Trickle Research

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

Research Update

SRAX, Inc.

(Stock Symbol – Nasdaq: SRAX)

Report Date: 11/23/20

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 Target Downgrade: (09/15/20): $2.55
Closing Stock Price at This Report Date: (11/20/20): $2.94

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SRAX reported 3Q-F20 revenues of $2.6 million versus our estimate of $1.17 million, and a net loss of $6.6 million, versus our estimate of $4.1 million. The actual loss included financing charges of about $2.4 million more than our estimate, and those (non-cash) charges were related to the discounts associated with their convertible debt financing. We have been covering SRAX for about 3½ years now, and we think this is as large an upside operating surprise as we can recall. However, as we covered extensively in our update from about 60 days ago, SRAX's focus is now entirely their Sequire shareholder platform, and they have guided towards significant momentum in the business, so perhaps this should not be such a surprise.

Recall, the Company recently acquired LD Micro, the premier non-banker conference provider in the microcap space. LD has historically operated profitably, and we expect that platform to continue to make positive contributions to Sequire. As a result, we expect some operating bumps in quarters in which LD holds conferences (the current one for instance). However, as SRAX CEO Chris Miglino has suggested, the intent with the acquisition was/is to make LD's efforts *part of the Sequire platform*. For instance, Sequire subscribers will be provided presentation slots at LD conferences as part of their Sequire subscription, while other presenters will be provided discounts if they agree to demo Sequire. To translate, while we have some sense of the potential LD contribution as it stands alone, it will likely be more difficult to gauge that contribution *as part of Sequire*. That may smooth the impact of quarters where LD conferences occur. We have attempted to ascertain/model that nuance, but that may be a point of variance until we get some added history on how all that washes out. On the other hand, management suggests that the LD addition has already begun to bear fruit in terms of attracting companies to the platform, which is not surprising as we noted at the time of the acquisition that we believe the combination will prove synergistic and we continue to harbor that view. We would add, management has alluded to other LD assets (such as its microcap index), as elements it intends to further leverage. That brings us to an additional point that we think fits in the "Big Picture" category but that we think is quite germane to the story.

Unless we are misunderstanding and/or overstating the vision here, we think Sequire intends to become a major and in our view disruptive force in the microcap space. We will not rehash our opinions regarding what we view as the misunderstood, underappreciated and underfollowed nature of the microcap space. However, we have always believed that there were/are many opportunities to improve the space. The space is fragmented and rife with inefficiencies, so our view is hardly intuitive. To edify, the Company has alluded to other developments on the horizon, and our point here is that we think the microcap space may provide plenty of horizon. Moreover, management's (SRAX + LD) collective experiences in the space, albeit from different vantage points, should provide adequate tribal knowledge to rationalize and develop some of the opportunities. For instance, we think they have opportunities to add/develop branded content offerings along with their media services, but there are many other adjuncts we could envision.

We have one additional point regarding Sequire that we think is worth noting because we are not sure many are focusing on it but it is an issue that will likely become more topical as this moves forward, especially if Sequire is as successful at attracting new platform and media subscribers as it anticipates. In the earnings call, we raised an issue about the process which SRAX intends to deploy in terms of monetizing the stock it accumulates from platform subscribers. Keep in mind, most of their customers will likely be paying for their platform subscriptions and media campaigns with stock, which inevitably SRAX will need to sell and convert to cash. Our question centered around their intended protocols regarding that nuance. To edify, our thinking was that they would either treat that process rather passively, wherein they simply sell shares when they are freed for trading without (primary) regard to price or liquidity, or, they would take a more active approach to that process, where they attempt to ascertain more optimal timing (and by extension, the appropriate valuations) of their "portfolio". It sounds as if the plan is to engage the latter. In case it is not clear, the more they engage the active approach, the more SRAX will begin to look like (and perhaps trade like) a microcap proxy. That has some interesting overtones. Moreover, that approach will also likely create some variances in their financial reporting that people should be aware of. For instance, the mark-to-market approach they will need to use to value their equity holdings may create substantial (unrealized) changes in the accounted value of those holdings in periods of high market volatility. Keep in mind, volatility is a trademark of the microcap space. Further, an active strategy will include an added element of risk/return around the success or failure of those holdings. That can be a good thing or a bad thing depending on one's perspective, but it suggests that SRAX may become a sort of *diversified* microcap "pureplay", which will make it somewhat unique.

Lastly, the spin-off of BigToken looks to be in play, however, until they are able to reduce their holding to under 50%, they still need to consolidate those results. We think most involved would prefer that to happen sooner rather than later, but it will depend on BigToken's ability to attract new equity capital that effectively dilutes SRAX below the majority ownership threshold. In addition, for those of us charged with trying to value SRAX, keeping track of the BigToken investment may require a bit more than relying on the public stock price, although that will certainly be easier than, for instance, trying to value the prior (private) SRAXmd piece. While we do not know the exact timing of the BigToken consolidation (or lack thereof), we have provided a new model that assumes the consolidation as well as another pro forma model that attempts to provide a view of SRAX on an unconsolidated basis. We are probably a bit ahead of ourselves with that approach since we do not quite know how it will all be spilt up, but we need to start thinking in those terms so now is as good as ever. We fully expect our pro-forma to require adjustment as we move forward, but again, we think this approach has some utility.

We believe Sequire is likely to maintain momentum as the Company continues to integrate and rationalize the LD piece. Moreover, as we alluded to above, we are confident that there is some blue sky in the potential for Sequire to add pieces within the microcap landscape that can leverage the platform. We have experienced some of that firsthand as Sequire (successfully) hosted the virtual side of our own recent Rocky Mountain Microcap Conference VI just a couple weeks ago.

The emergence of Sequire and the spin-out of BigToken dramatically changes the complexion of SRAX. Clearly, the Company is now "all-in" with Sequire. While the ultimate success of that approach is yet to be proven, we would argue that it is off to a good start. Moreover, as we have lamented in the past, SRAX has been a difficult company to model, as financial results have historically been volatile and that has been especially true since the sale of SRAXmd. Frankly, we think the post-SRAXmd results have also been mitigated by a generally more challenging and competitive landscape for the core/legacy digital advertising business, as well as perhaps some cannibalization by (or perhaps just transition to) their BigToken platform. Some of our subscribers may recall, that was a concern we expressed at the onset of the BigToken initiative. Whatever the causes, visibility had become increasingly poor and that probably did not bode well for that path forward. Sequire on the other hand, should provide much better visibility. In addition, we think it is fair to suggest that the business model has transitioned from operating in a very competitive landscape dominated by large well entrenched players, to an albeit more niche industry, where Sequire may arguably be in a position to become a driving force.

Lastly, inasmuch as we indicated that SRAX has proven difficult to model, BigToken has perhaps proven even moreso. In retrospect, we knew that the focus would initially be on their ability to grow the BigToken membership base. Recall, the Company's assessment was that they would eventually be able to monetize a monthly dollar amount based on that membership base. What ultimately happened was that BigToken experienced a marked increase in membership, which at the time we viewed as quite bullish and frankly surprising and we raised our targets as a result of what we viewed as a potential valuation event centered around other "user" metrics we have seen in the social media universe. On the other hand, they have never been able to approach the monthly (per member) revenue they envisioned in the original assessments. Further, the dramatic BigToken membership growth also flattened considerably after its initial surge. We are not sure what to make of that going forward, and in some regards, it may not be germane to ongoing operating results of SRAX/Sequire. However, it will certainly be germane to the valuation of SRAX since they will retain a marked (albeit likely decreasing) portion of BigToken. That portion, depending on the success of BigToken, will be an ongoing point of valuation for SRAX. Keep in mind, they recently sold the remaining portion of SRAXmd (which we think the street had essentially written off) for $8 million, so we view this remaining investment as topical. To reiterate, unlike SRAXmd which was bought by a private enterprise, BigToken will be publicly traded, which should provide some visibility into its relative value to SRAX. We will keep that in mind as we develop target assumptions going forward.

As a result of the changes and progress noted above, we reiterate our allocation of SRAX shares as well as our 12-24 month price target of $6.00. We will reassess each as we gather additional data points.

Projected Operating Model(s)

SRAX, Inc.						
Projected Operating Model						
By: Trickle Research LLC						
	(Actual)	(Actual)	(Actual)	(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	$ 2,609,000	$ 4,010,798	$ 8,135,798	$ 19,101,219
Cost of revenues	$ 112,000	$ 396,000	$ 880,000	$ 1,477,560	$ 2,865,560	$ 6,441,848
Gross profit	$ 239,000	$ 769,000	$ 1,729,000	$ 2,533,238	$ 5,270,238	$ 12,659,371
Operating expenses						
Employee related costs	$ 2,026,000	$ 1,691,000	$ 1,689,000	$ 1,797,208	$ 7,203,208	$ 4,528,012
Marketing and selling expenses	$ 320,000	$ 370,000	$ 809,000	$ 814,830	$ 2,313,830	$ 2,247,009
Platform Costs	$ 403,000	$ 387,000	$ 391,000	$ 449,900	$ 1,630,900	$ 1,362,320
Depreciation and amortization	$ 308,000	$ 321,000	$ 333,000	$ 332,635	$ 1,294,635	$ 1,330,541
General and administrative	$ 1,056,000	$ 1,249,000	$ 984,000	$ 1,222,248	$ 4,511,248	$ 4,050,718
Total operating expense	$ 4,113,000	$ 4,018,000	$ 4,206,000	$ 4,616,821	$ 16,953,821	$ 13,518,601
Gain (Loss) from operations	$ (3,874,000)	$ (3,249,000)	$ (2,477,001)	$ (2,083,583)	$ (11,683,583)	$ (859,230)
Other income (expense)						
Financing Costs	$ (360,000)	$ (1,678,000)	$ (3,302,000)	$ (1,200,000)	$ (6,540,000)	$ (3,338,650)
Gain (loss) on sale of assets	$ -	$ -	$ -	$ 8,000,000	$ 8,000,000	$ -
Exchange gain (loss)	$ (71,000)	$ -	$ 8,000	$ -	$ (63,000)	$ -
Gains from marketable securities	$ -	$ 587,000	$ (800,000)	$ -	$ (213,000)	$ -
Loss on repricing of equity warrants	$ -	$ -	$ -	$ -	$ -	$ -
Change in fair value of derivative liabilities	$ 1,302,000	$ (981,000)	$ -	$ -	$ 321,000	$ -
Minority Interests	$ -	$ -	$ -	$ 264,896	$ 264,896	$ 1,713,939
Total other income (loss)	$ 871,000	$ (2,072,000)	$ (4,094,000)	$ 7,064,896	$ 1,769,896	$ (1,624,711)
Gain (Loss) before provision for income taxes	$ (3,003,000)	$ (5,321,000)	$ (6,571,001)	$ 4,981,313	$ (9,913,687)	$ (2,483,941)
Provision for income taxes	$ -	$ -	$ -	$ -	$ -	$ -
Net income (loss)	$ (3,003,000)	$ (5,321,000)	$ (6,571,001)	$ 4,981,313	$ (9,913,687)	$ (2,483,941)
Net loss per share, basic	$ (0.21)	$ (0.38)	$ (0.45)	$ 0.31	$ (0.68)	$ (0.14)
Net loss per share, basic and diluted	$ (0.21)	$ (0.38)	$ (0.45)	$ 0.29	$ (0.66)	$ (0.13)
Weighted average shares outstanding - basic	14,000,275	14,080,890	14,479,519	16,027,190	14,646,969	19,768,129
Weighted average shares outstanding - Basic & diluted	14,000,275	14,080,890	14,727,236	17,113,523	14,980,481	22,380,711

Assumes the deconsolidation of BigToken in 2H-F2021

SRAX, Inc.						
Projected Operating Model						
Sequire Only Pro-Forma						
By: Trickle Research LLC						
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)
	3/31/20	6/30/20	9/30/20	12/31/20	Fiscal 2020	Fiscal 2021
Total Platform Revenue	$ -	$ -	$ 207,000	$ 325,000	$ 532,000	$ 4,427,500
Total Media Revenue	$ -	$ -	$ 1,749,000	$ 2,475,000	$ 4,224,000	$ 13,943,750
Total LD Conferencing Revenue	$ -	$ -	$ -	$ 490,000	$ 490,000	$ 1,100,000
Total Revenues	**$ 20,000**	**$ 456,000**	**$ 1,956,000**	**$ 3,290,000**	**$ 5,722,000**	**$ 17,730,000**
Cost of revenues	$ 14,000	$ 231,000	$ 650,000	$ 1,219,313	$ 2,114,312	$ 5,945,293
Gross profit	$ 6,000	$ 225,000	$ 1,306,001	$ 2,070,688	$ 3,607,688	$ 11,784,708
Operating expenses						
Employee related costs	$ 400,000	$ 400,000	$ 400,000	$ 440,000	$ 1,640,000	$ 1,814,300
Marketing and selling expenses	$ 350,000	$ 390,000	$ 425,000	$ 442,750	$ 1,607,750	$ 1,502,500
Platform Costs	$ 250,000	$ 250,000	$ 250,000	$ 232,500	$ 982,500	$ 927,570
Depreciation and amortization	$ 308,000	$ 321,000	$ 333,000	$ 332,635	$ 1,294,635	$ 1,330,541
General and administrative	$ 400,000	$ 400,000	$ 400,000	$ 579,000	$ 1,779,000	$ 2,773,000
Total operating expense	$ 1,708,000	$ 1,761,000	$ 1,808,000	$ 2,026,885	$ 7,303,885	$ 8,347,911
Gain (Loss) from operations	$ (1,702,000)	$ (1,536,000)	$ (502,000)	$ 43,802	$ (3,696,197)	$ 3,436,796
Other income (expense)						
Financing Costs	$ (360,000)	$ (1,678,000)	$ (3,302,000)	$ (1,200,000)	$ (6,540,000)	$ (3,338,650)
Gain (loss) on sale of assets	$ -	$ -	$ -	$ 8,000,000	$ 8,000,000	$ -
Exchange gain (loss)	$ (71,000)	$ -	$ 8,000	$ -	$ (63,000)	$ -
Gains from marketable securities	$ -	$ 587,000	$ (800,000)	$ -	$ (213,000)	$ -
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)	$ (4,094,000)	$ 6,800,000	$ 1,505,000	$ (3,338,650)
Gain (Loss) before provision for income taxes	$ (831,000)	$ (3,608,000)	$ (4,596,000)	$ 6,843,802	$ (2,191,197)	$ 98,146
Provision for income taxes	$ -	$ -	$ -	$ -	$ -	$ -
Net income (loss)	$ (831,000)	$ (3,608,000)	$ (4,596,000)	$ 6,843,802	$ (2,191,197)	$ 98,146
Net loss per share, basic	$ (0.06)	$ (0.26)	$ (0.32)	$ 0.43	$ (0.21)	$ (0.00)
Net loss per share, basic and diluted	$ (0.06)	$ (0.26)	$ (0.31)	$ 0.40	$ (0.23)	$ (0.00)
Weighted average shares outstanding - basic	14,000,275	14,080,890	14,479,519	16,027,190	14,646,969	19,768,129
Weighted average shares outstanding - Basic & diluted	14,000,275	14,080,890	14,727,236	17,113,523	14,980,481	22,380,711

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences.

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.