Trickle Research

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

Earnings Update – 3Q Fiscal 2018
11/28/18

12 - 24 month Price Target: $8.50

Allocation: 5

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

Date of Allocation Upgrade from 4 to 5: 06/07/17

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

Date of Target Upgrade: 08/16/18

Closing Stock Price at Target Upgrade (Close 08/16/18): $4.11

Closing Stock Price @ 11/27/18: $3.02

Social Reality, Inc.

SRAX

(Stock Symbol – Nasdaq: SRAX)

Prepared By:
David L. Lavigne

Senior Analyst, Managing Partner
Trickle Research LLC
Dave@TrickleResearch.com

SRAX reported their 3QF18 results the other day, but with the holiday stuck between here and there, we are just catching up. Frankly there were no surprises of note. Recall, in some of our prior writings, we noted that the SRAXmd sale would "muddy" the Q3 numbers with extraordinary items. As it turned out, the numbers included about 37 days of SRAXmd contributions, which added to the extraordinariness. On the other hand, the Company did provide some guidance both general and specific that provides some visibility at least with respect to *the path* here. SRAX has had a difficult time hitting guidance in the past, so we are not ready to hang our hat on the current guidance, however, we do think it provides some clarity, and we feel like we have a better handle on the pieces of the business. We are hopeful that will lead us to more accurate projections. Actually, our projection for 3Q was probably closer than we have been for some time. We estimated revenues of $1.44 million, which was lower than the $2 million actual. However, we did not model the 37 days of SRAXmd contribution, which we think made up most of the difference. Most of the other (expense) line items were in line once we factored in some of the extraordinary items related to the sale. In the context of the information they provided on the call regarding forward numbers, we feel like our projections should prove more accurate.

The above said, the Company provided fiscal 2019 revenue guidance of $20 million to $25 million. That is about 3X the revenue projection we had for fiscal 2019 in our prior (2QF18) update. Given that guidance, we have recast our model to reflect something closer to that guidance, but we are still projecting well below the range they provided. In conjunction with the guidance, it is important to recognize something else they pointed out on the call, which is that the guidance does not include any contributions from BIGtoken. We have a couple of observations regarding that notion.

First, at this point, it is difficult to decipher exactly how BIGtoken will impact SRAX. As we understand it, SRAX will technically own BIGtoken, but portions of BIGtoken revenues and/or profits will be divided amongst constituencies. Those constituencies include SRAX shareholders who were recently spun off some sort of BIGtoken "rights", some prior convertible security holders, who we believe also retained some sort of BIGtoken "rights", BIGtoken consumers who will ultimately earn "rights" and perhaps miners who will also earn "rights" for maintaining the blockchain. Again, that is our understanding, but we may have that wrong. Frankly, the entire BIGtoken capitalization/structure has involved a fair amount of complexity on a variety of levels, and for various reasons, on the least of which is SRAX's focus on making sure that process does not run afoul of the SEC. That has proven to be a tall order because we are not sure the SEC has exactly figured out how to deal with all of this, which essentially makes it impossible for those trying to comply to do so. We suspect the Company will be providing added clarity to all of this shortly.

Second, while Company guidance was provided "without" BIGtoken, they have also provided bits and pieces of guidance relative to BIGtoken as well. For example, on the call they noted "w*hen we accumulate 10 million BIGtoken users, we believe our run rate will be around $400 million plus annually, while that's ways off our April 2019 goals to reach 500,000 BIGtoken users, which we believe will translate into around $1.5 million monthly".* Again, our understanding is that the BIGtoken "rights" holders (which presumably will someday be BIGtoken coin holders) will have a claim to some portion of those revenues/profits, SRAX will ultimately retain the lion's share of those same revenues/profits. Looking at our model below, which we admit is discounted relative to the Company's non-BIGtoken guidance, it seems reasonable to assume that the Company ultimately expects BIGtoken results to dwarf those of the core business. As an adjunct to that, the Company spent some time on the call discussing the European Union's new General Data Protection Regulation ("GDPR"), as well as potential similar legislation in the U.S. Without delving into specifics, it seems clear that data privacy is ripe for legislation/regulation and we think that provides a positive optic for BIGtoken. Again, its too early to try to speculate on how that might roll out and how it might impact BIGtoken, but again, that seems like a positive emerging development on the face although admittedly open-ended. We will have to see how the reality plays out.

While we believe the Company is making marked progress in terms of rolling out BIGtoken, and their expectation for 500,000 subscribers by the end of Q1F19 suggests the same, we continue to struggle with valuing the property. We expect that visibility to improve as we mover through 2019. If they are as successful as they suggest, we would submit that our projections and targets will be substantially understated. In the meantime, we have focused the bulk of our valuation on the expansion of the core business including the new verticals. As we have noted in the past, they have proven via SRAXmd as well as SRAXshopper for that matter, that they are capable of building and monetizing these verticals. Our valuation is based largely on the continuation of that theme **and requires that they demonstrate similar success with the new verticals**. To translate, these collective pieces will need achieve measurable growth in order to justify our targets. On the other hand, if BIGtoken plays out as management expects, it will change the valuation landscape entirely.

One of the participants on the earnings call brought up a subject that I think all of us are wondering. That is, given the progress here: a solid sale of SRAXmd and the underlying validation that transaction underscores, the liquification of the balance sheet which that transaction provided, BIGtoken at the precipice of commercial launch and what looks to be the acceleration of existing successful verticals and the startup of some others, why is the stock under pressure and/or having trouble treading higher? We have provided some of our own theories about some of that in prior notes, but to be honest, we have no better idea than apparently many others who follow the stock. However, to that point, this is not the first small company we have seen trade in a direction that seems contrary to improving fundamentals and it likely won't be the last. By the way, in our experience in the microcap space, and that includes nearly 35 years, sooner or later the market gests it right. We submit, maybe there is something we are missing, or maybe contrary to our assessments and management's assessments, these new verticals including BIGtoken will simply prove to be far less successful than SRAXmd. However, in our view, as we also noted in some recent notes, as long as we have followed SRAX we don't do not believe the Company has ever been in a better position.

We reiterate our allocation of 5 and our 12-24 month target of $8.50.

Projected Operating Model

Social Reality Inc. ("SRAX")						
Projected Operating Model						
By: Trickle Research LLC						
	(Actual)	(Actual)	(Actual)	(estimate)	(estimate)	(estimate)
	03/31/18	**06/30/18**	**09/30/18**	**12/31/18**	**Fiscal 2018**	**Fiscal 2019**
Revenues	$ 2,110,850	$ 4,697,351	$ 2,015,391	$ 1,555,000	$ 10,378,592	$14,928,700
Cost of revenue	$ 818,105	$ 1,320,464	$ 763,610	$ 796,590	$ 3,698,769	$ 7,494,350
Gross profit	$ 1,292,745	$ 3,376,887	$ 1,251,781	$ 758,410	$ 6,679,823	$ 7,434,350
Operating expense:	$ -	$ -	$ -	$ -	$ -	$ -
General, selling and administrative expense	$ 4,130,258	$ 5,414,791	$ 4,869,232	$ 2,569,950	$ 16,984,231	$10,663,583
Impairment of goodwill	$ -	$ -	$ -	$ -	$ -	$ -
Restructirung and Other Operating expenses	$ -	$ -	$ -	$ -	$ -	$ -
Income (loss) from operations	$(2,837,513)	$(2,037,904)	$ (3,617,451)	$(1,811,540)	$ (10,304,408)	$ (3,229,233)
Other income (expense):	$ -	$ -	$ -	$ -	$ -	$ -
Write off of contingent consideration	$ -	$ -	$ -	$ -	$ -	$ -
Interest income (expense)	$ (434,785)	$ (486,758)	$ (318,942)	$ (90,000)	$ (1,330,485)	$ (367,875)
Amortization of Debt Issuance Costs	$ (332,658)	$ (472,589)	$ (726,716)	$ -	$ (1,531,963)	$ -
Accretion of Put Warrants	$ -	$ -	$ -	$ -	$ -	$ -
Other Income (expense)	$ (4,664)	$ (596)	$ 23,988,147	$ -	$ 23,982,887	$ -
Total Other income (expense)	$ (772,107)	$ (959,943)	$ 22,942,489	$ (90,000)	$ 21,120,439	$ (367,875)
Income (loss) before provision for income taxes	$(3,609,620)	$(2,997,847)	$ 19,325,038	$(1,901,540)	$ 10,816,031	$ (3,597,108)
Provision for income taxes	$ -	$ -	$ -	$ -	$ -	$ -
Net income (loss)	$(3,609,620)	$(2,997,847)	$ 19,325,038	$(1,901,540)	$ 10,816,031	$ (3,597,108)
Net loss per share, basic	$ (0.36)	$ (0.29)	$ 1.91	$ (0.19)	$ 1.07	$ (0.36)
Net loss per share, basic and diluted	$ (0.29)	$ (0.30)	$ 1.91	$ (0.19)	$ 1.01	$ (0.36)
Weighted average shares outstanding, basic	10,037,905	10,213,618	10,112,804	10,112,804	10,119,283	10,112,804
Weighted average shares outstanding, basic and diluted	12,522,905	10,112,804	10,112,804	10,112,804	10,715,329	10,112,804

General Disclaimer:

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of its investor base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company's annual report, quarterly report, press releases, as well as other regulatory filings. Trickle Research is not registered as a securities broker-dealer or an investment advisor either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. Trickle Research and/or its officers, investors and employees, and/or members of their families may have long/short positions in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities David Lavigne does not hold a position in Social Reality, Inc.

Trickle Research has not been compensated directly by Social Reality Inc. ("SRAX") for the publication of this report nor has SRAX compensated Trickle Research for any other services associated with this research report.

Trickle Research has an exclusive content distribution agreement with Stock Market Manager ("SMM") whereby SMM pays Trickle Research a fee for any Trickle labeled content displayed, hosted or distributed on its site: www.SMM.Global. Per that agreement, SMM.Global may charge issuers such as Social Reality Inc. to host and distribute research licensed from Trickle. Issuers may choose to pay SMM for the licensing, hosting and distribution of Trickle Research. They are under no obligation to do so. SMM has paid for/licensed this research from Trickle, and SMM has an agreement with and has received compensation from SRAX for hosting and distribution of SRAX related research by Trickle. SRAX has paid fees to present at conferences hosted in part by Trickle Research.

Reproduction of any portion of Trickle Research's reports, updates or other publications without **written** permission of Trickle Research is prohibited.

All rights reserved.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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.