



Tapinator, Inc. Annual Shareholder Letter

NEW YORK – February 28, 2017 – Tapinator, Inc. (OTC: TAPM)

Dear Shareholders:

2016 represented another milestone year for Tapinator. We would like to take this opportunity to review some of our most significant accomplishments from the last twelve months, provide an outlook for 2017 and beyond, and to personally thank our employees, partners and our loyal and growing shareholder base.

Accomplishments

First, let's begin by listing some of our major 2016 Accomplishments:

- 1) We grew our revenues to approximately \$3.7mm in 2016 (unaudited), from approximately \$2.4mm in 2015, representing a 52% increase.
- 2) We grew our adjusted EBITDA (an unaudited Non-GAAP measure) to approximately \$900k in 2016, from approximately \$500k in 2015, representing a 66% increase.
- 3) We narrowed our operating loss from approximately \$900k in 2015 to approximately \$10k (unaudited) in 2016.
- 4) We released 114 new mobile games in 2016 and grew our worldwide player network to 360 million cumulative downloads of Tapinator's mobile games since the Company's inception in 2013.
- 5) We finished the year with a game library consisting of approximately 300 revenue generating mobile games, with more than 80 titles having each achieved more than one million player downloads, and with no single game accounting for more than 6% of our 2016 revenues.
- 6) In December 2016, we launched ROCKY™, a free mobile game created in conjunction with MGM Interactive, to celebrate the 40th anniversary of the iconic Academy Award-winning film ROCKY™ and the legendary film franchise that is one of Hollywood's most successful and enduring collections of stories ever produced.
- 7) We had three game launches and one game update featured by at least one of the major mobile game platforms (Apple, Google and Amazon) in 2016. In the United States market, two of our games achieved Top 100 Games Leaderboard placement, and six of our games achieved Top 200 Games Leaderboard placement on the major mobile storefronts.
- 8) We grew our average monthly active user base (MAU) 66% from 8.8 million players in Q4 2015 to 14.6 million players in Q4 2016.
- 9) We successfully completed the refinancing of our Senior Convertible Debt Refinancing in 2016. Specifically, we extended the maturity of our debt well into 2018, increased the initial conversion price of such debt from \$.205 to \$.25 per share, and we removed approximately 10.6mm convertible common shares, on a net basis, from our equity capitalization.

Corporate Strategy

In 2017, we will continue the strategy we began implementing last year to gradually shift the Company's primary emphasis from our Rapid-Launch Games business to our Full-Featured Games business, an area in which we believe significantly greater long-term value can be created for our shareholders. To that end, we would expect our Full-Featured Games business to surpass our Rapid-Launch Games business from a bookings perspective for the first time by calendar year 2018.

Across both of our lines of businesses, we will continue our overarching focus on de-risking our mobile game investments through a combination of a low fixed-cost operating structure, a data-driven and staged approach to game development, and a creative emphasis on evergreen genres that rely on unique combinations of proven game play and meta systems, as well as the select utilization of iconic intellectual property.

As a technology driven entertainment company, we understand the importance of adapting to the rapid technologic evolution of our industry. As such, we have closely followed new developments in important areas such as virtual reality (VR), augmented reality (AR), and messaging apps. We are constantly gauging the potential impact of these technologic developments on the future of the mobile gaming ecosystem. We are committed to experimenting prudently with these newer technology platforms so that we are well positioned to extend our content library to these newer markets when we believe there are significant investor returns to be had from doing so.

In general, there remains massive opportunity within the mobile entertainment market, and we will continue to build our formidable and diverse pipeline of games in order to capture market share.

Market

According to research firm Superdata and Unity Technologies, the mobile games market earned \$40.6 Billion in 2016, the equivalent of global box office sales for the year. The growing U.S. mobile games market is now amongst the ranks of traditional media as mobile gamers play more often than they watch Netflix (NFLX), Hulu or YouTube. According to Digi-Capital, the mobile gaming market is expected to grow at a 15% CAGR over the next five years to reach \$80 billion by 2021. Drivers of this growth include:

1. Rising smartphone penetration worldwide
2. A growing middle class in emerging markets
3. Increasing time spent by consumers on mobile devices
4. An expanding share of disposable income going to gaming
5. Emerging new subsectors such as messaging apps, mobile VR and AR gaming

Approximately two dozen public companies around the world have significant portions of their business in mobile gaming content creation including: Activision-Blizzard, Zynga, Glu, Tapinator, TakeTwo and EA listed in the U.S.; DeNa, Gree, Nexon and Gung-Ho in Japan; Gamevil, Kakao and Com2Us in Korea; Tencent, Netease, Boyaa, Forgegame, GameOne Holdings, OurPalm, IGG, and ZQGames in China; and G5 Entertainment, Gameloft, and Ubisoft in Europe. Despite this seemingly large number of players, we believe that no single competitor has yet to capture more than 15% of the global market. We believe that while it is still early for the mobile gaming industry, the market has begun to show signs of maturing and we believe significant consolidation is likely to occur during the next five years, creating additional upside opportunity for equity valuations within our industry. Recent examples of mobile gaming M&A transactions and their transaction values include:

- Tencent (TCEHY) / Supercell: *\$8.6 billion*
- Activision-Blizzard (ATVI) / King: *\$5.9 billion*
- Giant (SZ:002558) / Playtika: *\$4.4 billion*
- Netmarble / Kabam: *\$800 million*
- Ubisoft / Ketchapp: *Transaction Value Undisclosed*
- Take Two (TTWO) / Social Point: *\$276 million*

Value Proposition & Market Awareness

In 2016, our executive team had its heads down and focused primarily on delivering organic growth in Tapinator's business. While this effort clearly paid off based on the fundamental operating results that we delivered, the market's lack of response to our performance in terms of our equity valuation has been disappointing. As such, we are committing to being significantly more proactive in 2017 to develop market awareness of the Tapinator story and the related investment value proposition. Given the business growth we have produced to date, and the revenue and adjusted EBITDA growth that we believe we can deliver over the coming years, we think there is a strong investment case to be made to both current and prospective Tapinator shareholders. This effort will likely include a combination of participation in both industry and investor conferences and roadshows, obtaining equity research coverage, and the engagement of public and investor relations firms. We are excited to kick off this new effort immediately and will work tirelessly to achieve a valuation that we believe is more commensurate with our underlying fundamental business performance.

Forward Guidance

We are only several months into 2017, yet the year is off to a promising start. Two of our full-featured games, *Video Poker Classic* and *Solitaire Dash*, have recently achieved estimated Life Time Player Values (LTVs) that are substantially greater than the effective cost to acquire such players (eCPIs). Given this dynamic of $LTV > eCPI$, and the evergreen nature of both titles, we believe that we can successfully scale revenues significantly for both titles in 2017 and beyond as we invest more significantly in marketing for both games. Looking forward, we are not yet able to offer specific guidance for 2017 but hope to be in a position to do so as part of our first quarter report which will be released in early May. We also look forward to soon providing a more detailed update on our 2017 Full-Featured game pipeline. In the interim, however, we have set the following specific long-term goals for Tapinator for the three-year period 2017-2019.

- 1) Achieve minimum bookings growth of 30% (twice the projected industry average) and expand our adjusted EBITDA margin from approximately 23% to at least 25% over this same period. We recognize that significantly higher revenue growth is clearly achievable to the extent we are able to produce a hit title in the form of a top 100 grossing game. While we believe we are well-positioned and fully capable of achieving this more optimistic outcome, it is also understandably difficult to forecast.
- 2) Publish a minimum of four Full-Featured games annually across multiple genres including at least one game that leverages branded IP.
- 3) Critically evaluate KPIs for our Full-Featured games, and kill projects early that do not meet our minimum goals, while doubling down on those titles that exceed our expectations.
- 4) Continue to strengthen the Company's balance sheet through prudent financing strategies.
- 5) Continue to diversify our content portfolio and increase the size of our games catalogue to make our revenue streams more predictable.
- 6) Expand the scope of our publishing model and become a first stop for top independent game developers looking for an entrepreneurial mobile gaming publishing partner.
- 7) Continue to lay the foundation for becoming a fully reporting company and for migrating to a higher listed exchange, including the continued completion of AICPA audits and the continued expansion of our independent board of directors.
- 8) Continue to invest in talent through the addition of high performing employees and key partners across creative, technical, and quantitative disciplines.
- 9) Engage more deeply with our players, the lifeblood of our company, in an ongoing effort to better inform our game development.
- 10) Continue to focus on prudent cash management and operating profitability, in conjunction with achieving significant top line growth.

In Closing

While these goals are significant, we are confident in our ability to perform. None of this performance would be possible, however, without the hard work and support of Tapinator's many employees, partners, players and shareholders. We would like to personally thank each and every one of you for your ongoing support. We are honored to serve you and look forward to continue building Tapinator into a world-class mobile gaming company.

Sincerely,



Ilya Nikolayev
Chief Executive Officer



Andrew Merkatz
President

Non-GAAP Financial Measures

We have provided in this release the non-GAAP financial measures of Bookings and adjusted EBITDA as a supplement to the other financial measures which are prepared in accordance with United States generally accepted accounting principles ("GAAP"). The presentation of Bookings and adjusted EBITDA is not intended to be considered in isolation or as a substitute for the financial information prepared in accordance with GAAP. Some limitations of Bookings and adjusted EBITDA are:

- *Bookings do not reflect the deferral of certain game revenue that Tapinator recognizes over the estimated useful lives of paying users of Tapinator's games and excludes changes in deferred revenue.*
- *Adjusted EBITDA does not include the impact of stock-based expense, impairment of intangible assets previously acquired, acquisition-related transaction expenses, contingent consideration fair value adjustments and restructuring expense;*
- *Adjusted EBITDA does not reflect income tax expense;*
- *Adjusted EBITDA does not include other income or expense, which includes foreign exchange gains and losses and interest income or expense;*
- *Adjusted EBITDA excludes depreciation and amortization of intangible assets. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and*
- *Other companies, including companies in our industry, may calculate adjusted EBITDA differently or not at all, which will reduce their usefulness as a comparative measure.*

Because of these limitations, you should consider Bookings and adjusted EBITDA along with other financial performance measures, including revenue, operating income (loss), net income (loss), and our other financial results presented in accordance with GAAP. Tapinator may consider whether significant items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses. We will provide reconciliations between our 2016 and 2015 Bookings and adjusted EBITDA to the most directly comparable GAAP financial measures within the detailed financial results, that we plan to make available upon the completion of our annual audit in March 2017.

Tapinator believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding Tapinator's performance by excluding certain items that may not be indicative of Tapinator's core business, operating results or future outlook. Tapinator's management uses, and believes that investors benefit from referring to, these non-GAAP

financial measures in assessing Tapinator's operating results, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of Tapinator's performance to prior periods.

About Tapinator

Tapinator (OTC: TAPM) develops and publishes mobile games on the iOS, Google Play, and Amazon platforms. Tapinator's portfolio includes over 250 mobile gaming titles that, collectively, have achieved over 350 million player downloads, including games such as *ROCKY™*, *Combo Quest*, *Video Poker Classic*, *Solitaire Dash* and *Burn It Down*. Tapinator generates revenues through the sale of branded advertisements, paid downloadable games and premium in-game content. Founded in 2013, Tapinator is headquartered in New York, with product development teams located in the United States, Germany, Pakistan, Indonesia, Russia and Canada. Consumers can find high-quality mobile entertainment wherever they see the 'T' character logo, or at Tapinator.com.

Forward Looking Statements

To the extent that statements contained in this press release are not descriptions of historical facts regarding Tapinator, they are forward-looking statements reflecting the current beliefs and expectations of management made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "forecast," "believe," "may," "will," "expect," "anticipate," "estimate," "intend," and similar expressions (as well as other words or expressions referencing future events, conditions or circumstances) are intended to identify forward-looking statements. Forward-looking statements in this release involve substantial risks and uncertainties that could cause the development and monetization of our mobile games, future results, performance or achievements to differ significantly from those expressed or implied by the forward-looking statements. Such risks and uncertainties include, among others, the uncertainties inherent in the hits nature of the mobile gaming business. Tapinator undertakes no obligation to update or revise any forward-looking statements. The quoting and trading of the company's common stock on the OTC Market Group's OTC Link quotation system is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with the company's operations or business prospects. As a result, there may be volatility in the market price of the shares of the company's common stock for reasons unrelated to operating performance. Moreover, the OTC Market Group's OTC Link quotation system is not a stock exchange, and trading of securities on it is often more sporadic than trading of securities listed on the NASDAQ Stock market or another securities exchange. Accordingly, stockholders may have difficulty reselling any of their shares. For a further description of the risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of the company in general, see Tapinator's Risk Factors which are available within the Disclaimers section of our website at Tapinator.com.

CONTACT

Tapinator Investor Relations
investor.relations@tapinator.com
(914) 930-6232