CSL AU EQUITY), Griffols (GRF SM EQUITY), and Shire (SHP LN EQUITY). All of these companies are multi-billion dollar publicly traded companies that open and operate plasma donation centers, fractionate the donated plasma into various proteins, and use the proteins to develop and sell treatments for multiple diseases (such as hemophilia and immune deficiency diseases). These are high quality businesses in their own right and trade for healthy multiples (the fastest growing company of the three, CSL, which is also TPNL's largest customer, trades for ~24x consensus 2019 EBITDA). Importantly, the vast majority of global plasma supply comes from the United States. There are two reasons for this. First, the FDA will only allow plasma donated in the U.S. to be used in therapies for quality control purposes. Second, most countries do not allow compensation for plasma donors. The result is the U.S. supplies ~65% of the world's plasma supply and the vast majority of it flows through just three companies: CSL, Griffols, and Shire.

Plasma is a very attractive end market. Total number of U.S. donations grew at an 8.9% CAGR from 2003-2016. High-single digit to low double-digit growth per year is expected for the foreseeable future because of new therapies developed for existing diseases as well as greater awareness and diagnosis of immune-deficient patients who need treatment. Moreover, the supply of donors actually increases in a recession (as people are crunched for cash, the prospect of plasma donation becomes more attractive).

Total United States Plasma Collections by year: 2003-2016



Source: Plasma Protein Therapeutics Association

What is TPNL's Role in This Industry?

Plasma donors are paid ~$40/plasma donation through pre-paid debit cards. The industry used to use cash, but difficulties in accounting for the cash and theft (most donation centers are in low income areas with higher than average crime rates) have resulted in nearly 100% of the industry using pre-paid debit cards. Moreover, a meaningful percentage of donors do not have checking accounts, which means checks are not an option. Pre-paid debit cards also allow the three big plasma companies to better understand their customers, run promotions, and facilitate loyalty programs. There are only two significant players in the pre-paid debit card market for plasma donations: Citi pre-paid services (which was acquired by Wirecard in 2017) and TPNL (Bank of America is also technically in the market but is a niche player). While TPNL's card is Visa branded, TPNL manages the rest of the card process. TPNL installs kiosks in each donation center that allows customers to swipe their card and check balances, provides 24/7 bi-lingual customer support, manages the relationship with the issuing bank, handles lost and stolen cards, and charges various fees for using the card. On average, the fees charged by TPNL (and Wirecard) are approximately ~3.3% of the value of the card.

For many years, Citi pre-paid services dominated the plasma donation pre-paid debit card market with nearly 100% market share. However, the plasma payment business was a small percentage of their overall business, so it was never a major priority. They ran into some problems with service, which have continued since its acquisition by Wirecard (WDI GR EQUITY) in 2017. Service levels by Wirecard suffered, leading to disgruntled customers and the companies who operate the service centers. Imagine being a low-income plasma donor who really needs money, spends an hour of time to donate plasma, and then cannot receive the funds because Wirecard's payment system is malfunctioning. This situation creates a lot of problems for the donor centers, which want this to be as hassle-free as possible. TPNL entered this market in 2011 and has gone from 0% market share to ~35% market share today by capitalizing on Wirecard's mistakes, having zero downtime, and being a more service oriented pure-play plasma payments company. Wirecard ex-employees I spoke to described TPNL as a "pest" taking advantage of Wirecard's integration issues with Citi pre-paid services to improve their market share. TPNL is more dedicated to plasma (it is their only business) and their technology is better and more custom designed for the industry. I expect them to continue to be a "pest" and gain market share in the industry.

TPNL is a Fantastic Business

- High returns on capital and low reinvestment requirements in a duopoly industry structure.
    - TPNL is effectively a toll road taking a 3.3% cut of every plasma donation at centers they service.
- Sticky customers: TPNL signs five-year service contracts with plasma donation centers. Renewals are 3-year terms. TPNL has never lost a single donation center.
- High barriers to entry: there are very long lead times to sell into these donation centers and the plasma market is more nuanced than most payment markets and a niche market.
- High switching costs: if a payment provider is doing a good job, there is little incentive for a donation center to switch. Switching would involve reissuing all of the old cards for your existing donor base, reconfiguring your loyalty plans, and reeducating the donors.
- Service, rather than price, is the most important determinant to the donor centers. The fees of the card are paid by the donors, not the plasma donation companies.
- TPNL earns interest on the float on the cards and therefore benefits from rising interest rates.
- It has a very high revenue growth rate, which is both fairly predictable and recession resistant.

Valuation of Plasma Business

Key drivers of value include:

- **Growth in the number of donation centers**
    - Base Case: The industry opens 52 donation centers/year for the next several years.
        - CSL has publicly stated they will open 25-30 for the next several years. CSL is TPNL's best customer and they have a very strong relationship. Griffols is growing second fastest, and TPNL just converted a large number of Griffols centers in 2017 and is well positioned for future openings. Between those two companies alone, you get close to my base case openings for the industry. Shire (third largest player) and smaller independent players should also contribute some growth.
- **TPNL's market share**
    - TPNL's customers are fairly upfront about their donation center opening plans and TPNL has won the vast majority of incremental donation centers the past two years. Conversations

with industry participants suggest that donor centers will always want to dual-source their payment solution, meaning Wirecard will maintain some level of market share.
    - However, with TPNL's service being significantly better and more responsive than Wirecard, I think TPNL is poised to take the vast majority of incremental openings (as they have over the last few years) and soon surpass Wirecard in overall market share in the industry.
    - Base Case
        - TPNL opens 48 centers per year.
            - The 48 centers open per year estimate is a combination of TPNL winning the vast majority of new centers opening as well as converting a small number of other facilities whose contracts expire.
            - I believe this is conservative in light of recent trends and the current opportunity set. From 2016-2017, TPNL opened a combined 114 centers versus the industry's growth of ~62 centers as TPNL was able to convert a significant number of Griffols centers in 2017. The company still has only ~35% market share despite vastly better service and reliability versus Wirecard.
            - Moreover, TPNL does not service any donation centers from Shire, the #3 player in the industry with over 80 centers in the U.S. However, Shire is in the process of being acquired by a Japanese firm, which may create an opportunity for TPNL to earn some of their business. It is noteworthy that CSL, the best managed and fastest growing company in the plasma space, is giving TPNL the vast majority of their openings.
            - Sanity check: in this scenario, TPNL ends FY 2021 with 397 centers. This would represent 45.1% market share in FY 2021, still less than Wirecard.
- **Growth in donations/average donation center (same store sales)**
    - In the base case, I assume 0%. This is probably fairly conservative (Q1-18 for TPNL was 2.9%).
- **Increase in the value paid per donation**
    - In the base case, I assume 3.0% inflation per year. Even the large plasma companies admit that supply is tight and there will be some inflation over the next few years.

In the above base case scenario, and assuming slight GM and SG&A margin improvement in line with recent trends, by FY 2022, TPNL will generate $45.2M in plasma revenue and $15.8M in EBITDA (35.0% margin).

Most payment and plasma peers trade between 15x-20x forward EBITDA. If we take the low end of the range and use a 15x EBITDA multiple on the $15.8M in FY 2022E EBITDA, the enterprise value is ~$237M. Add in a growing unrestricted cash balance of ~$38M and you get to a market cap of $275M. Assuming 51M in fully diluted shares, I reach a future fair value of $5.39, which represents ~115% upside. That is a ~25% IRR (assuming a fwd multiple applied at end of FY 2021). This is attractive upside for a good business with fairly predictable growth using conservative assumptions and applying a conservative multiple. However, the story gets a lot more interesting given the potential value creation from non-plasma segments.

Model Output/Valuation	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Industry									
BoP Donation Centers		580	609	639	671	723	775	828	880
EoP Donation Centers	580	609	639	671	723	775	828	880	925
Average # Centers		595	624	655	697	749	802	854	903
TPNL									
BoP Donation Centers		78	91	120	205	253	301	349	397
EoP Donation Centers	78	91	120	205	253	301	349	397	445
Average # Centers		85	106	163	229	277	325	373	421
EoP TPNL Market Share	13.4%	14.9%	18.8%	30.6%	35.0%	38.8%	42.1%	45.1%	48.1%
TPNL Plasma Revenue	**10.3**	**8.1**	**10.4**	**15.2**	**21.8**	**27.2**	**32.9**	**38.9**	**45.2**
y/y %		-21.2%	28.5%	46.2%	43.0%	24.9%	20.8%	18.2%	16.3%
TPNL Revenue/Average Center (000's)		$95.9	$98.7	$93.7	$95.1	$98.2	$101.2	$104.2	$107.3
Gross Profit	**5.6**	**4.1**	**4.5**	**6.7**	**10.5**	**14.0**	**17.6**	**20.8**	**24.2**
GM %	54.8%	50.4%	43.6%	44.0%	48.2%	51.6%	53.6%	53.6%	53.6%
SG&A (Adj. for SBC)	**2.1**	**3.5**	**2.5**	**3.7**	**6.2**	**6.7**	**7.2**	**7.8**	**8.4**
SG&A Margin %	20.5%	43.6%	24.1%	24.6%	28.4%	24.5%	21.9%	20.0%	18.6%
EBITDA	**3.5**	**0.6**	**2.0**	**3.0**	**4.3**	**7.4**	**10.4**	**13.0**	**15.8**
y/y % growth		-84.2%	263.7%	45.9%	46.5%	70.0%	41.5%	25.3%	21.2%
Multiple					15.0x	15.0x	15.0x	15.0x	15.0x
EV					64.9	110.3	156.0	195.5	236.9
(+) unrestricted cash					2.2	9.7	16.9	26.3	37.8
(-) debt					-	-	-	-	-
Market Cap					67.0	120.0	173.0	221.8	274.8
FDSO					46.1	47.5	49.0	50.0	51.0
Value/Share					$1.45	$2.53	$3.53	$4.44	$5.39
Current Price					$2.51	$2.51	$2.51	$2.51	$2.51
Premium %					-42.1%	0.6%	40.6%	76.7%	114.6%
Date Fair Value Realized (1 yr fwd multiple)						12/31/2018	1/1/2020	12/31/2020	12/31/2021
IRR						1.4%	26.6%	26.2%	24.8%

Significant Additional Drivers of Value (non-plasma business)

Dan Henry joining TPNL's board as chairman is a very big deal as his industry connections and payments expertise significantly increase TPNL's likelihood of succeeding in the two non-plasma initiatives listed below.

Henry was previously CEO of NetSpend where he took EBITDA from $30M in 2007 to $125M in 2013 and then sold the company in an all cash sale for $1.4B. Prior to his time at NetSpend, Henry co-founded and was President of Euronet (EEFT), a ~$4B company. Henry's decision to become Chairman of TPNL is a very bullish sign for a ~$100M market cap company, especially since he elected options struck at the then current price. The only other public company board he is currently on is Brink's (BCO), a $4B+ market cap company.

There are two very valuable non-plasma growth opportunities which could drive an incremental $5.00+/share of intrinsic value

1) General Reloadable Card

Dan Henry's previous company, NetSpend, was a leader in the general purpose pre-paid debit card. These are flexible, multi-purpose cards that consumers without traditional banking options use. For example, users can send money between NetSpend users for free, have funds from an employer or government assistance loaded directly onto the account, and have other value-added features such as mobile check deposit.

I believe TPNL will launch a general reloadable card under Dan Henry's leadership, and I think it has a very good chance of success. TPNL already has a database of ~1.8M users who have plasma donation cards. These cards are Visa branded and can be used anywhere Visa is accepted, but they lack the functionality of a general reloadable card. The biggest difference is currently users of TPNL's cards cannot automatically direct deposit funds from an employer or government assistance onto their card. Conversations with industry participants suggest that this population group would likely be a great target audience for this feature and that general spend would materially increase.

I only factor this into the bull case. However, my research suggests that TPNL could convince **~20% of their users to switch to a general reloadable card which would result in 3.0x the average customer spend for those users** (since they load more funds). **My math suggests this could create ~$2.31 in incremental value/share.** I believe the eventual numbers could be much higher, but I am not willing to underwrite more bullish scenarios without more evidence.

General Reloadable Card Math

% of users who switch	20.0%
% of users who do not switch	80.0%
Increase in spend for users who switch	3.0x
Increase in spend ($)	1.40
% increase	40.0%

Base case plasma revenue 2018:	$21.8
% Increase in Revenue	40%
$ Increase in Revenue	8.7
Incremental margin %	90%
Incremental EBITDA	$7.8

Multiple	15.0x
Value	$117.64
Fully Diluted Shares (2021 estimate)	51.0
Incremental Value/Share	**$2.31**

2) Pharma Copay Business

Before TPNL entered the plasma business, they were in the pharma copay pre-paid debit card business. This segment partners with big pharma companies to introduce loyalty programs and incentive programs for users of their drugs to reduce the out of pocket pay for consumers. In return, the drug companies get valuable customer data and can influence purchasing decisions. Drug companies partner with players like TPNL to operate the pre-paid debit card portion of the trial.

I believe TPNL's pharma revenue peaked at about $6M around 2012. However, TPNL had a dispute with their partner at the time, PSKW (now called ConnectiveRx). PSKW was a payments player as well and owned the relationship with the pharma companies. PSKW effectively outsourced some of their card demand to TPNL who received a cut of revenue. The dispute between PSKW and TPNL basically centered around what happened with expired cards that still had money remaining on them after the trial had ended. PSKW considered the funds to be theirs, TPNL disagreed. TPNL at the time was very cash strapped and could not afford a prolonged lawsuit. They ended up settling for $2.8M in 2015. At that point, TPNL was shifting to the plasma business anyways and the pharma incentive business took a backseat and wound down to zero revenue.

I believe TPNL has an opportunity to revive their pharma copay business and have a direct relationship with the pharma companies. The drug companies want a partner with a reliable operating history but beyond that, it is all about connections. Despite TPNL having been inactive for a couple of years in the pharma copay market, I think their history of success in the plasma industry along with Dan Henry's connections could lead them to reinvigorate this business in a very meaningful way.

This is not just speculation on my part. I have been tracking LinkedIn employees for TPNL for several months. TPNL made several hires in Q4-17 and Q1-18 focused on the pharma space. These hires have already hit the income statement but have not yet generated profits. I think that changes in late 2018 and really ramps up in 2019.

One particularly important hire, in my estimation, is Al Negron. His LinkedIn profile is here: https://www.linkedin.com/in/alberto-al-negron-9834992/.

His LinkedIn bio says that he is now "responsible for managing and developing new products and revenue streams for 3PEA's Healthcare Vertical with special focus in BIO/Pharma copay off-set and reimbursement products in support of pharmaceutical copay marketing organizations." Negron worked at PSKW for over seven years and has many connections in the industry.

So how big can TPNL's pharma copay business get? Well they peaked at ~$6M previously, but that was under very different circumstances: TPNL had not yet established themselves as industry leaders in the plasma payment market, they were barely free cash flow positive and had <$2M in cash in the bank, and they were effectively an outsourced provider being brought sales leads for much lower margin than if they originated the deal themselves. TPNL is in a much better situation now and has poached top talent from ConnectiveRx (formerly PSKW). My research suggests this could be a ~$25M business within a few years. Approximately $1.5B in value flows through these cards annually in the pharma copay business (this is a slightly dated industry number so it is likely a bit higher now) with a higher average "take-rate" than in plasma (due to card breakage).

While I think the eventual revenue opportunity for TPNL could be significant (~$25M, or half the estimated $50M industry potential), it is still early. Let's assume TPNL can get to $15M in annual pharma co-pay revenue within the next several years. At a 70% incremental margin (they have already hired the staff and gross margins are higher than plasma), that would represent $10.5M in incremental EBITDA. This would translate to ~$3.00+ in incremental value/share.

Pharma Incentive Business

Revenue Opportunity	$15.0
Incremental Margin %	70%
Incremental EBITDA	10.5

Multiple	15.0x
Value	$157.5
FDSO (2021 #)	51.0
Value/Share	$3.09

Why Does the Opportunity Exist?

- Zero investor relations efforts: the company is ~50% owned by management and they have never spent any time telling their story to investors.
- Underfollowed: TPNL is small (~$108M market cap), has no research coverage, and does not (yet) trade on a major exchange.
    - The word "plasma" remarkably does not even show up in the company's 10-K. One has to do considerable industry due diligence to understand exactly what this business does and appreciate its quality.
- Significant and rapid change: this company is on the verge of transforming their business but it is not obvious unless one has done significant research on the industry and the people involved. High growth + high incremental margins + poorly understood is often a recipe for outperformance.

TPNL Summary

3PEA International (TPNL) is a high-quality business with excellent returns on capital, high incremental margins, a long runway for growth, significant insider ownership, and is largely immune to macroeconomic factors. It is also a very under the radar security. One has to do significant due diligence beyond the company filings just to understand exactly what the business does. Our extensive discussions with industry experts, ex-employees, current management, and plasma players has given us conviction that TPNL can easily double to ~$5.00 just from the growth of their plasma business. If the company succeeds in launching a general reloadable card product ($2.30+ in incremental value/share) and reinvigorating their pharma copay business ($3.00+ in incremental value/share), a $10.0+ share price is very achievable within the next few years.

Catalysts

- Nasdaq uplisting/increased investor relations effort
    - TPNL has put basically nothing into investor relations in the past, but management seems interested in addressing this and I think Dan Henry will be a positive influence in this regard.
    - The company has already filed to list on the Nasdaq and is just waiting for approval. I expect this should happen in the next few months.
- Continued Growth
    - Eventually, the company will grow into its valuation and force investors to take notice.

Risks

- Customer concentration
    - CSL and Griffols are big customers. If TPNL were to lose their favor, they could lose a significant percentage of their revenue over time
- Alternative plasma therapies
    - If there is a way to create synthetic plasma or if plasma can be used more efficiently in treatments, that would harm TPNL's business
- Harmful regulation of U.S. plasma industry
- Unforeseen Risks

- Because there is so little disclosure, the risk is greater than normal that there are risk factors that I am not considering.

Legal Disclaimer

- Alta Fox Capital Management, LLC (“Alta Fox”) is an investment adviser to funds that are in the business of buying and selling securities and other financial instruments. This report is provided for informational purposes only and does not constitute investment advice or an offer or solicitation to buy or sell an interest in a private fund or any other security. An offer or solicitation of an investment in a private fund will only be made to accredited investors pursuant to a private placement memorandum and associated documents.
- Alta Fox currently has a long position in 3PEA International, Inc. (“TPNL”) common stock.
- Alta Fox will profit if the trading price of TPNL common stock increases and will lose money if the trading price of common stock of TPNL declines.
- Alta Fox may change its views about or its investment positions in TPNL at any time, for any reason or no reason. Alta Fox may buy, sell, or otherwise change the form or substance of its TPNL investment. Alta Fox disclaims any obligation to notify the market of any such changes.
- The information and opinions expressed in this report are based on publicly available information about TPNL. Alta Fox recognizes that there may be non-public information in the possession of TPNL or others that could lead TPNL or others to disagree with Alta Fox’s analyses, conclusions, and opinions.
- The report includes forward-looking statements, estimates, projections, and opinions on TPNL, as well as more general conclusions about TPNL’s anticipated operating performance. Such statements, estimates, projections, opinions, and conclusions may prove to be substantially inaccurate and are inherently subject to significant risks and uncertainties beyond Alta Fox’s control.
- Although Alta Fox believes the report is substantially accurate in all material respects, Alta Fox makes no representation or warranty, express or implied, as to the accuracy or completeness of this report or any other written or oral communication it makes with respect to TPNL, and Alta Fox expressly disclaims any liability relating to the report or such communications (or any inaccuracies or omissions therein). Thus, shareholders and others should conduct their own independent investigation and analysis of the report and of TPNL and other companies mentioned.
- Except where otherwise indicated, the report speaks as of the date hereof, and Alta Fox undertakes no obligation to correct, update, or revise the report or to otherwise provide any additional materials. Alta Fox also undertakes no commitment to take or refrain from taking any action with respect to TPNL or any other company.
- Additional information about Alta Fox can be found on its website, www. altafoxcapital.com, the use of which is subject to a User Agreement, which can be found at www. altafoxcapital.com/disclaimer.