Trickle Research

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

Allocation Upgrade

Cavitation Technologies, Inc.

(OTC: CVAT)

(www.ctinanotech.com)

Report Date: 02/02/21

12- 24 month Price Target: $.10

Allocation: *5

Closing Stock Price at Initiation (Closing Px: 08/21/19): $.0325

Closing Stock Price at Allocation Upgrade Date (Closing Px: 02/01/21): $.034

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

Yesterday, Cavitation Technologies, Inc. ("Cavitation") announced the resumption of their water treatment operations in the Permian Basin (Texas).

Cavitation Technologies, Inc
Mon, February 1, 2021, 6:00 AM

CHATSWORTH, CA, Feb. 01, 2021 (GLOBE NEWSWIRE) -- via NewMediaWire -- Cavitation Technologies, Inc. (OTCQB: CVAT) (BERLIN: WTC) announced that in Mid-January the Company reopened its operations in the Permian Basin treating produced water from fracking operations in the basin.

In collaboration with its water services partner, Cavitation Technologies (CTI) deployed its first cavitation reactor in the Permian Basin in early 2020. However, subsequent dramatic declines in oil prices coupled with the onset of the Covid19 pandemic, led to drastic reductions in Permian production and as a result, demand for the Company's innovative frack-water mitigation technology. As a result of improving oil prices, production in the Permian Basin is returning, which has led to increased demand for CTI's clean water technology.

Regarding the recent restart in the region, the Company notes that its first returning customer is utilizing the initial stationary infrastructure that manages a flow of approximately 7,500 barrels per day ("BPD"). However, they are also preparing to deploy their first mobile water treatment unit, which is being deployed the first week of February. Along with their mobile advantages, these water treatment units also support greater throughput capacity of 12,000-15,000 BPD. Cavitation is in the process of building its second mobile water treatment system utilizing the most recent inventions and expects operations in early March. The Company believes it can quickly build and deploy additional units as demand dictates. As a point of reference, management anticipates that each 10,000 BPD of processing should result in approximately $150,000 worth of annual free cash flow to Cavitation, although actual results will depend on subsequent demand and associated pricing for their technology.

On other fronts, the Company continues to develop its technology to address both their legacy food processing business, as well as its emerging water treatment business. As of the aforementioned restart in Texas, they are now generating revenues from each. More specifically, they continue to pursue new opportunities in the vegetable oil and food processing industry with their new Low Pressure Nano Reactor ("LPN") technology and they believe those efforts will be additive to the business in the future.

In our view, this is a big deal… but before we go there, we will spend a moment and recap a bit.

We initiated coverage of Cavitation in August 2019. Some may recall, we were *reintroduced* to Cavitation at a presentation they made at a microcap conference just prior to the initiation. We use the term "reintroduced" because we had Cavitation present at one of our conferences *about 10 years ago*. At that time, the story was focused on their relationship with Desmet Balestra, which had signed an agreement with Cavitation to distribute their technology/reactors to the vegetable oil processing industry worldwide. That arrangement ended up being less robust that the Company had hoped, but robust enough to keep Cavitation in business over the subsequent decade. That agreement remains in place today and is the basis for most of Cavitation's historic revenue. As we noted, the Company's Desmet business has been markedly less robust than the Company anticipated it would be (10+ years ago) on the other hand, as a result of that business, the Company has managed to avoid one of the major risks associated with many microcap stories, which is the specter/reality of added dilution required to fund operating burn. While Cavitation has not spent the last few years tearing the cover off the ball and growing the business, they also have not done a dilutive equity financing (or added significant debt) for the past several years now either. We think the first of those notions (growing the business) is about to change.

Again, to circle back, when we initiated the coverage we believed and noted that the Company was just embarking on a new initiative, which involved the use of their technology to treat produced frack water in the Permian Basin (Texas). We will not rehash that here but dealing with produced water is a problem in the domestic oil industry. We believed at the time of the initiation that the Company was positioned to add this new line of business and that the addition could be significant. As it turned out, the Company did in fact generate (small) frack water treatment revenues in the December 31, 2019 calendar quarter. However, oil prices closed 2019 around $60 but finished Q1 2020 at around $20. Moreover, as we exited Q1-2020, the pandemic was just beginning to gather momentum. Needless to say, Cavitation's frack water treatment opportunities stalled before they could get started, as the Permian Basin ground to a halt. Consequently, outside of reporting on their legacy Desmet/vegetable oil processing business, the Company has been relatively quiet over the past 12 months, (which mirrors our own limited reporting on the Company) but, we think this particular announcement suggests that they may be ready to pick up where they left off at the beginning of 2020.

More specifically, it is worth reiterating the math from the announcement above. As it addresses (and we have modeled) each *10,000 BPD of processing should result in approximately $150,000 worth of annual free cash flow to Cavitation, although actual results will depend on subsequent demand and associated pricing for their technology* . Keep in mind, Cavitation generally seeks to develop applications for its technology and then effectively license it for applicable processes. In that regard, in the Permian Basin, their revenues are derived on a price per barrel basis and their margin approaches 100%. Recall, we originally modeled that we anticipated that the Company would deploy six units into the basin by the end of 2020. As we said, oil prices and the pandemic upended that projection. However, they note that they should have three units deployed by March (2021). Given that data point, we again suspect that through 2021 they *could* have six or more units operating in the basin. Again, without rehashing the minutia, as we noted in the initiating coverage, even at moderate production in the Permian, the amount of produced water created and in need of remediation, is many, many times greater than the Company could possibly treat with a few reactors. That said, doing the math, we expect each (portable) rector to be able to generate in excess of $200,000 worth of annual cash flow. Therefore, we would expect 6 reactors to produce roughly $1.2 million worth of annual profit to Cavitation. By extension, we think $1.2 million worth of frack water profit, would justify our current price target of $.10 per share as it would amount to a P/E multiple of about 16 (less than ½ the current P/E multiple of the S&P 500) in the face of breakout growth in the business. We think that is quite reasonable and even relatively inexpensive.

In addition to their frack water endeavors, the Company continues to pursue new iterations and applications for their technology as well. A review of the Technology overview of the Company's website supports that view. As the above announcement also suggests, the Company is actively pursuing additional opportunities in the food processing industry as well as in several other water treatment areas. We are hopeful that Cavitation will be able to provide additional color on these initiatives in the coming weeks/months.

To conclude, we remain bullish on Cavitation. We believe it's frack water initiatives (albeit delayed) could prove transformative which could in turn provide a basis for valuations much closer to our targets than to current valuations. Frankly, if they continue to gain traction/demand in the Permian, they should be able to add reactors relatively quickly and that would provide additional valuation legs. Furthermore, we think the Company is pursuing a number of different initiatives that could utilize varying iterations of their technology and we think those initiatives span a handful of industries. Much like the emerging frack water business, any new commercial "win" on any of these new fronts would likely prove additive to our target assumptions. As a result of the resumption of the Permian business, we are raising our allocation from 4 to *5 while for the time being maintaining our 12-24 price target of $.10 per share. We will reassess each as the business evolves.

Projected Operating Model

Cavitation Technology, Inc.						
Projected Operating Model						
Prepared by Trickle Research						
	(actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	9/30/20	**12/31/20**	**3/31/21**	**6/30/21**	**Fiscal 2021**	**Fiscal 2022**
Income Statement						
Revenue	$ 418,000	$ 418,000	$ 522,998	$ 615,653	$ 1,974,651	$ 3,204,020
Cost of revenue	$ 11,000	$ 30,720	$ 34,920	$ 38,626	$ 115,266	$ 184,161
Gross profit	$ 407,000	$ 387,280	$ 488,078	$ 577,027	$ 1,859,385	$ 3,019,859
General and administrative expenses	$ 310,000	$ 345,900	$ 351,150	$ 355,783	$ 1,362,833	$ 1,460,201
Research and development expenses	$ 6,000	$ 11,078	$ 11,542	$ 11,851	$ 40,470	$ 50,492
Total operating expenses	$ 316,000	$ 356,978	$ 362,691	$ 367,633	$ 1,403,303	$ 1,510,693
Loss from Operations	$ 91,000	$ 30,302	$ 125,387	$ 209,394	$ 456,082	$ 1,509,166
Gain on settlement of debt	$ -	$ -	$ -	$ -	$ -	$ -
Other expense, net	$ -	$ -	$ -	$ -	$ -	$ -
Other income	$ -	$ -	$ -	$ -	$ -	$ -
Taxable Income	$ 91,000	$ 30,302	$ 125,387	$ 209,394	$ 456,082	$ 1,509,166
Income Tax Expense	$ -	$ -	$ -	$ -	$ -	$ -
Net Loss	$ 91,000	$ 30,302	$ 125,387	$ 209,394	$ 456,082	$ 1,509,166
Net loss per share, Basic and Diluted	$ 0.000	$ 0.000	$ 0.001	$ 0.001	$ 0.002	$ 0.007
Weighted average shares outstanding, Basic and Diluted	196,997,906	198,097,906	199,197,906	200,297,906	198,647,906	202,772,906

General Disclaimer:

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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.

Cavitation Technologies, Inc. has paid fees to present at investor conferences co-sponsored 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 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.