Trickle Research

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

Earnings Update Q3-F20

SIGMA LABS

Sigma Labs, Inc.

(NasdaqGS: **SGLB)**

(http://www.sigmalabsinc.com)

Report Date: 10/23/20

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

Allocation: 5

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

Closing Stock Price at Allocation Increase (Closing Px: 10/07/20): $2.58

Closing Stock Price at This Update (Closing Px: 10/22/20): $2.90

Prepared By:
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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.

We provided an extensive update on Sigma two weeks ago so we will be brief.

The quarter was in line with our expectations. The Company reported revenue of $248,526 and a pre-tax loss of <$1,211,772>. Those compared to our estimates of $325,650 and <$1,445,329>, respectively. Obviously, the Company did a better job of reducing operating expenses than we anticipated. We would add, they also had a preferred dividend charge of roughly $750,000, which we did not reflect in our model. To reiterate, our model assumes the ultimate conversion/dilution of the preferreds to common.

Looking ahead, we think the conference call and the summation of the announcements/achievements from the past six months **substantially support our bullish view of Sigma**. We recognize the street is quite focused on dilution when it comes to small companies burning cash. We have lamented that reality through various pieces of our research over the past several months. To that end, we cannot recall a time when companies burning cash have been discounted so heavily when they access the equity markets. Moreover, as we listened to some of the discussion on the call, and as we discuss Sigma with others, the specter of additional dilution is a bit of an albatross. We get it… we just do not think it is the most important thing here. Specifically, we expect modest but certainly not significant additional dilution from new transactions going forward. Our model reflects those assumptions. On the flip side, Sigma Labs is clearly gathering fundamental sales (and operating) momentum. That is evidenced by their traction *and adoption* with/by both the 3D manufacturing companies that have been evaluating Print Rite as well as the printer manufacturers they have been working with as well.

In addition to the above, as they addressed on the call (and is also supported by two of the more recent announcements), the Company has expanded the Print Rite platform to now include other additive technologies (DED) as well as iterations that address more entry level markets (Print Rite "Lite"). In our view, each of these additions increase the Company's addressable market (a caveat we have raised in the past), as well as increasing the potential for Print Rite to become an industry "standard". We believe that added breadth across the market(s) will ultimately deepen the moat.

We often note that visibility (or the lack thereof) is one of the most difficult parts of microcap analysis and by extension valuation. We submit, the specific timing of Sigma's revenue acceleration still lacks visibility, however, we are becoming increasingly confident with the notion that fiscal 2021 will be a breakout year for Sigma in that regard. (As an extension of that, our model currently estimates approximate breakeven EBITDA results in Q4F21.) Further, keep in mind that as they move forward, especially assuming continued/additional adoption among printer manufacturers, product mix will favor the high margin software piece of the technology, which by the way will ultimately include increasing *recurring* maintenance and related software contributions as well. The combination of increasing margins *along with* increasing revenues is a highly promising dynamic. All things considered, in our view, the current stock price represents a *compelling opportunity*.

Projected Operating Model

Projected Operating Model						
Sigma Labs, Inc.						
Prepared By: Dave Lavigne, Trickle Research						
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)
	3/31/2020	6/30/2020	9/30/2020	12/31/2020	Fiscal 2020	Fiscal 2021
REVENUES	$ 221,730	$ 167,688	$ 248,526	$ 491,500	$ 1,129,444	$ 8,053,320
COST OF REVENUE	$ 244,703	$ 57,684	$ 97,785	$ 226,250	$ 626,422	$ 3,616,913
GROSS PROFIT	$ (22,973)	$ 110,004	$ 150,741	$ 265,250	$ 503,022	$ 4,436,406
EXPENSES:					$ -	$ -
Salaries & Benefits	$ 652,197	$ 605,295	$ 657,889	$ 664,745	$ 2,580,126	$ 2,841,600
Stock-Based Compensation	$ 154,170	$ 270,818	$ 58,219	$ 150,000	$ 633,207	$ 600,000
Operating R&D Costs	$ 53,689	$ 111,647	$ 79,673	$ 114,912	$ 359,921	$ 739,421
Investor & Public Relations	$ 238,268	$ 171,287	$ 272,964	$ 180,000	$ 862,519	$ 720,000
Legal & Professional Service Fees	$ 211,509	$ 219,007	$ 100,144	$ 199,830	$ 730,490	$ 921,066
Office Expenses	$ 147,747	$ 78,843	$ 84,357	$ 114,745	$ 425,692	$ 641,600
Depreciation & Amortization	$ 18,012	$ 17,970	$ 50,167	$ 30,000	$ 116,149	$ 121,508
Other Operating Expenses	$ 84,049	$ 51,687	$ 59,100	$ -	$ 194,836	$ -
Total Operating Expenses	$ 1,559,641	$ 1,526,554	$ 1,362,513	$ 1,454,232	$ 5,902,940	$ 6,585,194
LOSS FROM OPERATIONS	$ (1,582,614)	$ (1,416,550)	$ (1,211,772)	$ (1,188,982)	$ (5,399,917)	$ (2,148,788)
OTHER INCOME (EXPENSE)					$ -	$ -
Interest Income	$ 851	$ 31	$ 77	$ 11,868	$ 12,827	$ 44,473
State Incentives	$ -	$ 151,657	$ -	$ -	$ 151,657	$ -
Change in fair value of derivative liabilities	$ -	$ -	$ -	$ -	$ -	$ -
Exchange Rate Gain (Loss)	$ (1,391)	$ (31)	$ (252)	$ -	$ (1,674)	$ -
Interest Expense	$ (431)	$ (6,244)	$ (6,066)	$ (6,066)	$ (18,807)	$ (6,066)
Loss on Disposal of Assets	$ -	$ (201)	$ -	$ -	$ (201)	$ -
Debt discount amortization	$ -	$ -	$ -	$ -	$ -	$ -
Total Other Income (Expense)	$ (971)	$ 506,912	$ (6,241)	$ 5,802	$ 505,502	$ 38,407
LOSS BEFORE PROVISION FOR INCOME TAXES	$ (1,583,585)	$ (909,638)	$ (1,218,013)	$ (1,183,179)	$ (4,894,415)	$ (2,110,381)
Provision for Income Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Net Loss	$ (1,583,585)	$ (909,638)	$ (1,218,013)	$ (1,183,179)	$ (4,894,415)	$ (2,110,381)
Preferred Dividends	$ 315,247	$ -	$ 737,344	$ -	$ 1,052,591	$ -
Net Loss applicable to Common Stockholders	$ (1,898,832)	$ (909,638)	$ (1,955,357)	$ (1,183,179)	$ (5,947,006)	$ (2,110,381)
Net Loss per Common Share - Basic and Diluted	$ (1.30)	$ (0.28)	$ (0.42)	$ (0.20)	$ (1.56)	$ (0.32)
Net Loss per Common Share - Diluted	$ (1.13)	$ (0.26)	$ (0.40)	$ (0.19)	$ (1.47)	$ (0.32)
Weighted Average Number of Shares Outstanding - Basic	1,463,627	3,256,098	4,675,749	5,893,245	3,822,180	6,522,559
Weighted Average Number of Shares Outstanding - Diluted	1,676,171	3,468,642	4,888,293	6,105,789	4,034,724	6,587,831

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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 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.