Trickle Research

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

Research Update

SIGMA LABS

Sigma Labs, Inc.

(NasdaqGS: **SGLB)**

(http://www.sigmalabsinc.com)

Report Date: 04/09/20

12- 24 month Price Target (Adjusted): $17.00

Allocation: 4

(Adjusted) Closing Stock Price at Initiation (Closing Px: 10/29/19): $5.10

Closing Stock Price at This Update (Closing Px: 04/08/20): $2.14

Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research

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

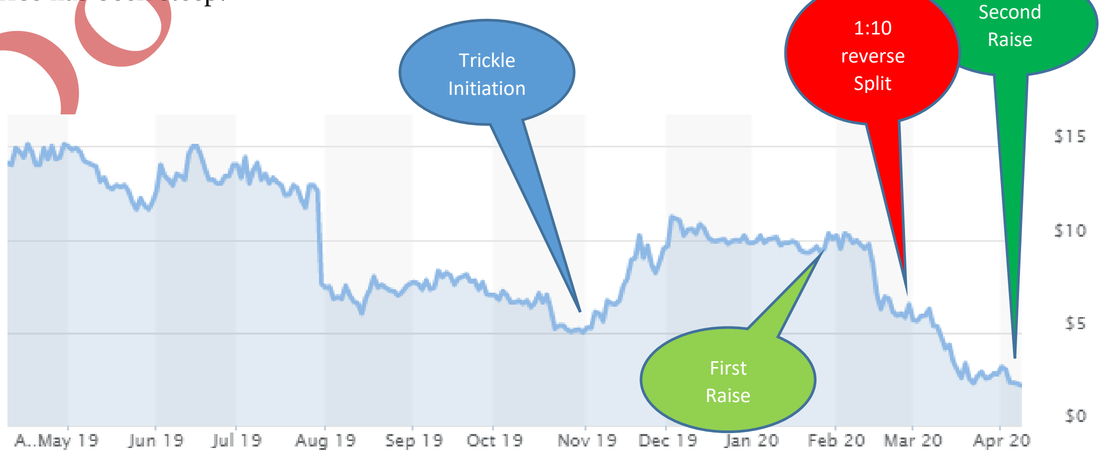
Sigma's numbers for year end were in line with our estimates so rehash those is of no particular value. While they have certainly started into the commercialization phase of the business, recall, much of the marketing effort to this point has focused on their Rapid Test Evaluation program. That is, they have provided their PrintRite3D systems to key strategic enterprises to test/evaluate the product. Ultimately, they believe those efforts will translate into sales as those trials bear out the value of the system. Obviously, we agree with that assessment.

After a robust run following our initiating coverage, the stock has struggled of late and we suspect there may be multiple reasons for that.

First, the most obvious is the current COVID-19 pandemic, which has had an extraordinarily negative impact across industries, sectors, countries etc. While it is difficult to know the impact the pandemic will have on Sigma specifically, especially since we have no way of knowing how long it may drag on, it seems likely to at least lengthen their already extended sales cycle. On the other hand, we would note that the Company recently addressed that issue in an update where they indicated that their Industrial-internet-of-Things functionality has provided customer engineers the ability to access PrintRite3D® remotely and then *"intervene with the on-site operators"*. Additionally, they indicate *"we had built this functionality into the product in order for our engineers to remotely access a system for upgrades and support issues never imagining that our users might also one day be forced to monitor production systems remotely"*.

From another perspective, the update also notes that *"One of the things that has amazed me over the past few months is the level of interaction between our Sigma team and our customers. We seem to be carrying out evaluations and installations as if there wasn't a crisis. In many ways, we are becoming more efficient and more innovative in responding to customer issues. For example, in the past, we were likely to just react and put an engineer on a plane and spend a few days at a customer's site to get an hour or two on the printer to address an issue. As you can imagine, this was expensive and very time-consuming. Today, we are experimenting with users wearing cameras, supplemented with augmented reality, to be our engineer's eyes and instructing our customer on how to be our hands as we address a critical situation together. The result is a more educated and competent user, and a much more efficient Sigma team"*. Granted, we are not suggesting the pandemic has been good for Sigma, but it does appear that it is forcing them to discover some functionality and processes that may prove quite beneficial going forward.

Beyond COVID, we think the stock has suffered from something we have been noting for the past several months regarding many microcap issuers. That is, pre-revenue and or unprofitable companies that rely on the capital markets to support their burn rates as they work towards positive cash flow, have seen their stock prices discount substantially into those raises. Frankly, the collective magnitude(s) of those discounts have been as stark as we can recall. That has certainly been the case with Sigma. While they have been able to complete two separate raises since the start of the year collectively netting about $3 million, the cost of that capital and corresponding decline in stock price has been steep:



Subscribers might recall, we provided an update following our initiation and the subsequent run-up of shares that a transaction was probably imminent, and our suspicion was that it might negatively impact the stock. As we alluded to, that was too predictable to be prescient. To that end, if our models prove reasonably accurate, we think they will need an additional $4 million to $5 million of additional capital to get to profitability.

On the more positive side, we continue to believe that our original thesis regarding Sigma's position as an emerging provider of critical quality assurance processes to the additive metal 3D printing industry remains intact. Further, we continue to believe that they are continuing to seed multiple portions of the industry with their Rapid Test Evaluation program, at least some portion of which we believe they will ultimately transition to sales. Again, we don't know if the current pandemic malaise will delay some of that, but again, we believe they will ultimately transition some of those RTE candidates into customers. We also think those refence customers will enhance their pipeline and perhaps shorten/accelerate the sales cycle thereafter. We submit, given their continued reliance on capital markets to fund burn rates, the timing and magnitude of the sales ramp carries associated risks, but we continue to believe they are on the right path.

Lastly, amid the pandemic we have made an argument in some of our other coverage that we think may be topical to Sigma as well. Specifically, post COVID crisis, we think many governments, industries and companies are going to have to take a long hard look at their supply chains. As we covered extensively in the initiating research, the 3D printing *revolution* is in our view, about improving, shortening, simplifying, controlling, etc. the supply chain. The Company also eluded to that in their update so obviously we concur with that assessment.

We submit, challenges regarding the visibility of the Company's pipeline, sales cycle and ultimately, revenue recognition remain topical. Further, in addition to a need to begin ramping sales, the requirements for additional capital pose clear risks to Sigma's success and valuation. Nonetheless, we remain bullish on the prospects here. In fact, we are inclined to raise our allocation given the compression in the stock, but for now, we will stand pat to see how some of the macro issue unfold over the next few weeks.

Projected Operating Model

Projected Operating Model							
Sigma Labs, Inc.							
Prepared By: Dave Lavigne, Trickle Research							
	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/2020	**6/30/2020**	**9/30/2020**	**12/31/2020**	**Fiscal 2020**	**Fiscal 2021**	**Fiscal 2022**
REVENUES	$ 150,000	$ 385,000	$ 795,650	$ 1,010,012	$ 2,340,662	$ 9,162,669	$ 21,670,269
COST OF REVENUE	$ 225,000	$ 342,500	$ 535,000	$ 645,000	$ 1,747,500	$ 4,456,913	$ 9,181,630
GROSS PROFIT	$ (75,000)	$ 42,500	$ 260,650	$ 365,012	$ 593,162	$ 4,705,755	$ 12,488,640
EXPENSES:					$ -	$ -	$ -
Salaries & Benefits	$ 654,500	$ 661,550	$ 673,870	$ 680,300	$ 2,670,220	$ 2,874,880	$ 3,250,108
Stock-Based Compensation	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 600,000	$ 600,000	$ 600,000
Operating R&D Costs	$ 169,339	$ 170,500	$ 186,950	$ 215,696	$ 742,484	$ 1,127,051	$ 1,925,967
Investor & Public Relations	$ 180,000	$ 180,000	$ 180,000	$ 180,000	$ 720,000	$ 720,000	$ 720,000
Legal & Professional Service Fees	$ 203,000	$ 207,700	$ 215,913	$ 220,200	$ 846,813	$ 983,253	$ 1,233,405
Office Expenses	$ 179,500	$ 186,550	$ 198,870	$ 205,300	$ 770,220	$ 974,880	$ 1,350,108
Depreciation & Amortization	$ 53,164	$ 53,429	$ 53,697	$ 53,965	$ 214,255	$ 218,572	$ 222,977
Other Operating Expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 1,589,502	$ 1,609,729	$ 1,659,299	$ 1,705,462	$ 6,563,992	$ 7,498,637	$ 9,302,565
LOSS FROM OPERATIONS	$ (1,664,502)	$ (1,567,229)	$ (1,398,648)	$ (1,340,450)	$ (5,970,830)	$ (2,792,881)	$ 3,186,074
OTHER INCOME (EXPENSE)					$ -	$ -	$ -
Interest Income	$ 217	$ 837	$ 674	$ 2,682	$ 4,410	$ 3,772	$ 71,224
State Incentives	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Change in fair value of derivative liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Exchange Rate Gain (Loss)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest Expense	$ (2,278)	$ (2,278)	$ (2,278)	$ (2,278)	$ (9,112)	$ (2,278)	$ -
Loss on Disposal of Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Debt discount amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Other Income (Expense)	$ (2,061)	$ (1,441)	$ (1,604)	$ 404	$ (4,702)	$ 1,494	$ 71,224
LOSS BEFORE PROVISION FOR INCOME TAXES	$ (1,666,563)	$ (1,568,671)	$ (1,400,253)	$ (1,340,046)	$ (5,975,533)	$ (2,791,388)	$ 3,257,298
Provision for Income Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Loss	$ (1,666,563)	$ (1,568,671)	$ (1,400,253)	$ (1,340,046)	$ (5,975,533)	$ (2,791,388)	$ 3,257,298
Preferred Dividends	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Loss applicable to Common Stockholders	$ (1,666,563)	$ (1,568,671)	$ (1,400,253)	$ (1,340,046)	$ (5,975,533)	$ (2,791,388)	$ 3,257,298
Net Loss per Common Share - Basic and Diluted	$ (0.73)	$ (0.67)	$ (0.50)	$ (0.47)	$ (2.33)	$ (0.88)	$ 0.87
Net Loss per Common Share - Diluted	$ (0.67)	$ (0.62)	$ (0.46)	$ (0.44)	$ (2.15)	$ (0.82)	$ 0.83
Weighted Average Number of Shares Outstanding - Basic	2,281,173	2,333,257	2,810,687	2,844,074	2,567,298	3,179,927	3,744,067
Weighted Average Number of Shares Outstanding - Diluted	2,493,717	2,545,801	3,023,231	3,056,618	2,779,842	3,415,758	3,922,308

The above model reflects our estimates of the dilution potential of recent preferred share offerings and associated derivatives on common share counts.

General Disclaimer:

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of it 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 Sigma Labs Inc.

Trickle Research has not been compensated directly by Sigma Labs for the publication of this report nor has Sigma Labs compensated Trickle Research for any other services associated with this research report.

Trickle Research has an exclusive content distribution agreement with SMM.Global whereby SMM.Global 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 charges issuers to host and distribute licensed research. Issuers may choose to pay SMM.Global for the hosting and distribution of Trickle Research. They are under no obligation to do so.

Rating System Overview:

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

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

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

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

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

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