Trickle Research

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

# 2QF22 Earnings Update

SIGMA Additive Solutions

# Sigma Additive Solutions

**(**NasdaqGS: **SASI)**

(www.sigmaadditive.com)

## Report Date: 08/10/22

## 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 Allocation Increase (Closing Px: 04/06/22): $1.99**

**Stock Price at This Update (Closing Px: 08/10/22): $1.06**

**Prepared By:**
**David L. Lavigne**
**Senior Analyst, Managing**
**Partner Trickle Research**

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

Sigma reported 2Q-F22 results on 08/05/22. The numbers were uneventful, but we think some of the narrative on the call was quite constructive. A replay of the call can be accessed through August 19, 2022 at 1-844-512-2921 (Replay ID: 10019920), so we will not rehash all of it here, but there are a few salient points we will revisit. We would add, we had the opportunity to speak with management following the call, so these salient points include some of our conclusions around that conversation as well.

As we said, the numbers for the quarter were nominal, but recall, they are transitioning to a subscription model and away from upfront sales, which on the face will move revenues to the right, however, they are still at the front end of generating meaningful unit sales, and until those begin to accelerate, the revenues will remain nominal regardless of the sales/pricing iterations. That said, the Company provided a handful of sales metrics that provided good color/visibility and that we found quite encouraging. Here are some of the bullet points they referenced:

- *The current order backlog for the third quarter is total revenue of $240,000, which consists of a mix of subscriptions and perpetual sales, and remaining revenue to be recognized related to year-to-date 2022 transactions is approximately $30,000.*
- *Solid sales pipeline growth, and an increase of total qualified opportunities from 134 in the second half of 2021 to 250 in first half of 2022, or an increase of 87%.*
- *Increase in forecasted closures from 19 deals to 40, or more than a 100% increase from the second half of 2021 to the first half of 2022.*
- *With adjustments to strategy and product roadmap in the first half of 2022, the sales cycle has moved from a prior range of 12-18 months down to an average of 6 months over the last 9 deals.*
- *Partner additions increased, bringing the total to 4 OEM partners (Additive Industries, DMG Mori, Aconity, and amace) and 3 ISV partners (Materialise, AMFG, and Sentient Science).*

First, to put some of the above numbers into perspective relative to our projections, the model we updated following the fiscal 2021 numbers reflects total unit sales of 65 for fiscal 2022. Given the above information, we think those numbers are certainly achievable. For fiscal 2023, we are modeling the sale of 156 units, which again, following the pipeline and sales cycle guidance, we think appears quite doable. The point is, and we think their delineation of these metrics speaks to the notion**, it appears that they are beginning to establish some sales visibility**, which is at least in part another way of saying they are beginning to develop some sales momentum as well. That is, in our view, highly encouraging.

Second, the comment above regarding "*adjustments to strategy and product roadmap in the first half of 2022",* is topical. Recognize, the goal here is for Sigma to predominantly provide a software solution rather than the current hardware/software configuration. More specifically, the goal is to get printer OEMs to include and ship PrintRite3D (the software version) in their printers. However, there is also something else embedded in this comment that we think speaks to Sigma's expanding opportunities. For instance, the next "generation" of Sigma's offering(s) will include a more holistic approach to AM quality assurance, that will include modules that address areas like machine health, machine learning and others, that while perhaps less complex than their melt pool monitoring are things that printer users are telling them they need. That brings us to point number three.

The Company spent some time on the call discussing their new "Product Council", which is a consortium of industry participants the Company has assembled to among other things, help them understand the needs of the marketplace with respect to AM quality assurance, as well as ascertain how/where to best collaborate on solutions. As we understand it, the council is made up of both industry providers (although not necessarily printer manufacturers) as well as industry consumers (manufacturers using AM printers). We believe the genesis of the council is probably related to some of the other aforementioned modules

Sigma has developed (is developing) beyond their core melt pool competencies. That is, they are attempting to better understand the challenges manufacturers using AM printers are encountering, and potentially develop solutions around those pain points. Aside from being a good idea on the face, we think this particular initiative tells us something about the industry's trend towards increased collaboration and associated standards, which as some will recall has been a major leg of our thesis here.

Fourth, aside from the collaboration theme, one of the other legs of our thesis centers on Sigma's ability to ultimately sell to/through printer OEMs. Given the pushback from that end of the industry, this has always been a challenging part of the story. However, as the bullet points above reflect, the Company now has 4 printer OEM partners in the fold including the recent addition of amace Solutions Pvt. Ltd. For some added color, here is an excerpt from that announcement:

> *"amace is the 3D Printing arm of Ace Micromatic Group (AMG), the largest machine tool conglomerate in India. As an OEM Partner, amace will integrate Sigma's PrintRite3D® monitoring and analytics technology into its STLR® Series of production-ready machines in order to support its customers with real-time quality monitoring and analytics. The agreement starts with multi-unit sales to support both internal future development and customer deployment. The Sigma and amace engineering teams will work closely together to build initial workflows around qualification of parts and create a knowledge base of materials, processes and best practices".*

In our view, this is a highly positive development on multiple fronts. Further, in terms of additional OEMs, the Company also noted on the call that they signed a deal with a large player for a software only solution. We recognize that is a rather open-ended statement. For instance, we assume this "player" is a printer OEM although it does not necessarily have to be to be a positive arrangement. However, assuming *it is* a printer OEM, this would in our view be another highly positive development for Sigma. To put this into perspective, while we believe there are currently dozens of 3D printer manufacturers, we also think a handful of them ship an outsized portion of all printers, and we think that is certainly true as we move up the chain to higher end offerings that PrintRite3D has typically been applicable to. As a caveat to that view, the industry is not good about sharing information about units shipped etc. so much of our speculation in that regard is shaped by discussions we have had with people we think have some of those answers. As a result, we view additional OEM wins, especially if they include some of the bigger names, as perhaps watershed events for Sigma.

To summarize, we think Sigma's various initiatives to productize their IP are beginning to bear fruit. Their product depth and reach are expanding as they bring on new modules and continue work towards a largely software solution(s) with relevant players across the industry. Further, as the bullet points above illustrate, we think sales metrics are beginning to emerge that should start to improve visibility, while at the same time, the sales cycle appears to be shortening as well. Further, the industry also appears to be accelerating, which is paramount to Sigma's success. While we recognize that there are risks that remain here (the likely need for additional capital at some point down the road for instance), we also continue to believe that their prospects continue to improve, and we are beginning to be able to better quantify some of their progress. That said, we submit, the model is likely to be fluid as they continue to transition not only to a subscription-based pricing model, but also towards a software centric product mix, which as we noted, will likely included multiple modules with differing price points and corresponding margins.

We remain positive on Sigma's prospects, and as such we reiterate our allocation and our price targets and will continue to revisit each as new information dictates.

# Projected Operating Model

| | | | | | | |
|---|---|---|---|---|---|---|
| **Projected Operating Model** | | | | | | |
| **Sigma Labs, Inc.** | | | | | | |
| **Prepared By: Dave Lavigne, Trickle Research** | | | | | | |
| | (Actual) | (Actual) | (Estimate) | (Estimate) | (Estimate) | |
| | **3/31/2022** | **6/30/2022** | **9/30/2022** | **12/31/2022** | **Fiscal 2022** | **Fiscal 2023** |
| REVENUES | $ 51,844 | $ 236,660 | $ 396,435 | $ 588,316 | $ 1,273,255 | $ 5,895,901 |
| COST OF REVENUE | $ 40,091 | $ 193,075 | $ 192,218 | $ 288,158 | $ 713,542 | $ 2,239,161 |
| **GROSS PROFIT** | $ 11,753 | $ 43,585 | $ 204,218 | $ 300,158 | $ 559,714 | $ 3,656,741 |
| **EXPENSES:** | | | | | $ - | $ - |
| Salaries & Benefits | $ 1,292,010 | $ 1,184,818 | $ 1,258,722 | $ 1,262,943 | $ 4,998,493 | $ 5,129,710 |
| Stock-Based Compensation | $ 170,976 | $ 167,439 | $ 150,000 | $ 150,000 | $ 638,415 | $ 600,000 |
| Operating R&D Costs | $ 143,418 | $ 146,885 | $ 142,750 | $ 154,733 | $ 587,785 | $ 829,480 |
| Investor & Public Relations | $ 94,326 | $ 152,300 | $ 125,000 | $ 125,000 | $ 496,626 | $ 500,000 |
| Organizational Costs | $ 58,749 | $ 60,817 | $ 61,121 | $ 61,427 | $ 242,114 | $ 248,793 |
| Legal & Professional Service Fees | $ 211,416 | $ 144,528 | $ 211,893 | $ 217,649 | $ 785,487 | $ 1,076,877 |
| Office Expenses | $ 205,432 | $ 303,600 | $ 211,893 | $ 217,649 | $ 938,575 | $ 976,877 |
| Depreciation & Amortization | $ 31,584 | $ 29,861 | $ 30,010 | $ 30,160 | $ 121,616 | $ 122,157 |
| Other Operating Expenses | $ 87,787 | $ 89,177 | $ 89,623 | $ 90,071 | $ 356,658 | $ 364,810 |
| Total Operating Expenses | $ 2,295,698 | $ 2,279,425 | $ 2,281,011 | $ 2,309,633 | $ 9,165,767 | $ 9,848,705 |
| LOSS FROM OPERATIONS | $ (2,283,945) | $ (2,235,840) | $ (2,076,794) | $ (2,009,475) | $ (8,606,053) | $ (6,191,964) |
| **OTHER INCOME (EXPENSE)** | | | | | $ - | $ - |
| Interest Income | $ 1,571 | $ 1,176 | $ 1,040 | $ 676 | $ 4,463 | $ 2,253 |
| State Incentives | $ 76,628 | $ - | $ - | $ - | $ 76,628 | $ - |
| Change in fair value of derivative liabilities | $ - | $ - | $ - | $ - | $ - | $ - |
| Exchange Rate Gain (Loss) | $ (330) | $ (10,436) | $ - | $ - | $ (10,766) | $ - |
| Interest Expense | $ (1,319) | $ (2,070) | $ (2,080) | $ (2,091) | $ (7,560) | $ (8,468) |
| Loss on Disposal of Assets | $ - | $ - | $ - | $ - | $ - | $ - |
| Debt discount amortization | $ - | $ - | $ - | $ - | $ - | $ - |
| | | | | | | |
| Total Other Income (Expense) | $ 76,550 | $ (11,330) | $ (1,040) | $ (1,415) | $ 62,765 | $ (6,215) |
| LOSS BEFORE PROVISION FOR INCOME TAXES | $ (2,207,395) | $ (2,247,170) | $ (2,077,834) | $ (2,010,890) | $ (8,543,289) | $ (6,198,179) |
| Provision for Income Taxes | $ - | $ - | $ - | $ - | $ - | $ - |
| Net Loss | $ (2,207,395) | $ (2,247,170) | $ (2,077,834) | $ (2,010,890) | $ (8,543,289) | $ (6,198,179) |
| Preferred Dividends | $ 14,220 | $ 14,220 | $ 14,220 | $ 14,220 | $ 56,880 | $ 56,880 |
| Net Loss applicable to Common Stockholders | $ (2,221,615) | $ (2,261,390) | $ (2,092,054) | $ (2,025,110) | $ (8,600,169) | $ (6,255,059) |
| Net Loss per Common Share - Basic and Diluted | $ (0.21) | $ (0.22) | $ (0.20) | $ (0.19) | $ (0.81) | $ (0.41) |
| Net Loss per Common Share - Diluted | $ (0.21) | $ (0.22) | $ (0.20) | $ (0.19) | $ (0.81) | $ (0.39) |
| Weighted Average Number of Shares Outstanding - Basic | 10,498,802 | 10,498,802 | 10,622,769 | 10,735,466 | 10,588,960 | 15,168,844 |
| Weighted Average Number of Shares Outstanding - Diluted | 10,498,802 | 10,498,802 | 10,622,769 | 10,800,081 | 10,605,113 | 16,047,679 |

**General Disclaimer:**

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of it investor base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company's annual report, quarterly report, press releases, as well as other regulatory filings. Trickle Research is not registered as a securities broker-dealer or an investment advisor either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. Trickle Research and/or its officers, investors and employees, and/or members of their families may have long/short positions in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities. David Lavigne does not hold a position in Sigma Additive Solutions Inc.

Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences.

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



Portions of this publication excerpted from company filings or other sources are noted in italics and referenced throughout the report.

**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.