Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Allocation Increase

Summit Wireless Technologies, Inc.

(Nasdaq Stock Symbol - WISA)

Report Date: 06/04/19

12- 24 month Price Target: $9.25

Allocation: *5

Closing Stock Price at Initiation (Closing Px: 09/28/2018): $4.30

Closing Stock Price at This Report (Closing Px: 06/04/2019): $1.33

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Disclosure: Portions of this report are excerpted from Summit Semiconductor Inc.'s filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

Summit recently completed a secondary offering of roughly 4.1 million shares at $1.33 per share for gross proceeds of about $5.4 million. We are pleased that they were able to put some additional needed working capital in the bank, although we were not particularly happy about the pricing it was done at. We won't re-beat the dead horse, but as we have noted many times, for small emerging companies like Summit that are dependent on equity raises until they can advance the business to positive cash flow, the specter of unknown amounts of additional dilution can provide significant headwinds for share prices.

Below is some narrative we provided in our recent conference overview of the Company, that we think is still germane and provides a good backdrop for our allocation increase:

We commenced coverage of Summit in September 2018 with a 12-24 month price target of $9.25.

Copies of that research is available at the registration table, as well as online at:

https://stockmarketmanager.site-ym.com/members/group.aspx?id=213743

Shortly after our initiation, Summit picked up some additional coverage with at 12-month price target at $7.00. That research is available online at:

https://ascendiant.sharefile.com/share/view/52d11afd3f5049da

We submit, since the initiation of our coverage, the stock has not performed particularly well and while frankly we find that a bit perplexing, we have a couple of observations to that end.
First, prior to our initiation, the Company went public via an S-1 filing and concurrently raised approximately $12 million at $5 per share. That transactions included some six-month lockups for legacy shareholders, which we believe expired in March (2019) so our sense is that some of the legacy shareholders were probably looking for some liquidity afforded by that expiration. We don't have any insights to that, it is just our sense. Further, the Company filed an additional S-1 in April 2019, referencing a secondary to raise $7 million. We suspect that revelation, for a handful of reasons has also negatively impacted the market prices of the shares. To translate, the past 60 days or so have not provided a particularly favorable technical backdrop for the shares. On the other hand, from a fundamental standpoint, we continue to view it as an opportunity, and logically more so given the compression in the price.

While the stock has not performed well since the initiation, to the contrary, we think the Company has continued to achieve milestones that support our underlying thesis. At the same time unless we missed something, there hasn't been any negative news that should elicit the compression in the shares either.

Looking ahead, they provided a bit of guidance for 2019 and it looks to us like our estimates might be 6 months early or so. To be honest, we do not have enough data to develop a good handle on the product cycles/rollouts of WiSA ready products, so projecting revenues over the next several quarters will likely be prone to misses. But that is not really the point.

We continue to believe that the Company has developed a technology with potentially broad reach across a variety of existing and emerging consumer electronics products and platforms and they appear to be gaining traction amongst multiple large players in various corners of the industry. To that end, we have suggested that WiSA and the Company's associated technology could become the industry standard in wireless, hi-fidelity, multichannel audio delivery. If we are correct about that, we are confident that the resulting valuation will be substantially higher than that reflected by the current stock price and certainly nothing that has transpired since our coverage initiation has changed our view in that regard.

We have had several inquiries regarding the stock since the time just before and just following the secondary offering. We suspect the financing attracted some new shareholders and some of those found their way to us. Most of those discussions have centered on the same general question, which is of course, when will Summit begin to reflect meaningful adoption and ultimately sales traction and what will that look like? That by the way, is the 64,000 question regarding many emerging companies in our space, so its not like we haven't heard that one before.

We don't know the answer to that question, which perhaps begs the question, why do we like it then? However, again, near term visibility is not exactly a common element of most of the stocks we follow, and it isn't with Summit either. On the other hand, to reiterate another of our favorite notions, if our thesis plays out reasonably, we would rather be early than late in the story, so here we are.

While there are certainly many potential outcomes here, we tend to look at Summit as a bit of an "all-or-none" proposition. Of course, it's certainly possible that this could simply end up as it has started, a niche solution for high end products but, our vision is that as WiSA gains acceptance among an increasing number of CE manufacturers across multiple platforms it could ultimately become a multichannel audio wireless standard. If that scenario plays out, then WiSA would become the "Intel Inside" for multichannel audio wireless, which would mean they could be (eventually) embedded in millions of CE products each year. We would reiterate, we think their coming software solution will help drive that notion as we think the technology will in that case be infinitely scalable at a nominal additional price. (To translate, even the cheapest CE products could afford to integrate it).

The above said, we submit it is difficult to quantify that possibility, or even the magnitude of that fortuitous path. We *are however* comfortable suggesting that it would be worth many times the current valuation of the shares. In the meantime, the Company does in fact have the attention of some of the largest CE Company's in the world. The Company's recent collaboration with LG, which is providing WiSA functionality through their 2019 OLED and Nano Cell TV series is a very good example, and frankly we think that represented a milestone that the street has apparently largely missed. Look, we recognize that Summit has a great deal of work yet to do in terms of gathering and aligning CE manufactures, products and technologies to adopt the WiSA standard. At the same time, they have also made quite a lot of progress towards positioning WiSA as the standard in multichannel audio wireless…even if the stock price doesn't seem to support that notion.

We would finish with one final thought about where this *might* be going. As we noted in the initial coverage as a well as above, we believe the endgame in the Summit strategy is an embedded software solution for the transmission of multichannel audio. To put that into perspective, that would mean you might someday play multichannel audio (music, a movie etc.) from your phone through WiSA enabled wireless speakers. We believe they will be able to deliver that solution in the not-too-distant future (they recently demonstrated it under NDA to several CE players). In the meantime, we suspect the Company will continue to block and tackle its way to attracting more CE manufacturers and more CE products to the WiSA enabled standard. We submit, the process of WiSA becoming that standard is certainly not a foregone conclusion and at the very least will require time and marked effort on the part of Summit to help facilitate that end. While, we continue to believe visibility will remain challenging through 2019 as the Company works to build the base of WiSA adopters, we do expect to see additional positive data points during that time, with others likely coming with CES 2020 in January. Again, we find the compression in the stock in the midst of several positive milestones perplexing. As a result, we are increasing our allocation of WISA shares from 4 to *5. We have also updated our model to reflect new assessments regarding the trajectory of the business largely around company guidance. We submit, our targets and our enthusiasm for the stock are based on Summit gaining traction and market share from soundbars and other immersive and/or wireless alternatives. Obviously, our accuracy in that regard will depend on their ability to execute on that assumption. We fully expect to miss some additional numbers until that presumed traction begins to unfold. We remain positive on Summit Technologies.

Projected Operating Model

Summit Wireless Technologies, Inc.						
Projected Operating Model						
By: Trickle Research LLC						
	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/19	**6/30/19**	**9/30/19**	**12/31/19**	**Fiscal 2019**	**Fiscal 2020**
Revenue, net	$ 465,000	$ 525,000	$ 3,120,000	$ 1,400,000	$ 5,510,000	$ 21,632,000
Cost of revenue	$ 407,000	$ 482,250	$ 2,272,800	$ 1,086,000	$ 4,248,050	$ 15,406,080
Gross profit	$ 58,000	$ 42,750	$ 847,200	$ 314,000	$ 1,261,950	$ 6,225,920
Operating Expenses:						
Research and development	$ 1,361,000	$ 1,242,000	$ 949,600	$ 1,012,000	$ 4,564,600	$ 3,665,280
Sales and marketing	$ 749,000	$ 705,250	$ 731,200	$ 714,000	$ 2,899,450	$ 3,016,320
General and administrative	$ 615,000	$ 639,468	$ 693,184	$ 657,580	$ 2,605,232	$ 2,962,182
Total operating expenses	$ 2,725,000	$ 2,586,718	$ 2,373,984	$ 2,383,580	$ 10,069,282	$ 9,643,782
Loss from operations	$ (2,667,000)	$ (2,543,968)	$ (1,526,784)	$ (2,069,580)	$ (8,807,331)	$ (3,417,862)
Interest expense	$ -	$ -	$ -	$ -	$ -	$ -
Change in fair value of warrant liability	$ 111,000	$ -	$ -	$ -	$ 111,000	$ -
Change in fair value of derivative liability	$ -	$ -	$ -	$ -	$ -	$ -
Gain on extinguishment of convertible notes payable	$ -	$ -	$ -	$ -	$ -	$ -
Other income (expense), net	$ (3,000)	$ -	$ -	$ -	$ (3,000)	$ -
Loss before provision for income taxes	**$ (2,559,000)**	**$ (2,543,968)**	**$ (1,526,784)**	**$ (2,069,580)**	**$ (8,699,331)**	**$ (3,417,862)**
Provision for income taxes	**$ 6,000**	**$ -**	**$ -**	**$ -**	**$ 6,000**	**$ -**
Net loss	**$ (2,565,000)**	**$ (2,543,968)**	**$ (1,526,784)**	**$ (2,069,580)**	**$ (8,705,331)**	**$ (3,417,862)**
Net loss per common unit/share - basic and diluted	**$ (0.17)**	**$ (0.13)**	**$ (0.08)**	**$ (0.09)**	**$ (0.45)**	**$ (0.15)**
Weighted average number of basic common units/shares used in computing net loss per common unit/share	**15,490,175**	**19,565,900**	**19,565,900**	**22,265,900**	**19,221,969**	**22,265,900**
	15,490,175	**19,565,900**	**19,565,900**	**22,265,900**	**19,221,969**	**22,480,584**

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.