

Trickle Research

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



Coverage Termination



sgblocks

SG Blocks, Inc.

(NASDAQ: SGBX)

<https://www.sgblocks.com/>

Report Date: 08/23/21

12- 24 month Price Target: \$63

Allocation: 5

Closing Stock Price at Initiation (post-split) (Closing Px: 02/27/19): \$56.80

**Closing Stock Price at Allocation Increase and Target Decrease (post-split)
(Closing Px: 05/15/19): \$19.60**

Closing Stock Price at Coverage Termination (Closing Px: 08/23/21): \$3.41

Prepared By:

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Trickle Research

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

We initiated coverage of SG Blocks in February 2019. We had seen the company present at a couple different conferences prior to our initiation. At the time of the initiation, the stock had already sold off considerably over the prior few months, in the face of Company guidance which suggested a backlog of \$120 million and a pipeline that looked more like \$200 million. To make a long story short, the backlog never materialized in part due to one particularly large project that failed, however, there were others as well, which makes us wonder what “backlog” really meant to them? The stock fell precipitously eventually culminating in a 1:20 reverse split and subsequent financings that were highly dilutive. For instance, our initiating coverage price of \$2.84, equates to nearly \$57 in post-split value. Put another way, there are twice as many shares outstanding today as there were when we initiated the coverage, *and that is after the 1 for 20 reverse*. Clearly, the earlier shareholders are washed out, and our research has proven woefully wrong.

The above said, we still like SG Blocks. The fact is, they have made considerable progress since recapitalizing the sins of the past, and we still think their product(s) have promise in terms of addressing some housing and construction challenges, as well as in terms of advantages in particular parts of the world where “hardened” housing alternatives make a lot of sense to us. In our view, if that were not true, we doubt the Company would still be around. Our problem with trying to do the same (start over with the research) is that we have found management difficult to communicate with since the proverbial crap hit the fan. In short, this job is hard enough *when we do have* reasonable access to management, so it can become exponentially more difficult when we do not. Succinctly, it gets to a point where it is not really worth the effort. There are too many promising companies (and only so many hours in a day) to try to chase down those that prefer not to talk to us.

In retrospect, we did a poor job here on multiple levels and there were some things we should have recognized and/or done differently to mitigate the carnage. We would add, one of our bigger mistakes was probably our faith in management, which as it turned out performed poorly as well, and that is probably an understatement.

As strange as this may sound, if we were hearing this story for the first time, we might be inclined to initiate coverage on the Company. However, given our history here, we are having a hard time getting beyond some of the prior issues. As most seasoned microcap investors will probably attest, sometimes selling a stock that has underperformed expectations can be therapeutic. The same can be said of terminating their coverage. Perhaps we will revisit that someday.

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SGBX has not presented 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 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.