

Trickle Research

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



Research Note



SIGMA LABS

Sigma Labs, Inc.

(NasdaqGS: SGLB)

<http://www.sigmalabsinc.com>

Report Date: 03/15/21

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

Intraday Stock Price at This Update (Closing Px: 10/22/20): \$9.00

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Trickle Research

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 have gotten some calls today about Sigma's move this morning largely around their announcement regarding an initial contract with Lockheed Martin:

Sigma Labs Signs Agreement With Lockheed Martin for Its PrintRite3D(R) In-Process Quality Assurance Solution. Lockheed Martin is Speeding Production Using Melt Pool Monitoring Technology

SANTA FE, NM / ACCESSWIRE / March 15, 2021 / Sigma Labs, Inc. (NASDAQ:SGLB) ("Sigma Labs"), a leading developer of quality assurance software for the commercial 3D metal printing industry, has been awarded a contract for an initial system of its PrintRite3D in-process quality assurance solution by Lockheed Martin Space Additive Design & Manufacturing Center based in Sunnyvale, California. The Additive Design & Manufacturing Center supports the entire Space portfolio and integrates key materials research and manufacturing processes to streamline the affordable delivery of satellite components.

As a part of this initial contract, the Lockheed Martin team will assess the viability and performance of PrintRite3D technology for the Space division in support of a variety of defense and civil space programs. PrintRite3D® is an interactive in-process quality assurance system that combines inspection, feedback, data collection and critical analysis. The system discovers potential anomalies and incorporates machine learning in conjunction with developed metrics to map those metrics to the post-process data. Through its careful attention to the unique requirements of the additive manufacturing industry, PrintRite3D provides a high-fidelity, accurate system that can confidently scale to multi-laser in dual and quad laser systems.

"After review of our needs and potential solutions, we selected the Sigma PrintRite3D system because of its robust analysis capabilities, quality assurance solutions, data capture technology, and scalability across various OEM 3D printing platforms," said Kristi Farley, vice president spacecraft and missile engineering at Lockheed Martin Space. "Assurance of print quality and repeatability is essential to the critical missions that we support."

Mark Rupert, President and CEO of Sigma Labs, stated, "We are extremely pleased to welcome Lockheed Martin's Space Additive Design & Manufacturing Center as a Sigma Labs customer. It's gratifying that they recognize the commitment our company has made to supporting the entire additive manufacturing industry with innovative in-process quality solutions."

We won't belabor the event because we would rather wait for their year end numbers (March 24, 2021) to provide more extensive color. That said, given the inquiries, we have two observations.

First, to play "devil's advocate", as the announcement points out, this is a contract for "an initial system". As we have covered in the prior research, over the coming quarters, we expect Sigma to sell *dozens of systems*. Succinctly, while this is a great piece of news regarding an *alpha* customer in the space, one system does not constitute a trend.

On the other hand, this is the type of customer and/or traction we have been anticipating from Sigma. Put another way, we do not find this announcement as particularly surprising. That is, in our view, announcements of this nature have been a matter of **when** more so than **if**. To reiterate, we believe Sigma has a critical piece in enabling the proliferation of 3D metal printing, which on the face could be transformative for the metal manufacturing

industry and the end markets it serves (Lockheed satellites for instance....). To take that a step further, while this announcement is highly positive because of the nature of the customer, we are not sure that this announcement is significantly more topical than the announcement they made a few months ago regarding the selection of Sigma's technology as the "preferred melt pool monitoring system for DGM MORI's metal printer line. On the contrary, the DGM MORI announcement did not move the needle much on the stock at the time, which tells us that the market may not fully understand the opportunity here and Sigma's potential to exploit it.

Again, we will wait for the year end numbers to expand on this further, but today's announcement, along with the DGM MORI announcement a few months ago, and presumably others we think will come, provide further validation for our thesis that Sigma is in the right place at the right time with the right technology, and that provides a basis for what we see as much better valuations for the company going forward. We reiterate our allocation of 5 and our 12-24 month price target of \$17.00 per share. We will revisit each following year end results.

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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Sigma Labs has paid fees to present at investor conferences co-sponsored by Trickle Research.

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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.