

Trickle Research

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



Research Update

SRAX, Inc.

SRAX

(Stock Symbol – Nasdaq: SRAX)

Report Date: 02/03/21

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: (02/03/21): \$4.67

Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research LLC
Dave@TrickleResearch.com

SRAX has made a few topical announcements over the past few days that we think are worth reviewing.

- **January 4, 2021 - SRAX Announces Crypto Pioneer and Digital Media Veteran Lou Kerner as Chief Executive Officer of BIGToken**

Mr. Kerner looks to have the background/credentials to run BIGToken. In case people are unaware, the Company's prior CEO Malcolm CasSelle unexpectedly passed away in mid-November (2020), so Mr. Kerner was brought into BIGToken to fill that tragic void. That brings us to the next bullet point.

- **January 27, 2021 - BIGToken Announces Closing of Share Exchange Agreement with Force Protection Video Equipment Corporation (OTC:FPVD).**

We could be wrong, but we are not sure many people have stopped to do the math here. Recall, the Company announced some time ago, that it intended to spin BIGToken off into a separate public company. This announcement is the result of those efforts. Here is the minutia:

“Force Protection issued SRAX, Inc. (Nasdaq:SRAX), the parent company of BIGToken, an aggregate of 149,562,566,584 shares of common stock in exchange for 100% of the issued and outstanding shares of BIGToken. As part of the transaction, Force Protection also issued 7,000,000,000 shares of common stock and 8,318 shares of the Force Protection's Series C convertible stock, convertible into an aggregate of 9,991,922,638 shares of common stock, subject to certain ownership limitations, which were issued in exchange for promissory notes in the aggregate amount of \$815,520 plus accrued interest of \$32,597”.

On the back of the napkin, we believe FPVD had about 800 million shares outstanding prior to the combination. SRAX was issued roughly 150 billion shares for adding BIGToken, and FPVD issued an additional 17 billion shares concurrent with the transaction. As a result, those additions should amount to approximately 168 billion shares outstanding, of which SRAX owns roughly 149.6 billion or about 89% of the total outstanding shares.

Here's the rub. FPVD now has 168 billion shares outstanding and as of this writing, the stock is trading at \$.012 which implies a market cap of over \$2 billion. If SRAX own 89% of FPVD, that also implies that SRAX's share of FPVD is worth about \$1.8 billion. The entire market cap of SRAX at this writing is \$75 million. Obviously... there is a bit of a disconnect here. To be clear, we do not think BIGToken is worth \$2 billion just yet. That said, we may have seen this movie before with SRAX, and that is worth revisiting.

Recall, we started covering SRAX initially because at the time we believed the market cap of the stock was trading at a level that understated the value of its pieces. More specifically, we believed the market cap of the Company was less than the value of SRAXmd itself, which was one piece of the business. In short, that view proved accurate as they ultimately sold SRAXmd for a number that *was in fact* larger than the market cap of the entire company at the time of our initiation. So, *here we are again...*

To revisit our last update, in conjunction with the spin-off of BIGToken, we have to start thinking in terms of SRAX as Sequire (the remaining business in SRAX). In that regard, in our last update we provided a preliminary post BIGToken/SRAX only model to establish our sense of what that might look like. We also reiterated our \$6 price target, and that price target was largely based on our post BIGToken model. To translate, our 12-24 month target of \$6 for SRAX includes only modest inputs associated with their ownership in BIGToken. (The next announcement should help illustrate/defend that view). However, the Company's

considerable position in BIGToken could prove markedly additive to SRAX's overall valuation. We think the current market cap of FPVD punctuates that notion. Again, we are not suggesting BIGToken is worth anything near \$2 billion, but *we are* suggesting that it is likely worth more than is currently reflected in the SRAX share price in the conxt of where we view the value of Sequire.

- **January 28, 2021 - SRAX Announces Preliminary Revenue Results For Q4 and Full Year 2020**

For the three months ended December 31, 2020, the Company expects to report net revenue of approximately \$4.5 million, surpassing the company's guidance for the quarter. Revenue is expected to be up approximately 320% year-over-year and up 75% from Q3 2020, exceeding analyst expectations. The Company also provided the following guidance for fiscal 2021:

Q1F21 revenues of \$5 million and full year 2021 revenues of \$17-\$18 million. Our current estimates are slightly lower and slightly higher respectively.

As our model(s) below note, our estimates for 4QF20 are a bit lower than this guidance, which we are happy to see, but we will wait until we see the filing before we make those adjustments to the model. In addition to revenue guidance, they also recently noted that (as of January 28, 2021) they have 153 companies on the Sequire platform. That number nearly equals our model estimate (154) for the end of Q1F21 (March 31, 2021) so they are outrunning our guidance in that regard as well.

The point is, they are clearly gathering momentum at Sequire and those efforts are manifesting themselves on in the operating financials. Obviously, we believe the advancing numbers support our targets, and ultimately may provide a basis for higher conclusions as well. We think the following announcement also supports that view.

February 2, 2021 - SRAX Announces Sequire Platform Has Over 3 Million Retail Investors

SRAX, Inc. (NASDAQ: SRAX), a financial technology company that unlocks data and insights for publicly traded companies through Sequire, its SaaS platform, has announced that Sequire has grown to over 3 million retail investors.

As we recall, the last time we heard this metric it was 1 million investors. We do not use the metric to derive any of our valuations, so its not on the top of our radar, but that is what we recall. On the other hand, maybe this is a metric that *should be* on the top of our radar. Recall, some time ago, we made a significant upgrade to our SRAX price target after the Company announced a large bump in BIGToken subscribers in part based on the notion that companies in the business of accumulating social media subscribers get valued on the basis of that metric. As it turned out, the Company did not maintain that growth trajectory in terms of gathering BIGToken subscribers (although they still have a measurable number of them today) so that metric has never been able to carry the day in terms of underlying valuation. That said, *here we are again*....

We submit, we have had a difficult time trying to rationalize how much 3 million BIGToken subscribers might be worth, however, we think we have a better understanding of what 3 million *Sequire investors might be worth*. To reiterate something we noted in the prior research, the microcap space lacks investor exposure, so anyone who can figure out how to enhance that in a meaningful way, is likely to be successful. In our view, the growth of the Sequire investor base speaks to that notion.

For the time being, we are reiterating our allocation and price target of SRAX shares. We will reassess each as we learn more.

Projected Operating Model(s)

SRAX, Inc.						
Projected Operating Model						
By: Trickle Research LLC						
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)
	<u>3/31/20</u>	<u>6/30/20</u>	<u>9/30/20</u>	<u>12/31/20</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>
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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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.