

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: 04/05/21

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: (04/05/21): \$4.93

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We updated SRAX in late November following their 3Q earnings announcement and a portion of that narrative focused on their upside revenue surprise. For Q4, they did it again, beating our quarterly estimates by about \$500,000 (\$4 million vs. \$4.5 million). We overstated earnings (again), but much of that was largely related to financing charges associated with capital raises, much of which is non-cash. To be honest, the Company provided us some color on financing costs than we did not internalize very well, so that was our error as much as anything. To that point, with financing costs more dilution is generally where the “buck stops”, which is where we typically try to focus. We are not suggesting that the GAAP accounting for these transactions and associated derivatives/iterations is unimportant, but again, the longer-term impact of those transactions is typically more shares so that is where we try to make sure we get it right.

We will provide a brief update on the minutia of SRAX at the end of this update, but we think the greater focus should probably be on the “bigger picture” that we think is emerging here, so we will address that first.

We think there are a handful of valuation wildcards that will likely emerge in SRAX, and the degree and direction(s) they emerge will determine their ultimate impact on SRAX shares.

Recall, SRAX recently spun their BigToken asset into a separate public entity via a reverse merger. That trading symbol is currently FPVD (we expect they will adopt a name change and likely a symbol change shortly). If our math is accurate, we think recent dilution to FPVD has resulted in SRAX owning approximately 59% of FPVD. As we have noted in prior updates, there is a considerable disconnect in the valuation of FPVD vis-a-vis its 59% owner SRAX. That is, the current market cap of SRAX is about \$80 million while the current market cap of FPVD is around **\$4.7 billion**. Obviously, somebody didn’t get the valuation memo. We will not harp (again) on what little sense this disparity makes. Rather, we will focus on a few more realistic elements of this piece of SRAX.

- First, we expect SRAX’ share of FPVD to continually shrink as FPVD continues to raise capital through equity sales that dilutes SRAX ownership. Once that gets to below 50%, we believe SRAX will discontinue consolidating BigToken results and will instead reflect a minority interest, and ultimately just an investment in marketable securities. In our last update, we provided two models to reflect our assumptions with and without the consolidation of BigToken. We are currently slating 3QF21 as the point where SRAX will no longer have to consolidate BigToken, but the model attached here assumes the consolidation through the balance of 2021. We have left assumption in part so our model ties with current company guidance.
- Second, we submit, in the aggregate, as we have discussed before, we think BigToken has been disappointing. That said, *in the aggregate*, its financial performance has improved. While (Covid19 impacted) revenues for 2020 were lower than 2019, they made considerable strides on other key items.

	BIGToken	
	2020	2019
Sequire platform revenue	\$ -	\$ -
Conference revenue	-	-
BIGToken revenue	2,168,000	3,228,000
Other	-	-
Total Revenue	2,168,000	3,228,000
Cost of Revenue	800,000	1,613,000
Gross profit	1,368,000	1,615,000
margin %	63%	50%
Operating expenses	5,933,000	10,751,000
Operating Income	\$ (4,565,000)	\$ (9,136,000)

So here is the point. SRAX owns a considerable portion of BigToken, and even given additional dilution of the latter, we expect them to continue to own a meaningful portion of the deal. If

BigToken lives up to its contemplated potential, this will represent a measurable valuation piece for SRAX that we do not think is being reflected much in the current (SRAX) valuation. Obviously, that will require ongoing analysis, but to that end, BigToken is having a call this week that could be constructive to that assessment.

Here is some information and a registration link to the call:

Apr 8, 2021 01:00 PM in Eastern Time (US and Canada)

[Webinar Registration - Zoom](#)

Second, the 10K filing notes that SRAX has *“built up a retail investor community of 5M+ ...”*. We think that is an impressive number, however, we are not sure how to interpret it. That is, we do not fully understand how and to what extent the Company can leverage those eyeballs. Recall, some of the buzz around BigToken came from some impressive subscriber users they accumulated early on but did not (at least yet) translate into commensurate revenues. That said, social media valuations stem at least in part on the aggregation of subscribers, followers or whatever the chosen label. Further, we think our own business plan provides considerable insight into the notion that the value of the Sequire platform and its pieces to its customers, will ultimately hinge on the investors Sequire can bring to those same customers. If Sequire can continue to attract *and validate the value of* their investor base, we think the valuation of SRAX will become a function of that database as opposed to more fundamental metrics like revenues and earnings. Quite frankly, we think that notion represents the biggest wildcard in the story, and at least from our perspective, the most difficult part of valuing the Company. That is, we are comfortable reflecting valuations/price targets in the context of the more fundamental analysis (projecting future cash flows and discounting them properly). However, we think that approach likely understates valuations around the potential value of the investor database. To reiterate, we think Sequire has the potential to add much needed investor visibility to the microcap space, so success in that regard could prove considerably valuable. Again, assessing the value of that investor base may well be the challenge as we move forward as we think it could represent a much bigger leg in the value of SRAX.

Lastly, we have also touched on the potential of Sequire’s assets to create marked surprises in quarterly numbers. That is, given their approach of taking (small) public company stock for payment, and the holding periods associated with their opportunity to monetize (sell) those assets, it seems likely to us that on an ongoing basis there may be marked differences in the initial revenue recognition and the ultimate sale value of those assets. Microcap stock prices are often volatile. As such, we think that at least for many of the Company’s positions, the difference between recognized prices (initial revenue recognition) and realized sale prices are likely to be measurable. Obviously, that could be a good thing or a bad thing, but more conceptually, it may attract some investors that are looking for microcap proxy.

To summarize, SARX continues to outperform above our revenue expectations, and we think they are quickly reaching thresholds that should allow them to achieve profitability (post BigToken consolidation). Moreover, as we noted above, there are additional valuation elements emerging here that could become more topical as we move forward. For now, reiterate our allocation of SRAX shares as well as our 12-24 month price target of \$6.00. We will reassess each as we see additional data points.

Projected Operating Model

SRAX, Inc.					
Projected Operating Model					
By: Trickle Research LLC					
	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<u>3/31/21</u>	<u>6/30/21</u>	<u>9/30/21</u>	<u>12/31/21</u>	<u>Fiscal 2021</u>
Revenues	\$ 5,010,150	\$ 6,759,000	\$ 6,357,664	\$ 7,282,194	\$ 25,409,009
Cost of revenues	\$ 1,518,092	\$ 2,154,730	\$ 1,860,271	\$ 2,296,489	\$ 7,829,582
Gross profit	\$ 3,492,059	\$ 4,604,270	\$ 4,497,393	\$ 4,985,705	\$ 17,579,427
Operating expenses	\$ -	\$ -	\$ -	\$ -	
Employee related costs	\$ 1,681,352	\$ 1,693,340	\$ 1,694,827	\$ 1,698,572	\$ 6,768,090
Marketing and selling expenses	\$ 845,390	\$ 887,625	\$ 839,016	\$ 893,202	\$ 3,465,233
Platform Costs	\$ 452,550	\$ 454,100	\$ 454,015	\$ 454,900	\$ 1,815,565
Depreciation and amortization	\$ 345,313	\$ 345,313	\$ 345,313	\$ 345,313	\$ 1,381,254
General and administrative	\$ 771,625	\$ 852,575	\$ 826,188	\$ 865,946	\$ 3,316,334
Total operating expense	\$ 4,096,230	\$ 4,232,953	\$ 4,159,359	\$ 4,257,934	\$ 16,746,476
Gain (Loss) from operations	\$ (604,171)	\$ 371,316	\$ 338,034	\$ 727,772	\$ 832,951
Other income (expense)	\$ -	\$ -	\$ -	\$ -	
Financing Costs	\$ (243,030)	\$ (243,030)	\$ (243,030)	\$ (243,030)	\$ (972,120)
Gain (loss) on sale of assets	\$ -	\$ -	\$ -	\$ -	\$ -
Exchange gain (loss)	\$ -	\$ -	\$ -	\$ -	\$ -
Gains from marketable securities	\$ -	\$ -	\$ -	\$ -	\$ -
Loss on repricing of equity warrants	\$ -	\$ -	\$ -	\$ -	\$ -
Change in fair value of derivative liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Minority Interests	\$ -	\$ -	\$ -	\$ -	\$ -
Total other income (loss)	\$ (243,030)	\$ (243,030)	\$ (243,030)	\$ (243,030)	\$ (972,120)
Gain (Loss) before provision for income taxes	\$ (847,201)	\$ 128,286	\$ 95,004	\$ 484,742	\$ (139,169)
Provision for income taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ (847,201)	\$ 128,286	\$ 95,004	\$ 484,742	\$ (139,169)
Net loss per share, basic	\$ (0.04)	\$ 0.01	\$ 0.00	\$ 0.02	\$ (0.01)
Net loss per share, basic and diluted	\$ (0.04)	\$ 0.01	\$ 0.00	\$ 0.02	\$ (0.01)
Weighted average shares outstanding - basic	22,187,703	23,684,079	25,180,454	26,676,830	24,432,267
Weighted average shares outstanding - Basic & diluted	23,217,403	25,337,044	27,407,858	29,433,670	26,348,994

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SRAX has paid fees to present at conferences co-hosted 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 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.