

Trickle Research

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



Coverage Termination

SRAX, Inc.

SRAX

(Stock Symbol – Nasdaq: SRAX)

Report Date: 03/24/23

Closing Stock Price at Termination: (Close 03/23/23): \$.60

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We initiated our coverage of SRAX (known as Social Reality at that time) in April 2017, which makes it our most seasoned piece of ongoing coverage. Unfortunately, they have made maintaining the coverage quite difficult. More specifically, they have been unable to keep their financials current. As of this writing, their most current filing is for Q1-F22 (ended March 31, 2022). Moreover, because of the delinquent filings, their stock was delisted a short time ago (March 8, 2023). While we have been assuming along the way that they might be able to get the financials current and we could update the research and our conclusion therein, they have been unable to do so and from the sounds of their shareholder update, they are not likely to be completed anytime soon. Succinctly, we cannot reasonably maintain research without the benefit of current filings and clearly the delisting provides an additional layer of difficulty. That said, we cannot say we are surprised that this is where we are. In a research update from 08/21, we noted the following:

*“...In the earnings call, we raised an issue about the process which SRAX intends to deploy in terms of monetizing the stock it accumulates from platform subscribers. Keep in mind, most of their customers will likely be paying for their platform subscriptions and media campaigns with stock, which inevitably SRAX will need to sell and convert to cash. Our question centered around their intended protocols regarding that nuance. To edify, our thinking was that they would either treat that process rather passively, wherein they simply sell shares when they are freed for trading without (primary) regard to price or liquidity, or, they would take a more active approach to that process, where they attempt to ascertain more optimal timing (and by extension, the appropriate valuations) of their “portfolio”. It sounds as if the plan is to engage the latter. In case it is not clear, the more they engage the active approach, the more SRAX will begin to look like (and perhaps trade like) a microcap proxy. That has some interesting overtones. **Moreover, that approach will also likely create some variances in their financial reporting that people should be aware of. For instance, the mark-to-market approach they will need to use to value their equity holdings may create substantial (unrealized) changes in the accounted value of those holdings in periods of high market volatility. Keep in mind, volatility is a trademark of the microcap space. Further, an active strategy will include an added element of risk/return around the success or failure of those holdings. That can be a good thing or a bad thing depending on one’s perspective, but it suggests that SRAX may become a sort of diversified microcap “pureplay”, which will make it somewhat unique...**”.*

Further, in a more recent update on SRAX (08/22), we noted this as well:

*We accept that accounting for BigToken has delayed the financials, however, in our view, **the Company’s accumulated portfolio of microcap shares likely complicates the accounting (impairments etc.) as well, and we do not see that changing any time soon. Further, we suspect the compression (and illiquidity) in these assets may create some working capital challenges for SRAX as well.***

We thought this might be a meaningful risk that could come to bear, but we must admit, we did not think it would be this complex. Further, while it is difficult to assess without the benefit of filings and appropriate discussion therein, it appears that they may have been less aggressive selling the underlying shares they earned than they should have, which as we suggested above, has apparently negatively impacted working capital. Obviously, the state of the equity markets has not helped, and in our view, that portion of the equation is not likely to improve soon.

To reiterate, given their filing status and their listing status, we cannot maintain the research, and as such we are terminating the coverage.

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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.

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.