

Trickle Research

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



Initiating Research Coverage

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Social Reality, Inc.

SRAX

(Stock Symbol – Nasdaq: SRAX)

www.srax.com

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Company Overview

Social Reality, Inc. (dba: “SRAX”) is an Internet based platform technology company that provides tools to automate the digital advertising market. The Company’s technology addresses both “buy side” and “sell side” digital advertising customers. Its robust technology platform solution aggregates traditional media, digital media and social media into a single intuitive dashboard. In addition, its proprietary software is designed to provide advertising buyers (agencies and direct advertisers) with deep information about the attributes of their customers and potential customers. This functionality allows advertisers to better target, track and determine the effectiveness of their advertising, thus considerably improving the ROI of advertising campaigns. The Company’s proprietary technology provides those services by leveraging and combining different types of data along various verticals, many of which have been developed specifically by SRAX.

Since inception, the Company’s technology has allowed them to accumulate massive amounts of data regarding consumers and their preferences. As each day passes, the Company collects more and more of that data. Moreover, in the aggregate, each new piece of data makes the existing data more valuable. We believe the Company’s current valuation may significantly understate the value of that data alone. However, that value is gaining visibility as the Company continues to monetize it as measured by their increasing revenues.

The Company was launched as a California LLC (Social Reality LLC) in August 2009. The Company commenced business operations in May 2010. On January 1, 2012, the Company was converted to a Delaware C-Corp. and changed its name to Social Reality, Inc. The Company went public through the filing an S-1 registration statement (effective June 22, 2012), and filed its first 10Q on August 20, 2012.

Since its inception, SRAX has managed to grow its business and advance its technology platform both organically and acquisitively. In that regard, in October of 2014, the Company acquired 100% of Steel Media, a provider of “*digital advertising services and display, mobile, video and email advertising inventory to both brands and advertising agencies*”. Two months later, they acquired 100% of Five Delta a “*managed advertising service that uses proprietary technology and methods to optimize digital advertising for its customers. Five Delta primarily utilizes quality first party data from platforms including Facebook, Yahoo, LinkedIn and Google in optimization decisions*”. Each of these acquisitions has contributed to the financial performance, management strength and the underlying IP/technology value of SRAX.

The Company just finished fiscal 2016 (ended December 31, 2016) with revenues of \$35.8 million representing an 18% increase over 2015. Their expectations for 2017 are for continued revenue growth acceleration (perhaps 25% - 30%). In that case, we believe that 2017 will reflect marked improvement in operating margins and operating profit, as operating leverage continues to take hold.

Industry Overview

We will preface this industry overview with a caveat. We are not technology analysts. We are generalist microcap analysts. We write research across a variety of industries. As is the case with most *technology*, the digital advertising industry is massive, complex and relatively fragmented. There are a variety of aspects of the industry that need to be understood for one to grasp how it works and where the opportunities are. We will try to provide some of that color and suggest where SRAX fits in all of it.

The growth of eCommerce is profound and growing, which is probably not particularly surprising to most people. According to eMarketer, “*Business to consumer eCommerce sales in retail and travel were approximately \$2.6 trillion globally in 2016, and are expected to grow at an 18% compound annual growth rate, or CAGR, to \$4.3 trillion in 2019*”. While that number is large and growing, it underscores the need for businesses engaged in eCommerce to identify, reach and convert customers into sales. Moreover, with the growth of mobile, those endeavors now include internet *and* mobile engagement and more specifically the ability to advertise across these

various networks and devices. In their public filings, Criteo (a global leader in digital advertising) describes the challenge like this: *“these advertising mediums are also complex and fragmented, making it difficult and costly to engage and convert customers. For example, the global cart abandonment rate, or the percentage of online customers leaving their order behind instead of purchasing, was 74.4% in the third quarter 2016 according to SaleCycle, including 73.9% in the Retail vertical and 80.4% in the Travel vertical. It is therefore important for businesses to develop and execute marketing campaigns across all digital devices, effectively capitalizing on large amounts of consumer intent data, machine-learning technology, and the ability to target and measure at scale”*.

Aside from the complexities, the above comments regarding *“large amounts of consumer intent data”*, *“machine-learning”* and *“targeting and measuring at scale”*, are also notions that are quite topical to the industry and its growing sophistication. Companies that can develop platforms and technologies that address these issues will likely thrive, while those who cannot will not. Moreover, our sense is that the continued accumulation of large amounts of consumer intent data (read: “Big Data”) may ultimately drive considerable portions of the valuations of those companies, much like the numbers of participants, followers etc. of social media companies have driven theirs. We believe that may be an intrinsic value of SRAX that is currently being overlooked by the street.

While eCommerce is clearly growing and taking market share from bricks and mortar, the offline segment of the industry still controls the largest portion of the transactions. According to <https://www.jestais.com/> *“...Despite the great emphasis placed on eCommerce and online presence, customers today still love brick and mortar stores. According to the EKN 2015 Retail Point-of-Sale Blueprint Study, 70% of total retail sales still take place at a physical location”*. As a result, effective advertising strategies for most companies involves not only rationalizing their online approach across various platforms and devices, but also from online to offline points of sale. As we will illustrate, the online to offline “transition” is particularly applicable to a portion of SRAX’s business.

While the digital advertising space is indeed complex and includes many nuances, what is perhaps clear is that advertisers looking to promote their businesses need to consider digital options and ultimately develop and deploy advertising campaigns that leverage these nuances to create synergized results. Companies like SRAX are in the business of providing technologies, platforms and other tools that create these synergies. Their ultimate goal is to deliver advertising services that can reach and engage consumers with bona fide interests in their products/services, push (or pull) those consumers to transactions, measure the entire process to validate the value of the advertising campaign and to do these things in a way that are cost effective resulting in high returns on the investments in those campaigns. With that said, we will try to provide a brief overview of what some of these “nuances” in terms of platforms and services are, so readers can get a better understanding of the value proposition that a company like SRAX is trying to provide and by extension, the opportunities providing those services can create for the SRAX.

- **“Buy Side” vs. “Sell Side”**

Perhaps the best place to start evaluating the eCommerce advertising space is with the relevant participants. The **“Buy Side”** of the digital advertising business generally encompasses advertisers/marketers and/or their representatives (advertising agencies for example). SRAX competes heavily for buy side business. In this case, they approach advertisers either directly or through those advertisers’ agencies and attempt to develop comprehensive advertising campaigns that “touch” and combine the various parts of digital advertising we are covering here. Again, as we will discuss further, the “pitch” for companies like SRAX to buy side customers, is that they can develop and deliver digital advertising programs that identify and market specifically to relevant customers across multiple platforms and mediums and then measure the success of that campaign. The end game is to develop campaigns with high rates of return that advertisers can attribute to particular elements of the campaign. The ability of digital advertising technologies and platforms like those developed by SRAX, to “learn” from an ad campaign, may allow them to provide even better ROI on subsequent campaigns.

The “Sell Side” of digital advertising generally applies to publishers of online content in various forms and covering a multitude of subjects. The first table below from comSource, lists the top 50 “Multi-Platform Properties”. These are essentially the top “publishers” in digital media, which should provide some clarity with respect to who digital publishers are. (Just as a point of interest, we added a second table below reflecting who some of the top publishers were in 2010. This table reflects how much “publishers” have changed over a few short years).

comScore Top 50 Multi-Platform Properties (Desktop and Mobile)					
February 2016					
Total U.S. – Home and Work Locations					
Source: comScore Media Metrix Multi-Platform					
Rank	Property	Unique Visitors/Viewers (000's)	Rank	Property	Unique Visitors/Viewers (000's)
Total Internet : Total Audience		258,974			
1	Google Sites	243,601	26	SheKnows Media	81,018
2	Facebook	206,480	27	BuzzFeed.com	80,526
3	Yahoo Sites	204,421	28	WordPress.com*	79,285
4	Microsoft Sites	194,845	29	New York Times Digital	76,980
5	Amazon Sites	171,828	30	ESPN	75,625
6	AOL, Inc.	166,258	31	Zillow Group	74,858
7	Comcast NBCUniversal	152,426	32	WashingtonPost.com	73,361
8	CBS Interactive	148,167	33	WebMD Health	72,520
9	Apple Inc.	141,569	34	Adobe Sites	72,425
10	Mode Media	137,043	35	Meredith Digital	70,728
11	Turner Digital	126,352	36	Answers.com Sites	68,714
12	Wikimedia Foundation Sites	119,749	37	TripAdvisor Inc.	66,759
13	Linkedin	119,192	38	Mail Online / Daily Mail	66,705
14	Twitter	117,545	39	Netflix Inc.	66,381
15	Weather Company, The	114,912	40	About	66,253
16	Time Inc. Network (U.S)	109,740	41	Cox Enterprises Inc.	65,813
17	Hearst	100,853	42	Vimeo	63,595
18	USA TODAY Network	100,366	43	Vox Media	62,542
19	eBay	96,214	44	Intuit	61,690
20	Yelp	87,963	45	Tribune Media	61,128
21	Wal-Mart	87,873	46	craigslist, inc.	60,931
22	Pinterest.com	86,649	47	Groupon	59,776
23	Pandora.com	84,896	48	Viacom Digital	58,923
24	PayPal	83,321	49	Fox News Digital Network	58,677
25	Conde Nast Digital	81,846	50	Tribune Publishing	57,067

The 100 Most Important Online Publishers by OMMA Editors, June 24, 2010			2016 Ranking
1	New York Times		29 ↓
2	Goole		1 ↑
3	WikiMedia		12 ↓
4	The Wall Street Journal		- ↓
5	Demand Media		- ↓
6	Madison Avenue		- ↓
7	About.com		40 ↓
8	CNN.com (part of Turner Digital)		11 ↓
9	Bloomberg		- ↓
10	USA Today		18 ↓
11	Washington Post		32 ↓
12	Huffington Post (acq. By AOL)		n/a
13	ESPN		30 ↓
14	Christain Science Monitor		- ↓
15	Yahoo		3 ↑
16	Yelp		20 ↓
17	WWD.com (div. of Conde Nast which ranked #27)		25 ↓
18	MySpace		- ↓
19	Martha Stewart Living		- ↓
20	WebMD		33 ↓
21	Marvel		- ↓
22	Zinio		- ↓
23	Reuters		- ↓
24	Instapaper		- ↓
25	Newser		- ↓
*47	Facebook		2 ↑
**53	Twitter		14 ↑
***	Microsoft, Amazon & Apple were not on this list		↑

These publishers, by providing content, seek to attract viewers to their sites through various means. Because the publishers attract so many eyeballs, they can provide add space on those sites (often referred to as advertising “inventory”). Publishers sell that inventory to advertisers who are looking to convert those “eyeballs” into customers, and in many instances, the sale of that add space represents the primary revenue stream for these publishers. If you have ever wondered how many of these sites/publishers are able to provide access to their content for “free” it’s because they charge advertisers to put advertisements on those sites. That is easy to understand and is probably not a revelation to most, since most of us have been on a site looking over content and been served up an ad. However, the process of getting that digital inventory sold to advertisers, as well as the determination of what they are willing to pay for it, is a bit more complex.

Today, much of the sell side inventory is sold on supply side platforms or “exchanges” (“SSPs”). Publishers utilize SSPs to introduce their inventories to multiple exchanges encompassing large numbers of buyers/advertisers (essentially “demand side” platforms “DSPs”). SSP’s developed by companies like (including) SRAX generally utilize technologies that optimize the purchase/sale of these inventories instantaneously (on a “real-time bidding” basis often referred to as “RTB”). These sophisticated technology platforms also allow marketers to identify, bid on and ultimately purchase advertising inventory that is most applicable to its target audience and associated demographics. That is why SSPs are sometimes referred to as “yield optimization platforms”. Here again, it’s not quite as simple as we suggest here as these platforms are complex and they utilize large amounts of data from multiple sources to optimize their yields and they do so instantaneously or in “real time”. We will discuss a bit of that in more detail as well.

- **Online Vs. Offline**

One doesn’t need to dig too far into the financial headlines to read about the demise of bricks and mortar retail (“offline”). J.C. Penny, Sears, Payless Shoes, and a host of other well recognized retailers are going out of business, or at least closing physical stores in droves and realigning their businesses to “fit” today’s retail environment. Make no mistake, that environment is being disrupted and reshaped by the rise of eCommerce.

On the other hand, as we touched on above, “...*Despite the great emphasis placed on eCommerce and online presence, customers today still love brick and mortar stores. According to the EKN 2015 Retail Point-of-Sale Blueprint Study, 70% of total retail sales still take place at a physical location.*” Further, Amazon.com, Inc. perhaps the king of eCommerce, is suddenly opening offline locations in areas ranging from groceries to...books. USNews.com reports that a Pew survey suggests that “*Americans aren’t simply abandoning traditional in-store locations. For instance, 65 percent of online shoppers indicated **they generally prefer buying from physical outlets if given the choice***”.

Succinctly, we submit, the profound expansion of eCommerce, and the toll that has taken on offline commerce is undeniable. However, we also tend to think that the news regarding the death of offline “may be greatly exaggerated”. As the International Council of Shopping Centers suggests, “*consumers are blurring the boundaries between online and in-store purchases. Omni-channel retailing is actually an enhancement to brick-and-mortar stores*”. Our sense is that they may have that right, and we believe forays into offline by companies like Amazon may reinforce that view. Just as we have seen a rush of new technologies aimed at bolstering eCommerce, new technologies aimed at combining the online and offline shopping experience have also emerged. Translation: in our view, while online/eCommerce has certainly negatively impacted the offline environment, we believe that offline will adapt rather than die, in part because we believe consumers still embrace the offline experience. As a result, opportunities will remain for those attempting to augment that “blurring of the lines” and bridge the gaps between online and offline. That notion is topical to SRAX because that endeavor describes the focus of their buy side efforts.

- Search vs. Display

Historically, “search” and “display” have been the primary digital “channels” available to businesses looking to identify, attract and convert customers. While most of us have almost certainly been the subject of both search and display advertising, perhaps some definition will be helpful.

First, just to reiterate, in lockstep with the global eCommerce business, the search and display marketing industry(s) are massive and growing. According to Criteo and eMarketer, “*marketers spent \$179 billion on digital search and display advertising combined in 2016, with this spend expected to grow at a 15.3% CAGR to over \$316 billion in 2020...*”. Breaking that down, “*according to eMarketer, display advertising accounted for 50.0% of the \$179 billion combined market in 2016, and is projected to grow at a 16.7% CAGR to \$166 billion in 2020. The display advertising market is more fragmented and is growing at a faster rate than search, due in part to the rapid rise of mobile internet usage, as well as the continued proliferation of content across the internet, including on social media platforms. Through internet display advertising, businesses can deliver effective advertisements integrating rich media*”. In contrast, eMarketer estimates that search “*is expected to grow from \$89.5 billion in 2016 at a 13.9% CAGR to \$150.6 billion in 2020*”.

o Search

Search is perhaps the legacy digital channel. It is the basis for the rise of Google and perhaps even the internet in general. Moreover, the premise is simple; a shopper looking for a new table saw types the “keyword” “table saw” into a search engine (let’s assume Google for example) and Google sends them to a page that lists various places selling table saws. Retailers, online or offline, pay Google to be at the top of those listings or to be otherwise prominently displayed because searchers will generally start at the top of a list to begin their search. In turn, advertisers generally pay Google on a Pay-per-Click (PPC) basis, and they charge more per click for some search or “key” words than for others. So then, the hope is that if a potential customer looking for a table saw clicks on their ad at the top of the Google list and that takes the customer to the advertiser’s page showing their table saws, some portion of those clicks will convert to sales.

According to www.internetlivestats.com, Google processes *3.5 billion searches per day*. That translates to a lot of clicks by people searching for a lot of things, some of which are products to buy. As a result, search is effective at delivering targeted leads to marketers based on those specific keywords. That is, a dentist in Denver paying for Google’s search service, may get leads/clicks from people in Denver with a toothache, but they will not get them from people in Des Moines looking for a table saw. This qualified, targeted lead approach generally results in better conversion than many other types of advertising. That is, alternatively the dentist may advertise on local radio where potentially **no one** listening happens to have a toothache. With search, the query started with a qualified potential customer looking for something specific.

The above said, search can be expensive based on the cost of the most relevant keywords. Moreover, its ability to appeal to and perhaps attract a targeted audience, may make it less effective for marketers trying to introduce new brands or products. As a result, there are instances where a broader advertising campaign appealing to “the masses” may make more sense. In that case, display may provide a more optimal solution.

o Display

Like search, display advertising is something we have all likely encountered. For the most part if you have searched a website and had an advertisement pop up somewhere on your screen you have seen a display advertisement. According to Hootsuite.com, “*display ads actually reach over 90 percent of internet users worldwide*” and “*Google’s Display Network reaches over 2 million websites*”. Display’s reach and breadth is

massive, and sometimes even overwhelming and pervasive. Display touches nearly every online medium and the vast majority of online properties.

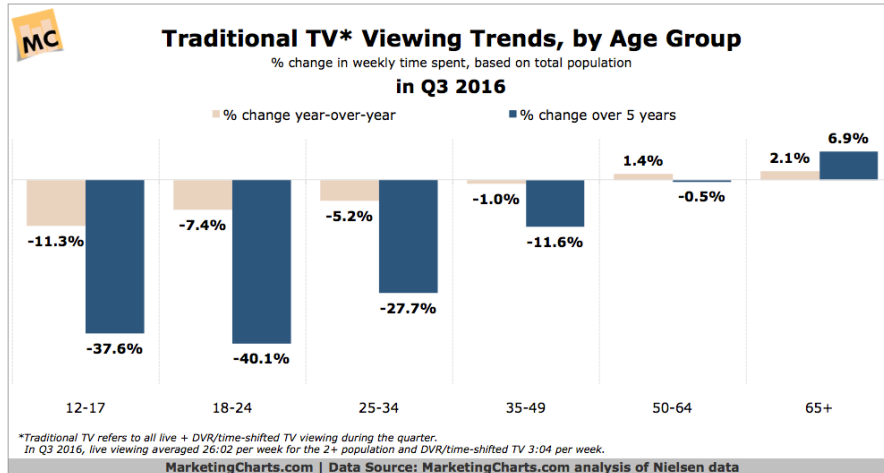
Perhaps in contrast to search, display is not as targeted an advertising medium, (although emerging technology is aimed at changing some of that). Display is the “shotgun” approach to advertising and as such is really aimed at creating and/or building brand/product recognition. Display’s strength is its ability to reach many eyeballs with a few impressions. It is also much more robust (and therefore able to attract *even more* eyeballs), than search. Display may include text, images, audio, video and every combination therein. In some respects, display resembles more traditional media advertising (a television or radio advertisement).

The *disadvantage* of display is closely related to the *advantage* of display. It is a blitzkrieg approach with no real sense of whether or not those it reaches have any interest at all in the product/service being displayed. In fact, that “randomness” can sometimes not only be ineffective but perhaps damaging. We found the following at www.Hootsuite.com as well. Looking at it closely, this illustrates a good (albeit perhaps extreme) example of the potential perils of display:

The screenshot shows a news article from Reuters titled "Over 250 sick after eating at Indiana Olive Garden". The article reports that more than 250 people became sick after eating at an Olive Garden restaurant in Indianapolis, Indiana, a day after an outbreak of E. coli at Taco Bell restaurants was declared over. The article includes a photo of a plate of pasta and a "THE WEEK IN PHOTOS" section. A display advertisement for Olive Garden is overlaid on the right side of the article, featuring the text "FREE Dinner for Two at Olive Garden" and a "Click Here!" button. The advertisement also includes a small image of a bunch of grapes and a copyright notice for 2006 GNC and Freebies.com.

Even from the less extreme view, display can create negative consumer sentiment because of its nature. There are numerous industry studies that suggest that a measurable number of digital media users leave websites because of the nature of the display ads they are forced to encounter, for example, a PETA member getting a display ad for Ducks Unlimited, or a vegan getting a display ad for Outback Steakhouse. At the very least, we have all been annoyed by a display add popping up in the middle of a search (and we mean geographically right in **the middle** of a search), or a video that launches while we’re trying to check the weather. So then, the great thing about display is that when it comes to digital media, it is everywhere, and the bad thing about display is that when it comes to digital media, it is everywhere.

Referring back to the two tables above regarding the top digital media publishers, we would suggest that the rise of display is likely tied to the growth and the nature of digital publishing in general. Without belaboring the issue, in the aggregate many consumers are spending more time on the internet and on social media and less time watching television. Expectedly, the accuracy of that statement is demographic dependent (see the chart below from www.marketcharts.com).



We would (again) submit that the top publishing sites today (per the tables above) are quite different from those even in 2010. The most prominent digital publishers at that time were largely the digital extensions of legacy publishers, The New York Times, for example. Today, the largest publishers are a mix of search, social media, entertainment, education and even retail, some of which have their fingers in all of the above. For example, Google is the king of search, but it also owns YouTube, which we think looks to us like “entertainment” and maybe sometimes “education”. (You can learn how to do a lot of things on YouTube). Microsoft sells software but it also owns LinkedIn. Facebook is a “social media” company, but they also bought/own Oculus, the virtual reality (“VR”) headgear company that we think also falls into the category of “entertainment”. We are not exactly sure how to categorize all of these “publishers”, but it’s quite clear (to us at least) that capturing and holding the attention of vast numbers of consumers through these online and social properties is the means to the end game. The end game is of course to sell them stuff; which today is driven by display, either on traditional internet or on the emerging mobile/social channel(s).

- **Algorithms, Machine Learning, Predictive Marketing and Attribution**

Hopefully the above has provided a bit of clarity to what we view as a complex industry. However, what we have covered above probably doesn’t seem all that complex because it’s not the complex part of the business. The more difficult parts to understand involve some of the more sophisticated processes and technologies that are being applied to the industry to better target and measure the effectiveness of advertising approaches and channels. More specifically, we think some of that boils down to finding ways to turn display, which as we illustrated is set to grow faster than search and is now being proliferated by social media as well from a scorched earth, blunt force blitzkrieg into a targeted, precision and measured marketing tool.

We think success in the ongoing digital advertising space will depend on the abilities of companies like SRAX to do (at least) two things; create, deliver and maintain advertising platforms that generate significant and measurable ROI, *and* differentiate those services from those of their competitors. As we will address below, in the case of smaller participants like SRAX, that may require specializing in particular verticals and/or particular portions of the business, but will also depend on their ability to keep up with the technology advances.

SRAX recognizes the following as *some* of their competitors in one or more portions of their business: Criteo S.A. (Nasdaq: CRTO), MaxPoint Interactive, Inc. (Nasdaq: MXPT), Rocket Fuel Inc. (Nasdaq: FUEL) and Centro (private). If one spends any time checking the products and services of some of SRAX’s competitors, there are a handful of issues that will likely become apparent. First, they don’t all compete directly with SRAX across all

parts of their businesses. That is, some tend to focus on specific parts of the business more than others. For example, MaxPoint and SRAX are both focused more on online to offline opportunities than perhaps on full eCommerce solutions.

Secondly, technology is dramatically improving marketers’ ability to target display and advertise in general. That technology includes sophisticated algorithms and other “machine learning” technologies that allow marketers to identify and track consumers (at least by their devices) including their preferences and in some instances their ultimate purchases. Technologies like predictive marketing attempt to gather past consumption information from multiple customer datasets and then use complex algorithms to analyze the data and predict the consumer’s next move. Recognize, while the understanding and perhaps basis for these advanced technologies have been around for some time now, recent technology advances have enabled them to proliferate over just the relatively recent past. For instance, mobile has provide a far greater reach and breadth for data collection in general creating massive amounts of “new” real-time information about consumers’ interactions. The emergence of cloud technologies permit the storage of and immediate access to those data, as well as the computing power to analyze it in seconds. As a result, these types of technologies not only help marketers target their advertising but also *measure* its results. The ability to develop, integrate and keep up in terms of these advanced technologies will be paramount for participants to remain competitive in this industry, and in our view, may ultimately weed out lesser players and/or perhaps result in accelerated consolidation. We believe that SRAX’s technology has kept pace in terms of these enhancements.

- **Specialization and The Verticals**

We noted above that industry estimates suggest that search and display advertising will continue to grow through 2020 at a CAGR of 15.3%. Some estimates suggest that spending on social media advertising will rise at an even faster CAGR closer to 18% (depending on who one believes). The point is, when we evaluate players in the space, it may be easiest to assume that the “rising tide will raise all boats”. That is, for those already entrenched in the industry one might just expect them to continue to get their share of an industry that is expanding faster than many. If it ends up being that simple, we would submit that SRAX should perform quite well. In fact, as we look over the comps from the competitors we noted above, SRAX seems to have held its own, while some of the others may not have.

YoY Revenue Growth	2014	2015	2016	* 2017
SRAX	50.0%	** 491.7%	18.1%	32.8%
Criteo	69.5%	32.6%	36.7%	27.8%
Maxpoint	61.5%	39.4%	13.5%	5.1%
Rocketfuel	41.7%	15.9%	-7.5%	-11.0%

*2017 estimates are either from consensus estimates or company guidance. ** Includes 2014 acquisitions.

We don’t suspect it will be that simple.

As we suggested, technology is permeating the space, and our expectation is that like most industries impacted by the influence of technological innovation, it will likely (continue to) disrupt the competitive landscape. That situation can be problematic for small companies especially in high growth industries, because innovation tends to play a larger role shaping the industry and by and large, smaller companies often have less capital available to develop competitive technological postures. We say “by and large” because many small companies have demonstrated the ability to develop more competitive technology than larger competitors, but, all other things being equal, more capital probably facilitates that process better than less capital.

While technology has been, and will likely continue to be a substantial driver in the digital advertising space, it is not the only factor that will determine the winners and losers. As with most industries, the ability of participants

to differential their service, as well as find niches or other specific portions of the business they can specialize in will likely yield success. As we will illustrate in the Product/Services Overview below, we think SRAX has positioned itself to compete on the fronts we have laid out above. We think their technology is competitive in general, and we think they have developed and continue to develop assets that may allow them to address particular identified verticals where they can lead.

Product/Service Overview

Below are overviews of the major product/service offerings of SRAX. We have provided the Company's description of each (denoted in *italics*) as well as our own color thereafter.

- **SRAX - Real Time Bidding buy side representation.**

*We provide our SRAX platform to brands and their advertising agencies. We build custom platforms that allow our agency partners to launch and manage their own RTB campaigns by enabling them to directly place advertising orders on the platform dashboard and view and analyze results as they occur. **These efforts involve working with the brand and agencies to understand their marketing objectives and then customizing our buying platform to allow these clients to import their own first party consumer targeting data to maximize their media buys.** We also provide the clients access to third party consumer targeting data that allows them to further target their media buys. In some instances, we provide these services on a managed basis where the clients provide us with an insertion order and we launch and manage the program on the SRAX platform on their behalf.*

The paragraph above relates to SRAX "buyside" activities. As we described, these include marketing programs that SRAX helps develop and implement on behalf of advertisers or their representative agencies. As it suggests, the SRAX system is designed to allow the buyside customer to execute these services directly through the SRAX dashboard or, in other instances, SRAX may contract for a bigger role in the implementation of the program. In either case, the SRAX dashboard integrates a myriad of data from various channels and formats into a single place. The dashboard provides a simple intuitive interface to the various technologies the Company has developed allowing the customer to direct real-time digital advertising campaigns and then measure their results.

It is important to recognize that SRAX has focused its buy side efforts at online to offline markets. We spent some time above reinforcing the notion that while eCommerce continues to attract larger portions of consumer spending, the majority of consumer dollars spent in the U.S still get spent at brick and mortar "offline" establishments. That by the way also speaks to our comment above that "the ability of participants to differential their service, as well as find niches or other specific portions of the business they can specialize in will likely yield success". While we admit, it seems counterintuitive to suggest that SRAX is differentiating itself by focusing on the bigger portion of the market (offline versus online), however, it's not a revelation that the online side is where most of the attention seems to be these days. With that said, while offline may represent the "old school" here, SRAX's buyside efforts into the offline space are anything but old school.

We highlighted one of the sentences above from SRAX's narrative that we think is important to understand: "***These efforts involve working with the brand and agencies to understand their marketing objectives and then customizing our buying platform to allow these clients to import their own first party consumer targeting data to maximize their media buys***". What SRAX does on the demand side exemplifies the direction of the industry in general, which is to gather as much (specific) consumer data from as many data points as possible, and then use that information to develop and deliver digital advertising programs to specific consumers regarding the products and services that are important to them and deliver them when they are in the market from those goods and services. Moreover, the goal is to also then track the buying behavior of those consumers to then measure the effectiveness of that advertising so that the advertiser (in SRAX's case a brick and mortar store) can conclude that

the digital advertising they put in front of their customers **attributed to** an offline/instore purchase by that customer.

Just to edify, the above process of identifying the actual behavior of the consumer is made possible in part by *the importing of their own first party consumer targeting data*. To translate, if a grocery store (advertiser) can identify a mother with a new born it might be optimal to send that mother an advertisement for diapers. However, by collecting the actual transactional data of the mother/consumer (they used their credit card to buy the diapers, or perhaps a store loyalty card to receive some other benefit) and integrating that “first party consumer targeting data”, with the SRAX buyside platform, will allow the advertiser to *directly* ascertain the value of the marketing campaign, essentially right down to the actual consumer and actual purchase. That is a dramatically different value proposition than placing a display for diapers on a publisher’s site where it is possible that **zero** new mothers actual saw it. Furthermore, that is the sort of capability that offline stores need in order to compete in an increasingly online world. On the other hand, the process of collecting, integrating and interpreting that mass of data from varying places and then translating it into a real-time advertising campaign is complex. SRAX’s platform has demonstrated an ability to deliver this sort of online to offline functionality, and their platform has delivered measurable and highly favorable ROI results for many buyside clients.

- **SRAX – Real Time Bidding sell side representation.**

Our technology assists publishers in delivering their media inventory to the RTB exchanges. An RTB exchange is a method of selling and buying online display advertising in real time, one ad impression at a time, utilizing computer algorithms to automatically buy and sell ads in real-time. Our tools provide reporting to these publishers about the sales of their media inventory on these exchanges. We believe that our tools assist publishers in maximizing their revenues. We contract with web and mobile publishers to sell their media inventory on the RTB exchanges by having the publisher sign up on our portal to become one of our publishing partners. Once the publisher signs up, the traffic they deliver is evaluated by us for fraud potential; once approved, we provide the publisher with technology that allow us to deliver advertising to their approved sites or applications. This includes providing the partner with technology from our advertising server that they then place onto their webpage. This "tag" allows us to fill advertising space on the publisher's website when we have an advertiser that would like to buy the space. Our platform presents all of the media inventory from our publishing partners to many different buyers at the same time, and then those buyers have the ability to bid on the inventory. Our system then takes the highest price offered and sells the space to that bidder. The price that advertisers are willing to pay for any specific placement is determined in real time and we seek to deliver the highest paid ad at any given time.

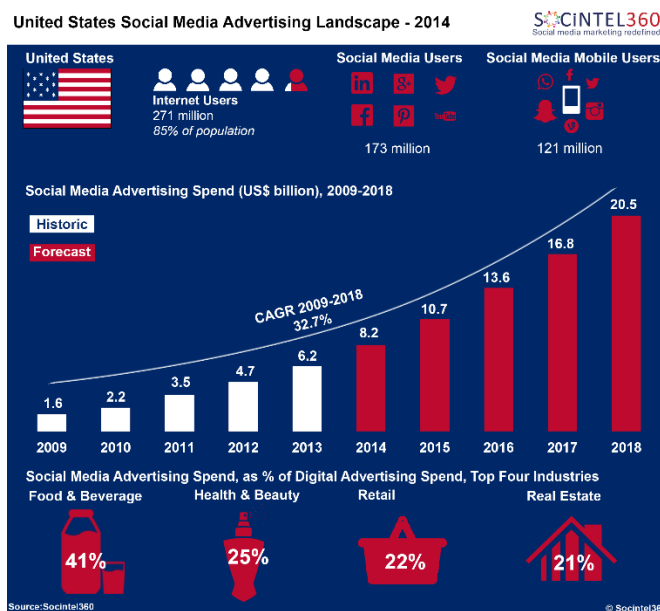
The above narrative covers SRAX’s activities on the sell side of the market well. What may be less obvious is the speed at which this posting, bidding, transacting and reflecting of adverting space on the pages of publishers takes place. In short, its measured in seconds, or more precisely milliseconds. Again, SRAX’s success on the sell side depends on its ability to provide a competitive technology platform, but also an ability to attract and maintain meaningful publishing customers. Clearly, the business of attracting high traffic (relevant) publishing ad inventory is highly competitive, however, it is driven in part by being able to provide the technology to make it all happen. It is also driven by an organizations’ ability to create and maintain customer relationships on the sell side of the market, which is certainly a function of competitive pricing, but also things like customer service, ease of (technology) use and other applicable attributes. Here again, we view SRAX’s growing revenue performance as a proxy for their success in this regard.

- **SRAX Social**

SRAX Social is a social media and loyalty platform that allows brands to launch and manage their social media initiatives. We have found that many of our clients need to build a social media presence and SRAX Social provides the tools and services necessary to launch a presence on Facebook, Twitter, Instagram, Pinterest and other social

networks. Our team works with customers to identify their needs and then helps them in the creation, deployment and management of their social media presence. SRAX Social allows brand marketers to select from a number of pre-created applications, and then launch these applications and loyalty programs on their social media sites and their websites. With the addition of the SRAX platform, we are helping brands to identify their influencers and then, utilizing this first party data, we are creating "look alike audiences." Look alike audiences are consumers who match the characteristics of the identified "influencers." These consumers are likely to be influential to the brand. Once we create the "look alike audience," we are able to reach these consumers across the web and on social networks through our SRAX platform. SRAX Social represents the combination and rebranding in 2015 of our GroupAd, SRAX DI and Five Delta offerings.

SRAX Social is one of the Company’s buy side offerings and as they note, it is really the culmination (rebranding) of a handful of company initiatives. It is aimed at providing buy side customers a presence in the growing social media space. For many, including advertisers, the social media space is complex and fragmented, making it difficult to rationalize an advertising strategy that can take advantage of the channel. However, the growing influence of social media on consumer preferences, driven by the attraction to social media properties like Facebook, Twitter, Pinterest and others, as well as the “influencers” throughout those properties, makes understanding this channel paramount for many advertisers:



As we said, understanding and rationalizing the social media landscape is difficult but essential to advertisers. Anyone operating an independent restaurant understands the importance of social media scoring applications like Yelp or Zagats. Addressing social media is becoming important for businesses of all sizes and shapes, but again, it’s difficult just understanding who all the relevant players are, what they do, how they fit together, and what their relevance might be to one business versus the next. We suspect this will be a growing segment for SRAX. While we have not addressed it much to this point, SRAX certainly has had its share of large customers (we will address that in more detail below), but they tend to focus more on middle market and perhaps smaller buy side clients. To reiterate, because social is perhaps by nature more granular than the legacy search and display channels, it may be far more relevant to small and local advertisers. Those businesses may find social based platforms far more necessary (and affordable) to the success of their businesses than other buy side options. Further, we think that notion may also fit nicely into SRAX’s online to offline focus. We know that social media profiles are important

to small brick and mortar businesses like local indie restaurants, and most of them that we know do not have a good understanding of how to leverage it.

- **SRAX APP**

SRAX APP is a platform allows publishers and content owners to launch native mobile applications through our SRAX platform. Our platform takes our content partner's social and other content and creates an application that is placed in the Google Play Store and in the Apple App Store, as well as other application marketing locations to market the app. We are the owner of the application and share any revenue generated through the application with our content partners.

- **SRAX Reach**

SRAX Reach matches premium content with ads in a custom ad unit that is built to perform in an engagement-driven world. For content owners, Reach enriches owned content with additional premium content and guarantees revenue from a fixed budget buy. For advertisers, Reach provides access to premium brand-safe publishers, delivers interactive cross-screen ad experiences at scale.

SRAX APP and SRAX Reach are both for the most part, sell side tools to help publishers enhance their inventory space and make it more applicable and appealing to the social channel. Here again, much like SRAX Social on the buy side, these applications are generally provided to publisher customers to help them enhance their reach into social media via mobile based applications they can create quickly and easily with SRAX tools.

- **The Verticals**

We opined above that we believe differentiation will provide a path to success for some in the digital advertising space, especially perhaps smaller players. We think that is true of SRAX, and we think their strategy to create some of that differentiation is playing out in some of the vertical market opportunities they are developing.

The most visible vertical efforts are in the healthcare space with SRAX MD:

o **SRAX MD**

SRAX MD is an ad targeting and data platform for healthcare brands, agencies and medical content publishers. Healthcare and pharmaceutical publishers utilize the platform for yield optimization, audience extension campaigns and re-targeting of their healthcare professional audience. Agencies and brands purchase targeted digital and mobile ad campaigns.

Healthcare Professionals - *SRAXmd is a healthcare focused programmatic RTB exchange. We partner with leading medical content publishers, apps, associations and websites, to offer agencies and brands the ability to reach a verified audience of 500,000 healthcare professionals outside of traditional medical content. SRAXmd has curated a large whitelist of 3,000+ domains that has been approved by med-legal and regulatory teams at Novartis, BMS, Janssen, Biogen and BMS, to name a few.*

Consumer & Patient Targeting - *We have the ability to activate and engage consumers and patients on a global scale, within your targeted disease states. In 2015, we served ads for 75+ brands across 40 disease states. we can target physicians working with patients in specific disease states, from Multiple Myeloma to Rheumatoid Arthritis.*

SRAX MD represents the first major vertical for the Company, although it is important to recognize that they have been building it over the past three years. We suggested we like the Company's "vertical" strategy, but the time and effort required to develop and launch these verticals should not be understated. As they note above, the

SRAX MD asset includes a *verified* database of 500,000 healthcare professionals. In our view, their ability to deliver programmatic (targeted) information to a specific high value audience is of considerable value. They address the breadth of that targeting above referencing the multiple brands and disease states. That probably explains why they have experienced marked traction in the space, with 2016 reflecting record revenues for the segment.

Our model assumes that SRAX MD will be a significant driver of future revenues and we expect SRAX MD to be the model for future SRAX vertical additions as well.

- **Other Potential Verticals**

Given the success of the healthcare vertical, we believe the Company is also developing additional verticals. Specifically, some of their discussion in that regard has centered on CPG (“consumer packaged goods”). We think that vertical is an extension of its online to offline buy side efforts. For obvious reasons, grocery stores are one of the cornerstone offline retailers and consumer packaged goods make up a good portion of their entire shelf space. Industries like financial and automotive are other areas the Company has discussed. We also believe additional verticals could arise from the entrees in the social media channel(s).

To summarize, we think the Company’s products and services cover the digital advertising landscape well with technologically competitive offerings across relevant channels and platforms. Further, we think they have done a good job of positioning themselves to lead in particular verticals and/or within target customer groups. Their focus on online to offline and SRAX MD are good examples of that. That probably also applies to its focus on middle market advertisers, although their customer list includes some very big names that speak to some of the verticals we mentioned. For example, some of their healthcare and pharma customers have included Bristol-Myers Squibb, Amgen, TEVA, Novartis, Cardinal Health and others, while in CPG they have done business with applicable names like Proctor and Gamble, Unilever, Sam’s Club, Red Bull and more. Incidentally, they also have customers in financials (Wells Fargo and H&R Block) and in automotive (Subaru, Toyota and Fiat Chrysler).

Operating Overview

The Company has guided to revenues of between \$45 million and \$50 million for fiscal 2017. The mid-point of that guidance would imply revenue growth over 2016 of just under 33%. Our model is projecting revenues at the lower end of their guidance or about \$45 million. Our estimate represents assumed YoY revenue growth of 27%. For reference, 2016 revenues were 18% higher than 2015. As we speak to in the risk section below, 2H 2016 revenues were negatively impacted by a reduction in business from the Company’s biggest customer, a large advertising agency. The single client accounted for 48% and 36% of fiscal 2015 and fiscal 2016 revenues respectively. While this client accounted for marked portions of revenue and corresponding growth, that growth was accompanied by increasingly lower margins. By mid-2016, SRAX made the decision to address the arrangement with the customer resulting in lower revenue contribution from the customer. We expect this particular piece of revenue to continue to shrink, which will negatively impact revenues, but should positively impact aggregate gross margins. To put that into perspective, The Company’s guidance implies at least 27% revenue growth in spite of lower revenues from the large client. That suggests that the Company expects marked revenue growth from particular segments of the business. As we understand the segments, our sense is that the revenue growth they are anticipating will come largely from new(er) initiatives, namely SRAX MD, SRAX Reach and SRAX Social. We believe they are experiencing marked traction in each of these pieces, and we suspect these are where the revenue “slack” will be picked up. In addition, we have modeled revenue growth largely in line with anticipated *industry growth* projected by other organizations. That is, we are not modeling any growth by SRAX that significantly outruns estimates for the industry as a whole.

Because of SRAX's actions regarding their large client, we expect them to post better margins (relative to fiscal 2016) going forward. To edify, margins peaked in Q3-F15 at 55.4%. Margins for the quarters on each side of that period were both in excess of 52%. In contrast, margins troughed in Q3-F16 at 26.7%, recovering to just shy of 41% in Q4. Recall, Q4 is historically the industry's strongest quarter, so some of that margin improvement is seasonal. With that said, the Company's guidance suggests that they "*may never regain their historic margin highs*". Our model reflects improving margins (tied to revenue scale) however, we do not at any point in our model reflect margins back over the 50% threshold. Succinctly, we expect new lines of the business (SRAX MD, SRAX Reach and perhaps new verticals) to experience higher than average margins, while legacy sides of the business (the buy side in general), will likely continue to see some margin compression. Again, we see aggregate margins improving with revenue growth, and largely in the range of high 30% to high 40% aggregates, depending on seasonality and particular revenue thresholds.

The Company's reporting does not provide great detail to its operating expense components. We would prefer a bit more of that as the lack of it makes it difficult to assess the relationships of these expenses to different level(s) of business. That said, we have what we have so we will work with what we've got. At \$5.6 million, we believe Q4-F16 represented the highest aggregate SG&A number in Company history, although it did not represent the highest SG&A quarter on a *margin* basis. Q4-F16 also reflected the largest revenue quarter in Company history so it may follow that SG&A would reflect a commensurate result. *However*, as we have described in other portions of this report, 2016, especially the second half, provided a handful of challenges for SRAX, some of which seemed to compound one to the next. We believe that the Company's required response to these challenges likely contributed to some portion of Q4-F16's elevated SG&A expenses. Further, we have added some additional costs into our Q1-F17 and Q2-F17 numbers to reflect what we think may be some expense "hangover" from some of these challenges. That said, we expect aggregate fiscal 2017 SG&A to be only slightly higher versus 2016, in spite of the revenue growth we are projecting. When we consider the combination of SRAX's revenue and EBITDA guidance, we think they are likely anticipating these expenses to be relatively flat YoY versus fiscal 2016 as well.

As noted below in more detail, SRAX has been scrambling from the end of 2016 through today to replace the remnants of a debt financing they entered in 2014. Those efforts have led to an increase in share counts (equity), a restructuring of the prior debt, and the "retirement" of other derivatives associated with that transaction. For example, some of that legacy debt was replaced by a factoring facility and still other by a convertible "mezzanine" type instrument. Our model, addresses the impact of these financings to the best of our understanding. Since some of these include convertible debt and other derivative attachments, their ultimate impact in terms of interest expense and shares counts are unknown. Again, we have attempted to reflect those outcomes given the obvious constraints.

We will continue to address these and other (evolving) operating issues as we move forward.

Risks and Caveats

SRAX operates in a highly competitive industry where many of its competitors are larger and better capitalized. Moreover, it's often difficult to even delineate who the competitors are across the various channels and services that comprise the industry. In addition, as we have alluded to above, technology plays a significant role in the industry, which we don't expect to change in the near future. SRAX's ability to keep up with those technology changes against larger better capitalized competitors is in our view a marked risk in the deal.

In October 2014, SRAX arranged a secured debt financing from Victory Park Management LLC ("the Lender"). The transaction provided SRAX with access to \$20 million of borrowings, but was subject to certain conditions and ongoing covenants. From the inception of the financing through February 2016, the Company borrowed a total of \$14 million. During 2016, the Company also violated some of the covenants required by the financing, which by agreement made the debt essentially payable on demand. While we are not sure the Company anticipated the calling of the note(s) even in spite of the covenant violations, that is what the lender chose to do. Over the

period from the time of the initial borrowings through December 31, 2016, SRAX paid back approximately \$10 million of the debt, which left approximately \$4 million to be repaid, which again, the Company needed to address in and around year end 2016. As a result, SRAX sold some additional equity and utilized a factoring facility to retire the remaining (roughly) \$4 million debt.

The factoring facility SRAX put in place to deal with their liquidity dilemma, could create another liquidity dilemma. Receivables are a working capital component so when their collection is used to immediately pay back factoring facilities they can't be used as "working capital". Generally, factoring facilities are not the first choice of borrowers.

In addition, to the debt repayment above, as part of original debt, SRAX granted Victory Park 580,000 warrants. Those warrants included a "put" provision, essentially allowing the Lender to exchange the warrants for a minimum of \$1.5 million. Victory Park has chosen to exercise that put. Further, the equity portion of the yearend financings referenced above included a similar put, which we believe is also being executed. That put is likely to require a \$2.5 million payoff. Consequently, SRAX is currently engaged in an equity raise (\$5 million is what they referenced in the 10K), which they intend to use to purchase the puts, as well as shore up their working capital deficit (\$8.3 million at 12/31/16). They have announced the completion of \$3.7 million of that raise (\$3.5 million net). However, their inability to raise the additional capital, retire the remaining puts and "liquify" the balance sheet is a marked near term risk in the deal.

In addition to the above, as we suggested, we believe this event was perhaps a bit unanticipated by SRAX management. As a result, the equity raise they were forced to complete in late 2016/early 2017, included some onerous derivatives. We think that financing and the associated derivatives have created much of the considerable pressure in the stock since the beginning of 2017. The stock closed 2016 (December 30, 2016) at \$6.14.

We've provided this narrative regarding the debt covenant violations and the cascade of events those precipitated because they have created a liquidity problem for the Company that remains a topical risk. We believe they should be able to raise the (remaining) \$5 million in equity but even with that, they could (in our view) still use some *additional* equity to address working capital deficits. We think (and they suggested in the 10K) that tight working capital could negatively impact their growth and by extension their guidance and our assumptions therein. Further, the solution (equity sales) will be dilutive. We think the narrative also provides a cautionary tale regarding the risks associated with small, undercapitalized, unprofitable companies. That is, having to rely on the equity markets to carry the business is precarious and unpredictable and often results in onerous financings such as these that SRAX has had to entertain.

Like many small companies SRAX relies on a small number of people. We think that is especially true of their founder and CEO, Chris Miglino. The loss of Mr. Miglino and/or a handful of other key individuals could prove considerably negative.

SRAX faced some challenges in 2016 that stemmed from their largest customer. Customer concentration is always a considerable risk to any business, but may be amplified for smaller companies. In the case of SRAX, that customer was a large ad agency, which we believe was a legacy Steel Media customer. We don't know all the minutia of the issue, but we do know this arrangement has been responsible for a measurable portion of SRAX's revenue growth from mid-2015 through mid-2016, as well as for its more recent margin compression. This arrangement has been considerably modified, which as one might expect, should negatively impact revenues, but positively impact margins. With that said, while their customer concentration has improved markedly, this could prove to be an ongoing challenge.

Apart from Q1, we expect to see YOY margin improvement for 2017 versus 2016. We think that will come from growth in SRAX MD (where margins are robust) as well as comparable improvements in the other segments of the business. That would include improvements associated with the customer concentration issue we addressed above. Moreover, we are modeling slightly improving YOY aggregate margins for the next few years. With that

said, industry margins are a wild card here. On one hand, most segments of SRAX's business are expected to experience above average growth rates. As we noted, we have modeled our growth for the Company in line with projected industry growth rates. However, this is a competitive industry where the lines between competitors, vendors and customers continue to evolve and blur. Further, the industry will continue to be impacted by technology, which should drive down costs in the aggregate, but may also impact price points in the same way. Translation, technology and increased competition will almost certainly negatively impact those players who cannot keep up. Again, while we feel like for 2017 the margin winds are at SRAX's back, it would not be a huge surprise to see those become headwinds at some point. Margin maintenance will remain a risk.

Advertising in general is the most robust in Q4, and the least robust in Q1. That is a function of the impact the holiday season has on consumer spending and by extension those applicable businesses, but it also relates to budget cycles. This is perhaps less a risk than just a factor that investors should be aware of.

When economies begin to slow, marketing and advertising are often the first place that enterprises look to cut costs. Consequently, slower economic growth, or worse yet recession, will almost certainly prove negative for SRAX.

Many of our model estimates are based on industry and other estimates by third parties. Those estimates, and by extension our estimates, could prove substantially erroneous. Projecting future growth of any industry or business is precarious and prone to considerable variance.

In addition to the fundamental risks noted above, SRAX is a small underfollowed name and its underlying stock is generally illiquid. That provides some additional technical risks in terms of buying, owning and selling the shares. Investors should assess those risks carefully in terms of their own liquidity, investment horizons and general investment risk tolerances.

These are just a few of the more obvious risks in the story, there are almost certainly others we may have missed and/or that may not be so obvious.

Summary and Conclusion

The "digital world" has transformed the entire planet. The way we communicate, the way we entertain ourselves, the jobs we do and how we do them, and just about everything in-between has been transformed by the advent of the internet and by extension social media and their adjuncts. The most valuable corporations in the world today, have become so because of this phenomenon, replacing, and in some instances obsoleting companies and even entire industries of the "old" economy. While "digital" has not only changed the way that many companies do business, it has also changed the way they market and advertise. As a result, digital advertising has experienced marked growth and marked evolution as advertisers seek to reach customers in more (and more efficient) ways.

We think the digital marketing space is rather complex. As much as anything, in this report we have attempted to simplify the understanding of some of those complexities because we have a notion about SRAX and its valuation that has been one of our bigger motivations for writing this research in the first place. That is, despite some clear challenges along the way, SRAX is positioned to benefit significantly from the growth of digital advertising, but frankly, we are not sure that investors have a good understand of what the Company actually does and how it makes money. We have attempted to address some of that here.

To be sure, the industry's complexities stem from several places. Technology is often more difficult to grasp than many other industries *on the face*. In addition, the digital advertising landscape is highly fragmented and includes a myriad of participants large and small occupying differing but sometimes overlapping portions of the business. It is further complicated by multiple channels and ever-evolving amounts of technology aimed at improving the

breadth, efficiency and measurement of advertising for both online and offline marketers. For small payers such as SRAX, keeping up can be both challenging and rewarding.

We think SRAX has spent the past few years taking some lumps but also learning some things about the complexities we noted above. The challenges of the past 6 or 9 months are clear examples of the “lumps” they have endured, and the Company’s valuation has been significantly discounted as a result of some of that negative impact. However, we think those challenges may have masked some of the marked progress SRAX has also made along the way, and that combination has created a potentially extraordinary value proposition for SRAX shares.

Understand, as we laid out above the Company still faces a myriad of both micro and macro challenges. However, they have clearly identified portions of the business and developed offerings that provide them with advantages and measurable opportunities in those “niches” going forward. Again, we think much of their improved position is about the evolution of things they have learned and developed along the way through both success and failure.

Granted, SRAX will not and cannot be “all things to all advertisers”. Its success will depend on its ability to identify areas of the business where it can most effectively compete. We know for example, on the buy side they are better suited to compete for middle market agency business where their technology and tools can provide customers with functionality they do not otherwise have access to. In retrospect, they have seen the downside of relying on a single large agency customer for a considerable portion of their business. Their ability to identify and execute in portions of the business where they can shine are key to their success. SRAX MD is the model for that approach. That brings us to another important valuation perspective.

We generally stick to DCF as the basis for our valuations. While we still try to utilize industry comps to augment those conclusions, we believe DCF is the predominant metric for how enterprises ultimately get bought and sold. However, beyond the projections of where we think they may end up in terms of generating cash flow, we believe SRAX is developing some value that may not be as apparent today as perhaps it may end up. As they note above in the SRAX MD overview, they have accumulated considerable amounts of *specific* data regarding (in this instance) individual healthcare providers. We believe they are currently developing similar databases in other verticals we noted above. Our sense is that the ultimate value of these databases may be worth far more than the current cash flow visibility they can provide. Just as many social media enterprises and/or platforms tend to be valued by number of users, followers, engagements etc. we think the databases SRAX is developing may at some point garner similar valuation metrics based on their content.

To summarize, SRAX remains a work-in progress, and they face several challenges on a variety of fronts. That by the way is true of most companies and especially most small companies. However, we think the Company is better positioned on many important fronts than the street and/or the current valuation portends. Granted, they could use the turn of a friendly card or two, especially since they have not had many of those lately. Further, it is in our view paramount that they complete the current \$5 million+ raise in order to get the working capital “monkey off their back” so they can focus on the business. The recent announcement of their closing a good chunk of that raise was in our view quite encouraging. We would view further progress in that regard as highly positive and mitigative to the overall near term risk profile. We submit, these equity financings (assuming their conversions) have potential to create some headwinds for the stock price as we move forward, however, we think operating clarity (assuming its positive as we project) will ultimately trump those headwinds.

We are initiating coverage of SRAX shares with an allocation of 4 and a 12-24 month price target of \$7.50. We would note, we have applied a considerable discount to our DCF model to address some of the risks we addressed above. We will revisit our allocation and price target as risk visibility improves.

Projected Operating Model

Social Reality Inc. ("SRAX")						
Projected Operating Model						
By: Trickle Research LLC						
	(est)	(est)	(est)	(est)	(est)	(est)
	<u>03/31/17</u>	<u>06/30/17</u>	<u>09/30/17</u>	<u>12/31/17</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>
Revenues	\$ 7,631,819	\$ 11,967,094	\$ 11,915,786	\$ 13,960,021	\$ 45,474,720	\$ 54,189,865
Cost of revenue	\$ 4,760,365	\$ 7,302,587	\$ 7,284,049	\$ 7,505,306	\$ 26,852,308	\$ 31,350,609
Gross profit	\$ 2,871,454	\$ 4,664,507	\$ 4,631,737	\$ 6,454,715	\$ 18,622,412	\$ 22,839,256
Operating expense:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General, selling and administrative expense	\$ 4,089,500	\$ 4,416,380	\$ 4,010,736	\$ 4,235,602	\$ 16,752,219	\$ 16,760,885
Impairment of goodwill	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income (loss) from operations	\$ (1,218,046)	\$ 248,126	\$ 621,001	\$ 2,219,113	\$ 1,870,193	\$ 6,078,371
Other income (expense):	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Write off of contingent consideration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income (expense)	\$ (103,637)	\$ (162,914)	\$ (244,771)	\$ (222,784)	\$ (734,106)	\$ (305,189)
Total Other income (expense)	\$ (103,637)	\$ (162,914)	\$ (244,771)	\$ (222,784)	\$ (734,106)	\$ (305,189)
Income (loss) before provision for income taxes	\$ (1,321,683)	\$ 85,213	\$ 376,229	\$ 1,996,329	\$ 1,136,088	\$ 5,773,183
Provision for income taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ (1,321,683)	\$ 85,213	\$ 376,229	\$ 1,996,329	\$ 1,136,088	\$ 5,773,183
Net loss per share, basic	\$ (0.16)	\$ 0.01	\$ 0.05	\$ 0.24	\$ 0.14	\$ 0.61
Net loss per share, basic and diluted	\$ (0.16)	\$ 0.01	\$ 0.04	\$ 0.21	\$ 0.13	\$ 0.52
Weighted average shares outstanding, basic	8,012,982	8,012,982	8,012,982	8,457,433	8,124,095	9,457,449
Weighted average shares outstanding, basic and diluted	8,012,982	8,309,283	8,605,584	9,346,336	8,568,546	11,013,028

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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 our performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that we 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 perhaps add another 5 of the names from our profiles). 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 hung up on the tradition of more typical 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.