

# Trickle Research

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



## Allocation Increase



SIGMA LABS

## Sigma Labs, Inc.

(NasdaqGS: SGLB)

(<http://www.sigmalabsinc.com>)

**Report Date: 04/06/22**

**12- 24 month Price Target (Adjusted): \$9.50**

**Allocation: \*7**

**(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**

**Stock Price at Allocation Increase and Price Target Decrease (Closing Px: 07/29/21): \$3.76**

**Stock Price at this Allocation Increase (Closing Px: 04/06/22): \$1.99**

**Prepared By:**

**David L. Lavigne**

**Senior Analyst, Managing**

**Partner 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 just provided an extensive update on Sigma on 03/07/22, which was prior to their 10K filing. As a result, we have updated our model to reflect the year end numbers and we have provided a bit of added color to that below. Further, and perhaps more importantly in our view, the Company recently provided an additional update that is quite topical:

***Sigma Labs Appoints Jacob Brunsberg as Chief Executive Officer, Mark Rupert Transitions to Chairman of the Board of Directors***

*-Appointment to Accelerate Company's Recent Business Model Evolution to Enable Distribution at Scale for a High Margin, Software-Only In-situ Quality Monitoring and Analytics Solution*

*SANTA FE, NM / ACCESSWIRE / April 4, 2022 /Sigma Labs, Inc. (NASDAQ:SGLB) ("Sigma Labs"), a leading developer of quality assurance software to the commercial 3D printing industry, today announced Jacob Brunsberg, President and Chief Operating Officer, has been appointed as Chief Executive Officer of Sigma Labs, effective April 1st. Mark Rupert, Sigma labs' Chief Executive Officer will transition to the role of Chairman of the Board of Directors, replacing John Rice who will continue to serve as a Director.*

*Mr. Brunsberg joined Sigma Labs in September 2021 as Senior Vice President and subsequently was promoted to President and Chief Operating Officer with responsibility for product direction, strategic relationships, sales, marketing and engineering. Mr. Brunsberg is an accomplished additive manufacturing ("AM") executive who has continued to strengthen the Company's in-process quality assurance product development and commercialization programs.*

*"We are privileged that Jacob has accepted the position of CEO, bringing a deep understanding of the additive manufacturing industry and an impressive track record of achievements since joining the Company," said Mr. Rupert. "He has been instrumental in transitioning our business model to enable distribution scale for a software only solution through a flexible OEM model with subscription-based pricing which will lower the barrier of entry for customers with multi-printer factories. This change is gaining momentum with customers and makes Jacob the ideal person to guide our continued transition and execute our plan," he added.*

*"It has been an honor to serve as CEO of Sigma Labs, and I want to offer my sincere thanks to our employees whose hard work and dedication have allowed us to achieve so much. I look forward to leading the Board of Directors and focusing on maintaining and building on our Tier-1 customer relationships. I am confident Jacob is the executive best suited to guide our company into the future and I look forward to working closely with him to ensure a smooth transition and to our continued success," concluded Rupert.*

*Mr. Brunsberg added, "Mark's tenure and achievements as CEO positioned the company with first mover advantage supported by a strong financial foundation which positions us to deliver on our goals. He and the team have built a company with a portfolio of customers that are the leading 3D metal AM organizations in the world and led our transition to a business model focused on their success, recurring revenue, and profitability. I am thrilled to lead Sigma Labs into its next exciting phase as I*

*believe its aggressive shift to software only for OEMs will allow us to continue to scale and accelerate the adoption of AM by setting the standard for In-situ Quality Monitoring and Analytics. I look forward to working with Sigma Labs' executive team in driving growth for the company and building long-term-shareholder value."*

We must admit, when we first read this, we were a bit surprised and perhaps concerned. But, after some discussion with the Company and some added reflection, it makes sense to us and we think this is a constructive event for Sigma.

As we have noted throughout our coverage of Sigma, we view Mark Rupert's addition to the Company as CEO as a transformative event for the Company. Succinctly, we prefer not to think about where they would be without him. From that vantage point, it might be hard to argue that his departure as CEO is a "good thing". However, those who tuned into the earnings call will likely recognize that Jacob Brunsberg was called upon throughout the broadcast to provide detail on a handful of issues. Further, while the announcement above does not provide the specifics of his industry experience, the *original* announcement about his addition to Sigma did (from 2/17/22):

*....Prior to joining Sigma Labs in September 2021 as Senior Vice President responsible for leading the company's strategic relationships, product management and marketing programs, Brunsberg was a P&L leader for General Electric's Binder Jet Technology unit with management responsibility for strategy, development, commercialization, and overall business performance. He has a degree in material science from the University of Wisconsin.*

*According to Mark Rupert, CEO of Sigma Labs, "Jacob has earned the respect of Sigma's employees, management, board of directors, customers, and partners. His passion for the industry, ability to chart the company's product direction, communicate our strategy to potential partners, and execute, has increased our confidence in both our strategic direction as well as our decision to elevate Jacob's role. His promotion to president and COO reflects our confidence in Jacob and gives him full authority in the areas that will move our company forward."*

In retrospect, this announcement probably provided a good tell with respect to this eventual management change. That said, here are a few bullet points we came away with from our discussion with Mark Rupert about the change as well as some other issues:

First, we would note that While Mr. Rupert is moving out of his CEO role, he is *stepping into* the role of Chairman of the Board of Directors. Our understanding is that he intends to stay directly engaged with the Company in terms of both assisting with strategic and other important issues. Again, while certainly no reflection on Mr. Brunsberg's aptitudes, we would be far more concerned if Mark Rupert were leaving the Company, which he clearly is not, and we think it is fair to say that *his* view is that Sigma is much better served by the combination of the two. More specifically, we think Mr. Rupert's skill set was particularly applicable to addressing many of the Company's prior weaknesses and associated industry posture, while Mr. Brunsberg's wheelhouse is more additive industry specific. Perhaps we are overstating this, but when we look at the timeline of applicable events leading up to this change, we are inclined to believe that the industry is beginning to accelerate in Sigma's direction making Mr. Brunsberg's expertise more (immediately) topical. In case we have not articulated this well enough, in retrospect it is clear to us that Jacob Brunsberg was brought into Sigma *to ultimately assume this role (CEO)*.

Second, both our prior update and the Company's recent call included discussions regarding Sigma's new sales model, which is a subscription-based approach as opposed to the outright sale and ongoing maintenance model. There are two points regarding this approach that we think people should keep in mind. First, we think it will prove to be a much more prolific approach on the face (although we frankly expect the Company's sales momentum to increase regardless) in part because intuitively we think it will be more palatable to customers, and as we understand it, that seems to be what they are asking for. However, we do not think this was a sudden revelation to Sigma management and/or its sales team. We suspect they probably knew this all along and in fact, had they implemented this approach some time ago, they may have experienced more sales prior. Unfortunately, this approach puts some pressure on working capital because it requires delivering product up front and getting paid over time. Succinctly, until their recent capital infusions, they did not have the working capital to deploy this approach. As a result, we believe sales will accelerate in part because they now have the working capital to offer customers this more palatable approach. From another angle, we also believe that their lack of working capital slowed some of their collaboration efforts. That is a bit more detailed view that we will not belabor here but would be happy to discuss with readers separately. Our point here is that we believe their lack of working capital has limited some of their initiatives, that they have in turn been able to accelerate since the time of their capital infusions. That is part of the basis for our enthusiasm that sales momentum will accelerate.

Third, this is another issue that was covered in both our prior update and in their year-end call, so it is worth reiterating. The Company has focused on the idea that the additive industry will need to embrace more open, collaborative and standards-based approaches if it is to succeed. The Company sometimes refers to this as "radical collaboration" where industry players, and by extension sometimes competitors, collaborate to create a more robust industry that effectively can allow many players to thrive instead of a small few or even none. We agree with that vision, and we think the lack of standards and other associated cooperation has held the industry back and in turn (and perhaps more acutely) has impeded Sigma's progress as well. To that point, we think most who have watched the industry and many of its players, would agree that over much of the past decade, it/they have significantly underperformed expectations, and we think the industry's lack of cooperation is largely to blame. Frankly, while the idea of competitors collaborating might seem counterintuitive on the face, it has proven to be paramount to the success of many technology-based industries (software, internet, telecom and a host of others). By the way, that is a point that Sigma's Mark Rupert reinforces often, largely because he saw it play out firsthand through his experiences in the software industry. We believe Sigma is making marked progress in terms of coalescing cooperation across the industry, especially in terms of printer manufacturers. Here again, we will not belabor this update with various examples, (we provided some of those in the prior update), but we are happy to discuss that with readers individually. *We are highly confident that the Company is making marked and accelerating progress in terms of tearing down the barriers to collaboration that have eluded them in the past and should lead to significant revenue opportunities going forward.* Further, and back to our opening issue, we think Jacob Brunsberg's tribal knowledge and associated industry connections are part of that trajectory.

Fourth, the Company also touched on their "embedded software solution", which in case it is not clear, is the endgame here. Setting aside the retrofit market, as we (and they) have noted, while getting printer manufacturers to support the integration of PrintRite3D *with their printers* has been a goal, the bigger picture is to get printer manufacturers to integrate PrintRite3D *into their printers* at the OEM level, as opposed to it being an "aftermarket" sort of addition. Further, while today the PrintRite3D platform includes considerable (and frankly complex) hardware components, the goal is to provide PrintRite3D as an embedded software solution, wherein printer manufacturers will integrate the (PrintRite3D) hardware components into their own printer designs/form factors. Obviously, that approach will change the operating model, which will then ostensibly make Sigma largely a software company with lower unit

revenues but higher margins. We have not modeled that eventuality, but our hope is that we will in the future need to ditch the current model approach for a more software centric alternative.

Lastly, while we have provided several instances where our thinking aligns with that of the Company, there is one notion they touched on in the call that we have a hard time rationalizing. They have tried to frame their opportunity in terms of *total addressable market* (TAM). Generally speaking, we agree with the notion that PrintRite3D is probably most applicable to applications that involve more complex higher value designs/products. From that vantage point one, could look at the TAM as just those printers that are capable of producing those types of products, which would be a fraction of the whole. Further, from a practical standpoint, those machines are typically more expensive, so layering on PrintRite3D is less impactful to the value of the whole. The Company's approach is to then (hypothetically) illustrate what the impact of their capturing 3% or 10% of that adjusted TAM might be, which in either case results in a hypothetical valuation well beyond the current valuation of the Company. We can appreciate the methodology and its hypothetical nature in terms of providing a "what if" framework that would clearly support much better valuations. We just don't think that is how this is going to work.

Because we view standardized, manufacturer agnostic and perhaps even third party verified QA as a necessary element to the success of additive manufacturing, if Print Rite3D does in fact prove to be that solution (or at least one of the major ones), we just do not see it as applicable to only a small portion of the market. We submit, the Company will need to continue to find ways to reduce the cost of PrintRite3D, so it can address larger portions of the market. Certainly, the embedded software approach is part of that goal, but we know for instance, that they are also developing additional advances to simplify the technology and potentially streamline some of the hardware requirements to further drive down price points. That said, if Sigma is successful in establishing the collaboration necessary to make PrintRite3D a relevant part of the industry's standardization push, we do not think it is likely that it will be applicable to just a small portion of the market. Put another way, we have no idea how to handicap the timing of this, and even if we said we did, we have done a poor job of trying to identify that inflection to this point, so any opinion we would have in that regard should be taken with a grain of salt anyway. However, if we are correct, we believe that inflection will include extraordinary "hockey stick" type growth for Sigma. As an extension, while there certainly are things that must unfold for it to come to fruition, we continue to believe that Sigma has *an opportunity* to achieve fundamental valuations *many times higher* than the current stock price reflects.

As a result of what we see as emerging and accelerating progress on multiple fronts, we are reiterating our 12-24 month price target for Sigma shares of \$9.50 and we are raising our allocation of Sigma shares from 6 to \*7 due largely to the convergence of that enthusiasm in the face of the compressed stock price. We will continue to monitor and/or modify our targets as visibility dictates.

(As a final caveat, recognize, our model is likely to continue to miss numbers and require marked modification along the way. Some of that is due to the impact that the new subscription-based pricing will have on revenue recognition, and perhaps looking further out, the impact that an embedded software solution would have on revenue and margins. However, most of it is due to the continued lack of visibility with respect to the timing of the acceleration of the business we are anticipating. Again, we do not know when this inflection might happen, but we are more convinced than ever that it will, and if we are correct, the lookback will likely justify our current view that the Company is deeply undervalued).

## Projected Operating Model

<b>Projected Operating Model</b>						
<b>Sigma Labs, Inc.</b>						
<b>Prepared By: Dave Lavigne, Trickle Research</b>						
	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<b>3/31/2022</b>	<b>6/30/2022</b>	<b>9/30/2022</b>	<b>12/31/2022</b>	<b>Fiscal 2022</b>	<b>Fiscal 2023</b>
REVENUES	\$ 549,750	\$ 583,922	\$ 790,857	\$ 1,007,738	\$ 2,932,267	\$ 8,083,594
COST OF REVENUE	\$ 190,519	\$ 254,461	\$ 345,429	\$ 441,369	\$ 1,231,777	\$ 2,933,438
<b>GROSS PROFIT</b>	<b>\$ 359,231</b>	<b>\$ 329,461</b>	<b>\$ 445,429</b>	<b>\$ 566,369</b>	<b>\$ 1,700,490</b>	<b>\$ 5,150,156</b>
<b>EXPENSES:</b>					\$ -	\$ -
Salaries & Benefits	\$ 1,262,095	\$ 1,262,846	\$ 1,267,399	\$ 1,272,170	\$ 5,064,510	\$ 5,177,839
Stock-Based Compensation	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 600,000	\$ 600,000
Operating R&D Costs	\$ 251,193	\$ 266,231	\$ 268,794	\$ 284,314	\$ 1,070,533	\$ 975,364
Investor & Public Relations	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 500,000	\$ 500,000
Organizational Costs	\$ 148,629	\$ 149,373	\$ 150,119	\$ 150,870	\$ 598,992	\$ 611,062
Legal & Professional Service Fees	\$ 316,493	\$ 217,518	\$ 223,726	\$ 230,232	\$ 987,968	\$ 1,142,508
Office Expenses	\$ 166,493	\$ 167,518	\$ 173,726	\$ 180,232	\$ 687,968	\$ 842,508
Depreciation & Amortization	\$ 17,690	\$ 17,778	\$ 17,867	\$ 17,957	\$ 71,293	\$ 72,729
Other Operating Expenses	\$ 86,587	\$ 87,020	\$ 87,455	\$ 87,892	\$ 348,953	\$ 355,985
Total Operating Expenses	\$ 2,524,179	\$ 2,443,284	\$ 2,464,086	\$ 2,498,668	\$ 9,930,216	\$ 10,277,994
LOSS FROM OPERATIONS	\$ (2,164,947)	\$ (2,113,823)	\$ (2,018,657)	\$ (1,932,299)	\$ (8,229,726)	\$ (5,127,838)
<b>OTHER INCOME (EXPENSE)</b>					\$ -	\$ -
Interest Income	\$ 28,618	\$ 22,553	\$ 16,317	\$ 10,187	\$ 77,674	\$ 92,230
State Incentives	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in fair value of derivative liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Exchange Rate Gain (Loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Expense	\$ (10,917)	\$ (10,972)	\$ (11,027)	\$ (11,082)	\$ (43,998)	\$ (44,884)
Loss on Disposal of Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt discount amortization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Income (Expense)	\$ 17,700	\$ 11,581	\$ 5,290	\$ (895)	\$ 33,676	\$ 47,346
LOSS BEFORE PROVISION FOR INCOME TAXES	\$ (2,147,247)	\$ (2,102,241)	\$ (2,013,368)	\$ (1,933,194)	\$ (8,196,050)	\$ (5,080,492)
Provision for Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Loss	\$ (2,147,247)	\$ (2,102,241)	\$ (2,013,368)	\$ (1,933,194)	\$ (8,196,050)	\$ (5,080,492)
Preferred Dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Loss applicable to Common Stockholders	\$ (2,147,247)	\$ (2,102,241)	\$ (2,013,368)	\$ (1,933,194)	\$ (8,196,050)	\$ (5,080,492)
Net Loss per Common Share - Basic and Diluted	\$ (0.20)	\$ (0.20)	\$ (0.19)	\$ (0.18)	\$ (0.78)	\$ (0.38)
Net Loss per Common Share - Diluted	\$ (0.20)	\$ (0.20)	\$ (0.19)	\$ (0.18)	\$ (0.77)	\$ (0.36)
Weighted Average Number of Shares Outstanding - Basic	10,531,077	10,560,419	10,587,093	10,611,342	10,572,483	13,419,015
Weighted Average Number of Shares Outstanding - Diluted	10,531,077	10,560,419	10,587,093	10,675,956	10,588,636	14,297,850

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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 ( $\$250 \times 4$ ). 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.