Trickle Research

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

Allocation Upgrade

Report Date: 06/07/2017

12 - 24 month Price Target: $7.50

Allocation: *5

Closing Stock Price at Initiation (Close 04/24/17): $1.90

Closing Stock Price at Update (Close 06/07/17): $1.44

Social Reality, Inc.

SRAX

(Stock Symbol – Nasdaq: SRAX)
www.srax.com

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Since our most recent earnings update on SRAX, the stock has continued to trade lower for reasons that escape us. We have received some calls regarding the weakness, and again, we are not privy to any fundamental reasons for that weakness. In fact, management has reiterated their guidance to us, which to refresh is for 2017 revenues of between $45-$50 million and EBITDA of between $2 and $5 million. Given the lack of other fundamental news, we tend to think the weakness may be more congruent with the last paragraph from the prior earnings update:

> *We reiterate our 12-18 month price target of $7.50 as well as our allocation of 4. Given the continued compression in the stock even below our initiation price, we are inclined to raise the allocation. (If we liked it at $1.90, we must love it at under $1.60…right?) However, **we also think the arbitrage remnants of the financings are continuing to impact the stock negatively and that may continue to weigh on the price until those wash out.** We have no insights as to when that might be. On the other hand, we may be overstating the impact of the financings on the stock, and maybe the sellers are just shareholders who have become disenchanted or even concerned about the Company's prospects given the struggles they have endured. We understand that view as well, whatever the minutia, keeping the risk profile in mind, we think the stock is a compelling value from current levels for those who may be focused on the longer-term opportunity rather than on trying to ring the bell.*

Look, investors sell stocks for many reasons; kids in college, buying a summer home, paying legal bills…whatever.   In this case, we think the seller(s) over the past few weeks seem a bit indiscriminate to us. That is, they seem more interested in the liquidity than what they get for the shares. That may (or may not) dovetail with our arbitrage comment above. We submit, the news as of late has not been stellar starting with the (re)financing of the Victory Park debt through poor comparative and overall results for Q1-2017. But, again, in the context of the reiterated guidance in conjunction with the Q1 numbers, to hit even the low end of guidance, the remaining 2017 comps will have to be favorable, in fact, more favorable than our model projects. As we said, guidance is just guidance, however, we know the Company has some amount of visibility with respect to that guidance. They have "backlog" business on the books that is most certainly driving some portion of the guidance. Can the remainder of the year fall flat and undermine the guidance? Perhaps. However, given their enthusiasm for the emerging portions of the business (SRAX MD, SRAX Reach and SRAX Social) we think that sort of contraction would be extraordinary.

In summary, we submit, it is unsettling to watch positions we own (or cover) drop precipitously without any particular news or other apparent catalyst. We don't have an answer for that situation, other than it's not the first time we have seen it happen (and in some instances, looked back and realized the profound opportunity it presented). Maybe we are in fact missing something here, we think otherwise, but perhaps. That said, given our continued conviction (in lieu of the compression in the stock price) we are raising our allocation from 4 to *5, and reiterating our 12-24 month price target of $7.50.

Projected Operating Model

Social Reality Inc. ("SRAX")						
Projected Operating Model						
By: Trickle Research LLC						
	(actual)	(est)	(est)	(est)	(est)	(est)
	03/31/17	**06/30/17**	**09/30/17**	**12/31/17**	**Fiscal 2017**	**Fiscal 2018**
Revenues	$ 5,326,163	$11,797,220	$11,746,640	$13,086,104	$41,956,127	$51,523,302
Cost of revenue	$ 3,279,120	$ 6,773,375	$ 6,744,334	$ 7,515,374	$24,312,203	$28,679,915
Gross profit	$ 2,047,043	$ 5,023,845	$ 5,002,306	$ 5,570,730	$17,643,924	$22,843,387
Operating expense:	$ -	$ -	$ -	$ -	$ -	$ -
General, selling and administrative expense	$ 4,409,807	$ 4,367,694	$ 3,862,130	$ 4,009,471	$16,649,103	$17,367,563
Impairment of goodwill	$ -	$ -	$ -	$ -	$ -	$ -
Restructirung and Other Operating expenses	$ 846,712	$ -	$ -	$ -	$ 846,712	$ -
Income (loss) from operations	$(3,209,476)	$ 656,151	$ 1,140,175	$ 1,561,259	$ 148,109	$ 5,475,824
Other income (expense):	$ -	$ -	$ -	$ -	$ -	$ -
Write off of contingent consideration	$ -	$ -	$ -	$ -	$ -	$ -
Interest income (expense)	$ (133,306)	$ (174,893)	$ (265,018)	$ (244,408)	$ (817,625)	$ (356,135)
Amortization of Debt Issuance Costs	$ (578,140)	$ -	$ -	$ -	$ (578,140)	$ -
Accretion of Put Warrants	$ 1,894,563	$ -	$ -	$ -	$ 1,894,563	$ -
Other Income (expense)	$ -	$ -	$ -	$ -	$ -	$ -
Total Other income (expense)	$ 1,183,117	$ (174,893)	$ (265,018)	$ (244,408)	$ 498,798	$ (356,135)
Income (loss) before provision for income taxes	$(2,026,359)	$ 481,258	$ 875,157	$ 1,316,851	$ 646,907	$ 5,119,689
Provision for income taxes	$ -	$ -	$ -	$ -	$ -	$ -
Net income (loss)	$(2,026,359)	$ 481,258	$ 875,157	$ 1,316,851	$ 646,907	$ 5,119,689
Net loss per share, basic	$ (0.26)	$ 0.06	$ 0.11	$ 0.16	$ 0.08	$ 0.54
Net loss per share, basic and diluted	$ (0.26)	$ 0.06	$ 0.10	$ 0.14	$ 0.08	$ 0.46
Weighted average shares outstanding, basic	7,844,127	8,012,982	8,012,982	8,457,433	8,081,881	9,457,449
Weighted average shares outstanding, basic and diluted	7,844,127	8,309,283	8,605,584	9,346,336	8,526,332	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.