Trickle Research

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

# Research Update & Target Decrease

# SRAX, Inc.

(Stock Symbol – Nasdaq: SRAX)

## Report Date: 09/16/20

**12 - 24 month Price Target: *$6.00**

**Allocation: 5**

Closing Stock Price at Initiation (Close 04/24/17): $1.90
Closing Stock Price at Allocation Upgrade (Close 06/07/17): $1.44
Closing Stock Price at Target Upgrade (Close 08/16/18): $4.11
Closing Stock Price at Target Upgrade (Close 02/04/19): $3.33
Closing Stock Price at This Report Date: (09/15/20): $2.55

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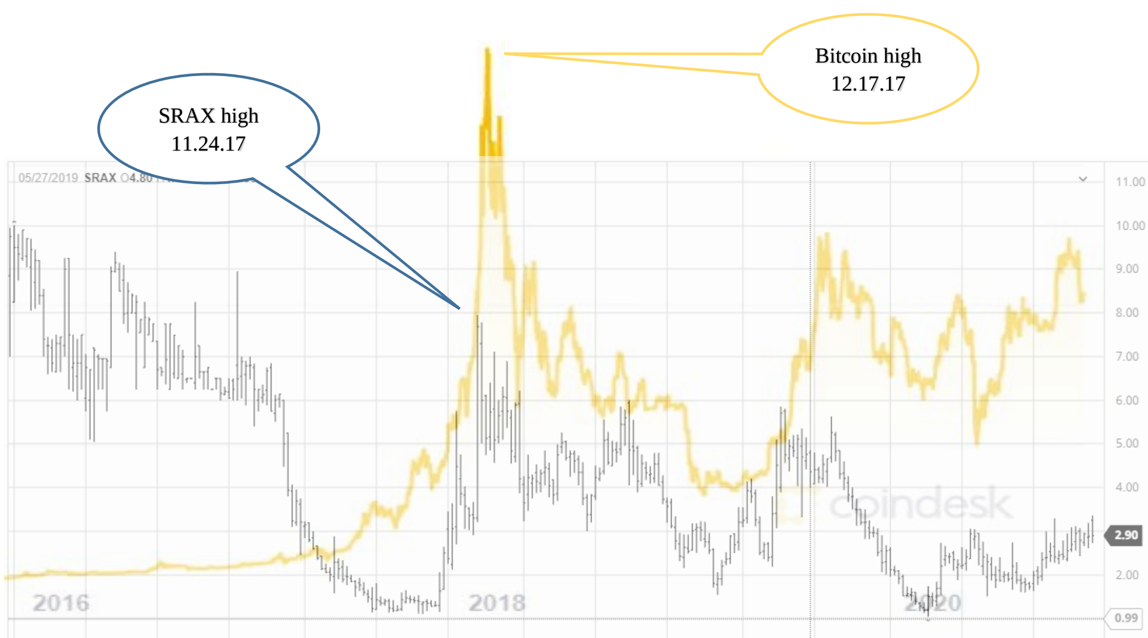
Recently, SRAX announced the acquisition of LD Micro. We have several observations about that combination and the direction of SRAX in general, but first, we have been following the stock for some time now so a bit of history regarding that coverage is probably worth revisiting.

We initiated coverage of SRAX in April 2017. SRAX was among the first companies we initiated under our new Trickle Research label, however, we had also followed the Company for a few years prior, so it was not a *new* idea to us. At the time of our initiation, the stock was trading at $1.90, and we placed a 12-24 month price target of $7.50 on the shares. The shares breached that target in late November 2017, trading as high as $7.95. The Company rolled out their BIGtoken platform just prior to that. In fact, we recall specifically the rollout of BIGtoken, because they announced/introduced the BIGtoken initiative at our Rocky Mountain Microcap Conference on September 25, 2017.

BIGtoken was originally designed to be a digital marketing platform that consumers could opt into and control the data provided to the platform about themselves. That is, they could provide as much or as little personal data as they wanted, and more importantly, they could get paid directly for providing that data. That represented a radically different approach to the aggregation of consumer data, wherein enterprises would gather that data from a variety of sources (some that were not always accurate) and then sell that personal data to others (advertisers etc.), effectively monetizing the personal information of consumers, who were getting paid nothing for their own information. At the time (and still today), the BIGtoken approach was in lockstep with criticism of the digital marketing space by governments and other consumer groups who were suspect of large enterprises (Google, Facebook etc.) that were successfully aggregating (and monetizing) alarming amounts of that personal data and selling it. In addition to the idea of providing a platform where consumers could get paid for their own data, BIGtoken also included another element that was quite topical at the time.

Originally, BIGtoken was designed to be just that… a token. Consumers who opted into the platform would provide their data and when that data was purchased by advertisers, the BIGtoken consumers would be paid in a new cryptocurrency; "BIGtokens". With that original form in mind, it is not hard to envision why SRAX high stock trade (post 2016) happened to coincide with the all-time high of the original cryptocurrency, Bitcoin. Below we superimposed a chart of SRAX on top of a chart of Bitcoin. As the charts illustrate, the high in SRAX (November 24, 2017; $7.95) roughly coincided with that of Bitcoin's high (December 17, 2017; $19,891). Incidentally, December 18, 2017 is also the last time SRAX treaded above $7.00 per share.



Our point here and one we have reiterated throughout some of our SRAX research, is that the Company's launch of BIGtoken, has to some degree hitched the SRAX share price to that of Bitcoin. That said, as it turned out, the actual cryptocurrency/token originally contemplated by SRAX to enumerate BIGtoken users for their data, never came to pass. As we understand it, it failed to materialize largely because of the SEC's scrutiny of cryptocurrencies in general and in turn SRAX's aversion to draw the ire of the Commission. As a result, today, BIGtoken rewards are largely made in cash or similar equivalents, and we suspect that reality is what ultimately led to the decorrelation of SRAX vis-à-vis Bitcoin.

The above said, in mid-November 2017, just prior to the stock's advance through $7 per share, we provided an update that focused in part on the Company's SRAXmd vertical, and to a lesser degree BIGtoken. To edify, part of our focus at the time around SRAXmd stemmed from the fact that in October 2017, the Company *"engaged financial advisors to explore strategic alternatives for the SRAXmd business to maximize shareholder value"*. In that regard, our assessment at that time was that we believed SRAXmd alone was worth more than the entire market capitalization of SRAX, which at that time was about $29 million. To put that into perspective, that math pegged our price target ($7.50) to a market capitalization of around $66 million. As most are aware, in mid-2018, SRAX would indeed close on the sale of SRAXmd for a valuation at the time of around $53 million, which included $33.5 million in cash (by itself beyond the market capitalization if SRAX at our November 2017 update) as well as other consideration. We would add, that November update also said this about BIGtoken:

> *"Lastly, we are not going to try to provide added color on their BIG platform. We have provided some of that prior and we will stand by those assertions for now, which are that it is a topical, cutting edge, exciting addition to the story, and is probably responsible for much of the stock's recent run. It could clearly change the entire company in a variety of positive ways. It is however, in our view, not essential to the assessment of higher valuations in line with our current targets".*

Recognize, by the end of 2017, we remained of the view that SRAX had developed a valuable vertical (SRAXmd) and they were preparing to develop additional verticals, along with BIGtoken. Also, we believed that the success of SRAXmd stemmed from SRAX Founder and CEO Chris Maglino's vision (and execution thereof) that specific and accurate data was/is more valuable than general data. That is, a platform aimed at aggregating specific data on 400,000 physicians, is more valuable to a pharmaceutical or medical device company than a general database of 40 million consumers. That certainly became evident with SARXmd and we believe it remains the mantra today. We will revisit that thought in a moment.

Following the SRAXmd sale, there have been two additional events of note both of which caused us to raise our prevailing price targets. The first of these was the addition of SRAXir, which we updated and raised our price target on at 02/05/19. We believed then and now that SRAXir (now referred to as "Sequire") represents a viable platform for an industry that needs solutions like Sequire. The second of these was the announcement in mid-April (2019) that BIGtoken had reached *15 million users,* which was several multiples higher than the counts just a few months earlier. We raised our target substantially (from $9.25 to $15.00) after the significant bump in users. Recall, at that time, the Company was estimating that each user might equate to between $3 and $6 per month in revenues.

The above noted, the financial analysis of SRAX has never been easy, and from the time of the SRAXmd sale and the subsequent building of BIGtoken, the analysis of SRAX has been particularly difficult for us, and we think the street likely shares much of that sentiment. We submit, our track record trying to develop a model that reasonably reflected actual quarterly numbers has been abysmal. On the other hand, the Company has also missed some guidance (a practice they have discontinued altogether) they have developed/advanced a handful of verticals that as we understand it are no longer *specifically* a part of the business (for instance SRAXsocial, SRAXshopper, SRAXauto and SRAXfan) and the traditional/legacy digital marketing business has been absorbed by or replaced by BIGtoken initiatives (a notion we expressed concern about in the past). To that point, the most recent 10Q notes: *BIGtoken revenues for the quarter ended June 30, 2020 ("2020") decreased to $377,000 compared to $841,000 during the three months ended June 30, 2020. This decrease is primarily driven by the loss of core* *customers from our legacy sales verticals.* Keep in mind, with their new segment reporting (which is VERY welcome and helpful by the way) revenues are now generally one of two things: Sequire or BIGtoken. Given the narrative above, we think it is fair to suggest that our notion of BIGtoken ultimately replacing, absorbing, cannibalizing et al. the legacy business was largely accurate. That said, we think that transition (from legacy verticals to BIGtoken) is preponderantly behind them, *and we expect BIGtoken to perform sequentially better going forward.* However, to reiterate, the financial performance and metrics of SRAX have been volatile and as a result, difficult to project. Further, recent guidance suggests that the BIGtoken user base is approaching 17 million, which implies that BIGtoken has continued to grow, although perhaps not at the rate that caused us to raise our rating in April 2019. In addition, at least to this point, they have not been able to approach the revenue per user per month metrics they suggested in prior updates/presentations, but again, there are a number of data points that lead us to believe that the best of BIGtoken is in front of them. Also, despite the sale of SRAXmd, they have had to return to the capital markets to finance their continued cash burn, recently raising $13 million through a convertible offering ($2.69 per share). In short, the analysis over the past 3+ years has been a mixed bag that might be best described as “two steps forward and one step back”.

To reiterate, today the Company consists of two units; Sequire and BIGtoken and despite the challenges along the way, we remain constructive on both and here are some bullet points reflecting why.

First, we have considerable respect for CEO and Founder Chris Miglino. He has assembled a robust platform focused on developing valuable specific/personalized data sets. Further, his approach is to use the platform to address specific industries that can perhaps best utilize the data to target and reach highly relevant consumer targets. While in the past, the Company engaged what was at the time perhaps more “traditional” digital advertising, we believe Chris’ “vision” led to the development of a more robust and targeted approach. To that end, as we recall, SRAXmd was really the first real vertical they developed, and as we addressed above it was quite successful, which from our perspective helped validate both the platform as well as his silo approach to new markets. We submit, they have not been able to convert each of their proposed verticals/silos into a “winner”, but then again, they do not have to bat 1.000 to be successful here.

What we find exciting about the Company’s Sequire platform is that as the CEO of a small public company trying to survive and prosper in an industry dominated by larger players, Mr. Miglino has spent the better part of the past decade in the “trenches” of the microcap industry. He is intimately aware of the challenge microcap CEO’s face in terms of attracting and retaining investors, raising capital and increasing the awareness/public profile of the company, *while at the same time trying to execute the business plan*. We are confident suggesting that Chris’s endeavors in that regard have played a considerable role in his recognition of the industry’s need for a platform like Sequire and in turn the development of its functionality therein. In terms of his aptitudes and experiences in both technology and the microcap space, he is perhaps uniquely qualified/destined to develop a product like Sequire. Again, we will revisit that further below.

In addition to Sequire, the Company also continues to refine and grow BIGtoken. Frankly, there was a point where the initial growth of the BIGtoken user base was so robust that we thought it might generate parabolic value for SRAX. While the reality to this point has been much more subdued, we continue to believe that the basic value proposition of the business, which is to give consumers control (and the monetization) of their own personal information, to create high value data sets that improve advertisers’ “return-on-ad-spend” remains topical. Further, as the Company recently reinforced, regulation aimed at giving consumers more control/privacy over their personal data has not gone away. In fact, as the Company’s recent overview notes, enforcement of the California Consumer Privacy Act (“CCPA”) just commenced July 1, 2020. While Covid19 has probably mitigated some of the *splash* of that milestone, it is now nonetheless the law, and its is likely to become a larger, rather than a smaller part of the digital marketing landscape. We continue to believe that BIGtoken will benefit from that emerging environment and we also continue to believe in the value of aggregating more accurate and more acute data to improve advertisers’ marketing efforts, and BIGtoken can provide that value. As an aside, narrative from the most recent 10Q that referenced the resetting of some warrants, may have provided a clue regarding the future of BIGtoken vis-à-vis Sequire and SRAX:

> *"…As consideration for the amendment, the Company issued contingent consideration in the form of warrants linked to the value of BIGtoken should it be transferred to a third-party purchaser. The form of the consideration issued is a warrant to purchase up to approximately 0.35% of BIGtoken's acquiring entity on a fully-diluted basis. The exercise price of the warrants will be calculated by imputing a $10 million pre-money valuation on the acquiring entity. The form of the warrant is to be substantially similar to the warrants issued in conjunction with the OID Convertible Debentures. The Due to the uncertainty around the transfer of the BIGtoken business to a third-party the Company has determined that the warrant is a contingent consideration, therefore the value will be determined on the date the transaction occurs and will be recorded as a transactional expenses at that time…".*

While the above is certainly not definitive, it certainly provides some insights into the contemplated path for BIGtoken. We will report on the above as more information becomes available.

**Moving on to the real point of this update…**

On September 04, 2020, SRAX, Inc. (NASDAQ: SRAX), announced *"the acquisition of LD Micro, a leading data and event company serving the small and micro-cap space"*. Most in the microcap space are quite familiar with LD Micro, as it is the premier (non-bank related) conferencing company in the microcap space and its LD Micro Index is one-of-a-kind. Along with SRAX CEO Chris Miglino, we have also known LD Micro Founder Chris Lahiji for many years, and we have participated in several of his events over that time. Over the past decade+ Chris Lahiji and LD Micro's conferences have done as much to increase the exposure of microcap stocks as anyone we know of. **Succinctly, in our view, Sequire and LD Micro are likely better together than apart.** Recognize, there are two parts to the Sequire platform. The first is a subscription to the Company's shareholder tracking and communication tools. It also helps manage and assess the investor outreach efforts companies engage, which might include the effectiveness of IR campaigns and/or firms as well as conferences like LD Micro's (or ours for that matter). As we recall, when the Company initially launched the service, the fee for use of that service was $3000 per month. In June (2020), the Company changed its subscription price to an annual fee of $20,000, *which could be paid for with common shares*. Anyone familiar with the microcap space (and its typically cash starved constituency) will likely recognize why this makes the service more attractive and we suspect that pivot is largely responsible for the recent momentum at Sequire.

The second piece of the Sequire platform is a marketing piece. It utilizes SRAX's deep data expertise to help public companies identify and target microcap/small cap investors across multiple media channels. In that process, much like with SRAXmd and physicians, Sequire constantly builds its database of those investors, making the database more valuable with each new piece of information. Recently, SRAX announced that Sequire has *"surpassed 1,000,000 active investors and traders from 91 public companies"*. The Company also recently noted that about 30% of their current platform subscribers are also purchasing marketing/media campaigns to increase investor awareness of their stocks, and the average spend of those customers is in the $200,000 range (annually). This portion of the arrangement can also be paid for with stock. If we do some math on those metrics, they suggest that 100 issuer/customers would generate $2 million per year in subscriptions, and on average about $6 million in annual marketing/media revenue. Again, the Company currently has just under 100 clients, on the platform.

Looking ahead, as we understand it, the LD Micro acquisition should be accretive because LD has historically been profitable. The terms of that transaction are as follows:

> *As consideration for the Merger, the Parent* (SRAX) *is paying the following compensation to the Stockholder and his designees (the "LD Micro Recipients"): (i) four million dollars ($4,000,000) payable as follows (collectively, the "Cash Payment"): (a) $1,000,000 at the Closing, (b) one million dollars ($1,000,000) on January 1, 2021, (c) one million dollars ($1,000,000) on April 1, 2021, and (d) one million dollars ($1,000,000) on July 1, 2021; and (ii) one million six hundred*

*thousand (1,600,000) shares of Class A common stock of the Parent ("Payment Shares") issued at the Closing.*

If our math is correct, that works out to about $8.1 million; $4 million in cash and $4.1 million in stock at associated valuations.

In terms of the combination, as we suggested above, we think these two enterprises will prove more effective together than apart. For one, as we have always understood it, SRAX has always intended to build virtual conferencing/roadshow capability into the platform for subscribers to utilize. While we are not going to argue the pros and cons of in-person conferences versus virtual conferences (we are obviously fans of the first), the fact is, Sequire's coming virtual platform could certainly have been positioned as a competitor to LD Micro, especially to the degree that LD Micro perhaps planned to utilize more virtual functionality going forward. Obviously, the agreement negates those competitive nuances.

Secondly, as matter of full disclosure, we have referred some issuers to Sequire that we thought might be able to benefit from the platform, so we have some sense of the process including the questions, concerns and objections. Our experience in that regard suggests to us that LD Micro's *relationships* with hundreds of microcap issuers that have presented at their conference over the years will likely improve adoption rates markedly. SRAX almost certainly recognized that in considering the acquisition in the first place.

Third, we think the combined entity will be able to package some of their respective services to drive value as well as per customer fees. We have some ideas about how that might happen, but we will save that for another update to avoid more speculation.

Fourth, we think this combination is a win for the microcap space. Succinctly, we have been in the microcap space for over 35 years now. It has always been a grind and it has not gotten any easier. Over our years of microcap research, we have lamented many of the challenges and shortcomings of the space, which among (many) other things include a general lack of investor awareness around a risk-on asset class that has historically included many innovative companies that became enormously successful both from a business as well as an investment standpoint and have in turn made favorable contributions to the world in general. As we write this, we are comfortable suggesting that there are many others in the space with that same type of potential that remain largely undiscovered. We believe a platform like Sequire combined with the industry relationships and general microcap "tribal knowledge" of LD Micro may help to better illuminate some of these names, which might in turn help generate extraordinary returns for those investors who are tuned into the platform.

Further, in our view emerging trading platforms like Robinhood.com have as of late impacted the microcap space both positively and negatively. We will not harp on the negative other than to suggests that they have caused some *extreme volatility* in some instances/names we follow. On the other hand, these platforms also appear to be attracting younger investors and some of those appear to be participating in the microcap end of the spectrum. Succinctly, attracting new investors to the space is paramount to the efficiency and viability of ongoing microcap markets. From that perspective, we think services that utilize communication mediums that new/younger investors are comfortable with (ie: "social media") should naturally be more successful at attracting them than mediums they are less comfortable with. That approach is clearly in Sequire's wheelhouse.

On another front, recognize that the Company's stock-based revenue model could entail some accounting nuances as well as perhaps some added volatility to the results. Specifically, their marketable securities assets may be subject to valuation impairments, especially during year end audits. In our experience, auditors sometimes require companies carrying public but perhaps thinly traded securities to take additional write-downs/impairments to those assets beyond the "last published trade" proxy. SRAX/Sequire may see some of that here. Although a "non-cash" and "below the operating line" event, that could negatively impact results, or at least create one more item that needs to be reconciled when evaluating results. In addition, while the revenues associated with the collected shares will be "pegged" at the price of the shares at the time the Sequire customer signs their agreement, Sequire is required to hold these shares for a period of time, which in most instances will be 6 months. Obviously, over that holding period the price of those underlying shares could rise or fall, which would impact the *effective* revenue of the transaction and adjustments therein will be reflected as gains or losses in marketable securities. Clearly, that line item has the potential to be quite meaningful one way or the other.

In terms of share counts, we have used a Treasury Method approach to reflect the impact of the convertible debenture and outstanding warrants on outstanding shares. We have made assumptions about forward stock prices to derive these numbers and we have included them in the fully dilute computation.

To summarize, SRAX is currently our longest running coverage stock under the Trickle label as we no longer cover the three companies we initiated prior to SRAX. As we said, it has had its ups and downs, but we continue to believe in management's ability to develop and deliver successful verticals around the "vision" and associated technology. Today, those two "verticals" include Sequire and BIGtoken, although the latter is not technically a vertical, but we will call it that for simplicity. To be clear, while the past 12-18 months have been unremarkable in terms of financial performance, we think management has spent much of that time building and refining each of these pieces of the business and preparing them for sustainable commercialization. We also think we are at the front end of that commercialization.

In addition to the positives associated with the "front end of commercialization" (assuming we are correct about that), there is another element to SRAX that we have always viewed as a valuation component to the story that has not always been well understood, or perhaps not always fully valued. That is, when we peel away the layers, SRAX is essentially a data gatherer and they gather and silo that data in a way that makes it valuable/actionable to *particular users*. To revisit SRAXmd, the data include physicians and the "particular users" are companies that market to/through physicians (pharmaceutical companies, medical device companies etc.). Obviously, to those users, SRAXmd's data was far more valuable than more general databases. We think Sequire could create that same sort of value for microcap, small cap and perhaps even midcap companies looking to expand (and retain) their investor bases. Moreover, and a nuance we have neglected to this point, we think many of Sequire's customers will be able to leverage the marketing side of the platform *to attract customers* as well as investors, which could prove quite additive. As long-in-the-tooth "entrenched" players in the microcap space, we are comfortable suggesting that there currently are no platforms in the space today like Sequire, and although some might dispute this, we do not think there are many databases (1 million investors and counting) quite like Sequire's either, and if there are, they almost certainly were not aggregated/scaled as quickly as Sequire's. Further, we expect that database to grow as the platform gathers momentum and the recent addition of LD Micro should accelerate that process while also adding other accretive pieces to the business. Frankly, we think this combination may prove quite disruptive to other legacy portions of the microcap space, but again, we also suspect Sequire may attract customers further up the market capitalization spectrum, as we believe they have already done so.

Lastly, as we suggested, we have not been successful modeling SRAX in the past, and while we take responsibility for our shortcomings in that regard, it has always been a moving target. In that regard, while we typically rely on old fashioned projected DCF/NPV analysis to derive our targets, we also admit that there are stories we cover (and SRAX is certainly one of those) where our valuation assessments include some more "conceptual" nuances that we view as relevant to valuation but we do not always think are reflected in price. Again, the data within SRAXmd and our analysis of that in the past is a good example of one of those nuances. Succinctly, we think the data being accumulated at both Sequire and BIGtoken may prove to be similar in that regard.

The above said, we have taken yet another cut at the model, and have at least included the known impact of the new acquisition. As a world of caution, we expect it to continue to be fluid, and we expect further strategic positioning around the current pieces of the business, which will almost certainly obsolete any model we provide today. Regardless, we will modify the model and likely its conclusions as we move forward here, and we will keep swinging until we get this right. Given a number of factors since our last set of targets/allocations, including more dilution than we anticipated, we are establishing a new (lower) 12-24 month price target of *$6.00 and maintaining our allocation of 5. We will revisit each as additional datapoints emerge.

# Projected Operating Model

| SRAX, Inc. | | | | | | |
|---|---|---|---|---|---|---|
| **Projected Operating Model** | | | | | | |
| **By: Trickle Research LLC** | | | | | | |
| | (Actual) | (Actual) | (Estimate) | (Estimate) | (Estimate) | (Estimate) |
| | 3/31/20 | 6/30/20 | 9/30/20 | 12/31/20 | Fiscal 2020 | Fiscal 2021 |
| Revenues | $ 351,000 | $ 1,165,000 | $ 1,691,500 | $ 1,994,200 | $ 5,201,700 | $ 17,331,522 |
| Cost of revenues | $ 112,000 | $ 396,000 | $ 540,138 | $ 635,425 | $ 1,683,562 | $ 5,615,606 |
| Gross profit | $ 239,000 | $ 769,000 | $ 1,151,363 | $ 1,358,776 | $ 3,518,138 | $ 11,715,917 |
| Operating expenses | | | | | | |
| Employee related costs | $ 2,026,000 | $ 1,691,000 | $ 1,706,915 | $ 1,781,942 | $ 7,205,857 | $ 7,199,315 |
| Marketing and selling expenses | $ 320,000 | $ 370,000 | $ 395,150 | $ 405,420 | $ 1,490,570 | $ 2,335,112 |
| Platform Costs | $ 403,000 | $ 387,000 | $ 408,300 | $ 433,900 | $ 1,632,200 | $ 1,828,465 |
| Depreciation and amortization | $ 308,000 | $ 321,000 | $ 505,104 | $ 505,104 | $ 1,639,208 | $ 2,020,417 |
| General and administrative | $ 1,056,000 | $ 1,249,000 | $ 1,282,023 | $ 1,376,452 | $ 4,963,475 | $ 6,404,307 |
| Total operating expense | $ 4,113,000 | $ 4,018,000 | $ 4,297,493 | $ 4,502,818 | $ 16,931,311 | $ 19,787,616 |
| Loss from operations | $ (3,874,000) | $ (3,249,000) | $ (3,146,130) | $ (3,144,043) | $ (13,413,173) | $ (8,071,700) |
| Other income (expense) | | | | | | |
| Financing Costs | $ (360,000) | $ (1,678,000) | $ (932,000) | $ (111,817) | $ (3,081,817) | $ (2,379,387) |
| Gain (loss) on sale of assets | $ - | $ - | $ - | $ - | $ - | $ - |
| Exchange gain (loss) | $ (71,000) | $ - | $ - | $ - | $ (71,000) | $ - |
| Gains from marketable securities | $ - | $ 587,000 | $ - | $ - | $ 587,000 | $ - |
| Loss on repricing of equity warrants | $ - | $ - | $ - | $ - | $ - | $ - |
| Change in fair value of derivative liabilities | $ 1,302,000 | $ (981,000) | $ - | $ - | $ 321,000 | $ - |
| Total other income (loss) | $ 871,000 | $ (2,072,000) | $ (932,000) | $ (111,817) | $ (2,244,817) | $ (2,379,387) |
| Gain (Loss) before provision for income taxes | $ (3,003,000) | $ (5,321,000) | $ (4,078,130) | $ (3,255,859) | $ (15,657,989) | $ (10,451,086) |
| Provision for income taxes | $ - | $ - | $ - | $ - | $ - | $ - |
| Net income (loss) | $ (3,003,000) | $ (5,321,000) | $ (4,078,130) | $ (3,255,859) | $ (15,657,989) | $ (10,451,086) |
| Net loss per share, basic | $ (0.21) | $ (0.38) | $ (0.26) | $ (0.18) | $ (1.03) | $ (0.52) |
| Net loss per share, basic and diluted | $ - | $ - | $ (0.26) | $ (0.17) | $ (0.42) | $ (0.45) |
| Weighted average shares outstanding - basic | 14,000,275 | 14,080,890 | 15,734,152 | 18,392,784 | 15,552,025 | 20,486,242 |
| Weighted average shares outstanding - Basic & diluted | 14,000,275 | 14,080,890 | 15,981,869 | 19,479,117 | 15,885,538 | 24,194,435 |

## General Disclaimer:

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SRAX has paid fees to present at conferences co-hosted by Trickle Research.



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.**