Trickle Research

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

Price Target Increase

SRAX, Inc.

(Stock Symbol – Nasdaq: SRAX)

Report Date: 08/19/21

12 - 24 month Price Target: *$7.50

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 Target Upgrade: (08/18/21): $4.14

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On 08/16/21, SRAX reported 2Q-F21 results, and those results and associated comments included a handful of interesting data points. We will try to briefly recap the most cogent of those.

First to recap, in some of our prior research we have tried to provide some pro forma glimpses of SRAX's operations without the consolidation of BigToken. Recall, SRAX spun their BigToken division into a separate public company; Force Protection Video Equipment Corp. (OTC: FPVD) dba: BigToken. In short, because of their relative (majority) ownership of FPVD, SRAX is required to continue consolidating those results. Unfortunately, in our opinion, that consolidation continues to "muddy the water" and impedes the evaluation of SRAX in the context of its core Sequire business. Our hope is that they/BigToken will be able to execute an arrangement that will allow SRAX to report results that are not consolidated with those of FPVD.

The above noted, SRAX's Sequire platform continues to gather momentum, so we will try to focus on that notion.

For the **first half of fiscal 2021**, on a consolidated basis, SRAX reported revenues of $13.1 million versus our estimate of $11.8 million. Operating income for the same period was <$3.3 million> versus our estimate of <$233,000>. Obviously, most of the operating expense line items ran substantially higher than our estimates. We have made adjustments to our model to reflect what looks like higher ongoing numbers in those line items than our prior models reflected. Recall, much of the guidance has been top line guidance. We would add, while the Company's operating expenses were roughly $3 million higher than we anticipated, approximately $1.9 million of that overage was actually the result of our understating operating expenses on the BigToken side of the business. From that perspective, the additional operating expenses in the context of the better than projected revenue performance, was not particularly askew. We will set that aside, but will reiterate, we would *really* like to see them get BigToken to an unconsolidated posture as soon as possible because we think that will improve the visibility and in turn the valuation picture of SRAX. We would add, they did note in the call that they believe some sort of arrangement in that regard is forthcoming ("*maybe* 4 to 6 weeks").

Beyond the numbers, the Company has established a couple of new shareholder initiatives that are topical. Below is an excerpt from the announcement of these two initiatives:

> *LOS ANGELES, August 17, 2021--(BUSINESS WIRE)--SRAX, Inc. (NASDAQ: SRAX), a financial technology company that unlocks data and insights for publicly traded companies through Sequire, its SaaS platform, announced today a $10M stock buy-back program, and a one-time special dividend of approximately $0.23 per share.*
>
> *The company will be issuing preferred shares to shareholders of SRAX common stock on September 20, 2021. The preferred shares will hold approximately $6.5M worth of Sequire clients stock, and as the shares are sold, the proceeds will be distributed to the preferred shareholders...*

Briefly, the stock buyback speaks for itself, but the teeth of that will of course depend on its execution in terms of what they actually repurchase. The second piece of this is an interesting approach, however, from a practical standpoint, we're not sure why they wouldn't just sell the associated shares, convert them to cash and then pay a cash dividend at some point in the future. Perhaps there is a nuance to this we do not understand. Again, we think it is an interesting approach, but unless we are missing something, it seems like a lot of administration to pay a dividend. That said, we think the two initiatives suggest the Company is beginning to get more comfortable with its ability to continue to accumulate value (be it marketable securities or cash) and they are willing to set portions of that aside to distribute to shareholders in one form or another. That gets us to their outlook on the future.

First, we think it is highly constructive that the Company (ex-BigToken) generated roughly $500,000 and $1.4 million of EBITDA for the first and second quarters of fiscal 2021 respectively. That is a stark improvement over the prior periods since the initiation of our coverage.

Second, the Company has (once again) boosted their full year (2021) guidance to $30 million to $32 million, up from the $25 million to $27 million provided on the Q1-F21 call. The Company has had several instances now where they have been able to raise guidance based on continued visibility and momentum in the business. We have adjusted our numbers higher to reflect numbers more in line with their guidance range as well as their information regarding bookings in the quarter. We would add, between the past two calls, the Company notes that their goal is to add 50 or more new client companies per quarter, and 1000 clients over the next 3 years. Doing the math, to get to 1,000 clients over the next three years they will need to add more than 50 per quarter. That noted, our model is not quite that aggressive, so ostensibly, if they perform to plan, they will continue to provide revenue surprises relative to our projections.

Lastly, SRAX continues to add functionality to their platform as well as broaden the reach of their microcap focus. Most recently those efforts include the addition of email and SMS features that make it easier for platform clients to communicate with their shareholders, as well as some others. They also launched Microcaps.com, which we think speaks to the notion of broadening their presence in the microcap space. We suspect there will be more platform features and other pieces added to the brand as we move forward. As we have noted in the past, much of our enthusiasm around Sequire stems from our own deep experiences and assessments of the strengths and weaknesses of microcap investing. In short, we think Sequire addresses and seeks to improve *some of* the challenges the industry faces in terms of providing access to information on many of these small emerging companies and in turn driving awareness about the opportunities they may present. As an extension, we think there is considerable value to be created enabling the industry and its constituents to address some of those challenges. Again, we think that is SRAX 's focus.

To summarize, SRAX's top line performance continues to advance and impress. Moreover, they appear to be gathering momentum in the business and we think they are beginning to develop much better visibility around that momentum. That, in our view, is a constructive combination. That said, we are still not sure we have a good handle on the necessary resources (i.e., operating expenses) required to support increasing levels of business, but we think we are getting there. In the regard, we have recast our models to reflect higher expenses. We would add, we still remain guarded with respect to the Company's exposure to the overall microcap market, but we assume by now that investors (at least our readers) understand the likely correlation. We would add, our model reflects Q1-F22 as the first quarter of non-BigToken consolidation. If that does not occur by calendar year-end 2021, then our model will be inaccurate with respect to the continued consolidation of BigToken results.

Because of some of the aforementioned momentum in the business as well as other new data points, we have recast some of our model assumptions. As a result, we are establishing a new (higher) 12-24 month price target for SRAX shares of *$7.50. While we are maintaining our allocation of 5.

Projected Operating Model

SRAX, Inc.						
Projected Operating Model						
By: Trickle Research LLC						
	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/21	**6/30/21**	**9/30/21**	**12/31/21**	**Fiscal 2021**	**Fiscal 2022**
Revenues	$ 5,442,000	$ 7,677,000	$ 7,817,810	$ 9,063,420	$ 30,000,231	$ 34,481,025
Cost of revenues	$ 1,650,000	$ 1,453,000	$ 1,988,129	$ 2,483,600	$ 7,574,729	$ 8,699,432
Gross profit	$ 3,792,000	$ 6,224,000	$ 5,829,682	$ 6,579,821	$ 22,425,502	$ 25,781,593
Operating expenses	$ -	$ -	$ -	$ -		
Employee related costs	$ 2,316,000	$ 2,827,000	$ 2,493,739	$ 2,504,115	$ 10,140,854	$ 7,784,215
Marketing and selling expenses	$ 1,160,000	$ 1,870,000	$ 1,972,409	$ 2,084,631	$ 7,087,040	$ 6,863,292
Platform Costs	$ 106,000	$ 112,000	$ 289,515	$ 293,160	$ 800,675	$ 315,480
Depreciation and amortization	$ 384,000	$ 372,000	$ 345,313	$ 345,313	$ 1,446,627	$ 1,381,254
General and administrative	$ 1,252,000	$ 2,112,000	$ 1,121,863	$ 1,183,555	$ 5,669,418	$ 4,324,051
Total operating expense	$ 5,218,000	$ 7,293,000	$ 6,222,839	$ 6,410,774	$ 25,144,613	$ 20,668,292
Gain (Loss) from operations	$ (1,426,000)	$ (1,069,000)	$ (393,157)	$ 169,046	$ (2,719,111)	$ 5,113,301
Other income (expense)	$ -	$ -	$ -	$ -		
Financing Costs	$ (15,025,000)	$ (382,000)	$ (243,030)	$ (243,030)	$ (15,893,060)	$ -
Gain (loss) on sale of assets	$ 4,493,000	$ (4,561,000)	$ -	$ -	$ (68,000)	$ -
Exchange gain (loss)	$ -	$ -	$ -	$ -	$ -	$ -
Gains from marketable securities	$ -	$ -	$ -	$ -	$ -	$ -
Loss on repricing of equity warrants	$ -	$ -	$ -	$ -	$ -	$ -
Change in fair value of derivative liabilities	$ -	$ -	$ -	$ -	$ -	$ -
Minority Interests	$ 854,000	$ 272,000	$ 303,957	$ 301,876	$ 1,731,833	$ -
Other Expenses	$ 14,000	$ -	$ -	$ -	$ 14,000	$ -
Total other income (loss)	$ (9,664,000)	$ (4,671,000)	$ 60,927	$ 58,846	$ (14,215,227)	$ -
Gain (Loss) before provision for income taxes	$ (11,090,000)	$ (5,740,000)	$ (332,230)	$ 227,892	$ (16,934,338)	$ 5,113,301
Provision for income taxes	$ -	$ -	$ -	$ -	$ -	$ -
Net income (loss)	$ (11,090,000)	$ (5,740,000)	$ (332,230)	$ 227,892	$ (16,934,338)	$ 5,113,301
Net loss per share, basic	$ (0.57)	$ (0.24)	$ (0.01)	$ 0.01	$ (0.82)	$ 0.20
Net loss per share, basic and diluted	$ (0.57)	$ (0.24)	$ (0.01)	$ 0.01	$ (0.82)	$ 0.19
Weighted average shares outstanding - basic	19,411,519	23,631,449	24,846,000	24,948,260	23,209,307	25,209,062
Weighted average shares outstanding - Basic & diluted	19,411,519	23,631,449	24,846,000	25,316,241	23,301,302	27,362,340

General Disclaimer:

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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.

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 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.