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UPDATE REPORT

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Oblong, Inc. (NASDAQ: OBLG)

May 14, 2021

Buy: Q1 Results

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We reiterate our Buy recommendation and $15 price target on Oblong, Inc. As the vaccinations increase, and work and travel restrictions decrease, more workers will return to offices. However, we expect businesses globally, when they can, to adopt a hybrid work environment, allowing workers to work from the traditional office or from home. We also believe this will necessitate greater team interaction over videoconferencing. We believe Oblong's Mezzanine is a unique technology platform and will make remote work collaboration more productive and more efficient and will benefit greatly from the changes to work that are underway.

Q1 results were lower than expected primarily due to a $1.6 million order shipment that was not recognized as revenue since the customer delayed implementation until later this year. The company believes this order is the first tranche of three to an international health care system that will cover 400 conference rooms and could generate $5 million in revenue. However, the timing of system implementation, and revenue recognition, is uncertain.

The qualified pipeline of leads, mostly generated via the company's partnership with Cisco Systems is now $25 million, double the year-ago level. The median deal size of $40,000 is also double the year-ago level. These metrics support our optimistic viewpoint, but like the delayed installation for the international health system, customers are cautious, pushing decisions out in time and elongating the sales cycle.

A more aggressive development and deployment of the company's cloud strategy would, we believe, shorten the sales cycle by reducing the capital required by customers to implement a hybrid work environment. Oblong plans to increase resources devoted to cloud product development over the coming quarters, with the potential for meaningful installations in the second half of this year.

While the short-term outlook is more challenging, we believe the long-term outlook has improved. Major companies, such as Google, plan on implementing hybrid work environments. Migration from urban areas (see "Did the COVID-19 Pandemic Cause an Urban Exodus?") will disperse the work force, and, we expect, will result in greater demand for videoconferencing tools.

Valuation: We use a multiple of 14x on the $100 million revenue we expect Oblong to achieve in 5 to 7 years. This puts our projected valuation at $1.4 billion. Discounting this amount with a 25% discount rate results in an 18-month price target range of approximately $14 to $21 per share. Our $15 price target is based on the lower end of this range, partly to reflect the risks to our projections.

Current Price			**$4.03**
Price Target			**$15.00**
Estimates	F2020A	F2021E	F2022E
Revenues ($000s)	$ 15,333	$ 12,927 E	$ 28,947
1Q March	$ 5,328	$ 1,918 A	$ 5,838
2Q June	$ 2,816	$ 2,593 E	$ 6,766
3Q September	$ 3,266	$ 3,500 E	$ 7,701
4Q December	$ 3,923	$ 4,915 E	$ 8,642
	F2020A	F2021E	F2022E
EPS (diluted)	$ (1.48)	$ (0.55)E	$ (0.30)
1Q March	$ (0.60)	$ (0.23)A	$ (0.09)
2Q June	$ (0.65)	$ (0.12)E	$ (0.08)
3Q September	$ (0.40)	$ (0.12)E	$ (0.07)
4Q December	$ 0.06	$ (0.11)E	$ (0.06)
EBITDA ($Ms)	$ (5.0)	$ (8.8)	$ (4.9)
EV/EBITDA (x)	-21.2x	-12.1x	-21.8x
Stock Data			
52-Week Range	$0.91	-	$12.25
Shares Outstanding (mil.)			26.6
Market Capitalization (mil.)			$107
Enterprise Value (mil.)			$107
Debt to Capital			5%
Book Value/Share			$2.85
Price/Book			1.4x
Average Three Months Trading Volume (K)			212
Insider Ownership			66.9%
Institutional Ownership			2.6%
Short interest (mil.)			0.6%
Dividend / Yield			$0.00/0.0%

Risks: The digital workplace collaboration market could see a reduction in demand as workers return to the workplace, and this could impact our revenue estimates. We expect Oblong to generate well over 50% of its sales through Cisco for at least the next 18 months. Our revenue estimates are at risk if Cisco's Webex is unable to compete effectively against Zoom, Microsoft Teams and other videoconferencing services. Oblong's technology is patent protected, but success would likely attract competition, which could affect our estimates.

Please find Important Disclosures beginning on Page 7.

Oblong's patented multi-stream collaboration technologies enable digital workplace collaborations, such as videoconferencing, to simultaneously share content among all the participants in a session regardless of the user's location or platform. This is a unique technology, and as digital collaboration becomes more common and more integral to companies' workflows, we expect multi-stream collaboration technologies to become critical for all videoconferencing applications.

Oblong is transitioning from a hardware-only solution to a cloud-based SaaS (software-as-a-service) model with positive implications for margins, cash-flow generation, consistency of results and the stock's EV/Sales multiple, in our view. The transition to a SaaS model will likely take a number of years, during which margins should improve and revenues accelerate as the user-base builds. Mature SaaS-based companies generate gross margins of 80% and sport EV/Sales multiples of 20x or more (see table on page 3). We believe these margins and multiples are within reach for Oblong over the next 5 to 7 years.

Oblong's flagship product family, Mezzanine, integrates rooms with multiple screens with remote terminals including laptops and mobile devices. The power of Mezzanine is its ability to enable sharing of content from any device connected in the session with all the other devices connected. We believe this is the next step in remote group collaboration and expect it to become ubiquitous over time since it improves meeting productivity and is particularly well-suited to the current environment where COVID has disrupted the traditional work environment.

Q1 Results

Revenue fell far short of our expectations primarily due to a $1.6 million order shipment that was not recognized as revenue since the customer delayed implementation until later this year. The company believes this order is the first tranche of three to an international health care system that will cover 400 conference rooms and could generate $5 million in revenue. However, the timing of system implementation, and revenue recognition, is uncertain.

Q1 21				
($ in 000's)				
	Actual	Estimates	Delta	% Delta
Revenue	$ 1,918	$ 3,675	$ (1,757)	-48%
COGS	1,290	1,762	(472)	-27%
Gross Profit	628	1,913	(1,285)	-67%
	33%	52%		
R&D	692	1,100		
Sales and marketing	527	1,000		
G&A	2,067	1,334		
Impairment charges	31	0		
D&A	722	797		
Opex	4,039	4,230	(191)	-5%
Operating Income	$ (3,411)	$ (2,318)	$ (1,093)	-47%
Interest and other	(22)	(65)		
Fx		0		
	(3,433)			
Pretax Income	0	(2,383)		
Taxes	667			
Preferred dividends	(4,100)	0		
Net to common		$ (2,383)	$ 2,383	100%
	17,756			
Diluted Shares		17,183		
	(0)			
Diluted EPS	$ (0.23)	$ (0.14)	$ (0.09)	-64%
	722			
D&A	33	797		
Stock Comp	274	163		
Other	31	0		
EBITDA	$ (2,351)	$ (1,359)	$ (992)	-73%
Margin	-122.6%	-37.0%		

Source: Oblong, Inc and Dawson James Securities estimates.

Outlook

We have reduced our revenue estimate for this year to reflect the elongated sales cycle and assume revenue accelerates in the second half and into next year. We have also increased our estimates of operating expenses.

Part of the increase in operating expenses is devoted to accelerating the development of the cloud platform. More revenue from cloud services should drive an improvement in gross margin. We forecast gross margin will improve from 52% in 2021 to 70% in 2023. We believe gross margin can go higher still as more of the business is generated by cloud-based SaaS revenue.

Valuation and Price Target

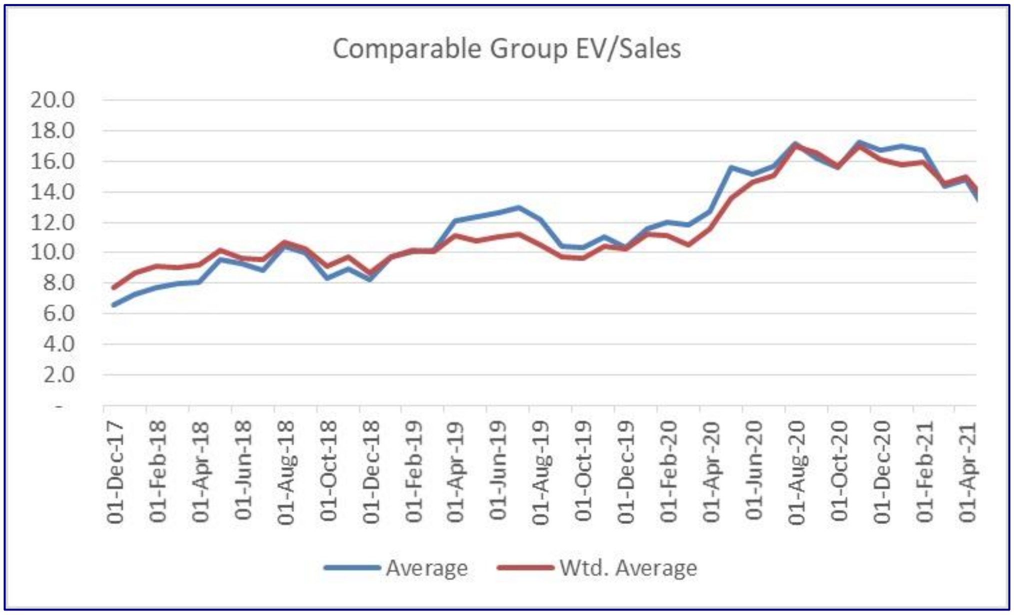
Our valuation is based on the assumption Oblong will be successful transitioning to a SaaS provider. This should drive margins higher, and higher margins should drive an EV/Sales multiple expansion. If there are delays in developing the SaaS platform, or the company is less successful than we model in becoming a pure-play SaaS provider, our margin and multiple assumptions will be at risk.

The table below presents a comp group of enterprise software, SaaS providers and collaboration software companies. The median EV/sales multiple for the group is 14x, but SaaS providers have EV/Sales multiples of approximately 15x to 25x.

		Price	FTM EPS	P/E	TEV (in M's)	FTM Sales (in M's)	EV/ Sales	FTM EBITDA (in M's)	EV/ EBITDA
ADBE	Adobe Inc.	$474.16	$ 12.68	37.4	$225,403.0	$ 16,474.9	13.68	$ 8,068.0	27.9
ASAN	Asana, Inc. Class A	28.15	(1.00)	(28.1)	4,858.4	337.7	14.39	(174.2)	(27.9)
TEAM	Atlassian Corp. Plc Class A	212.45	1.43	148.2	55,710.0	2,330.8	23.90	579.0	96.2
CTXS	Citrix Systems, Inc.	116.72	6.12	19.1	17,673.2	3,476.7	5.08	1,154.2	15.3
DOCU	DocuSign, Inc.	180.16	1.47	122.4	36,677.9	2,129.0	17.23	384.0	95.5
DBX	Dropbox, Inc. Class A	24.44	1.41	17.3	10,507.9	2,198.9	4.78	776.6	13.5
HUBS	HubSpot, Inc.	475.30	1.90	249.7	22,377.5	1,361.2	16.44	171.2	130.7
NTNX	Nutanix, Inc. Class A	28.71	(1.76)	(16.3)	5,339.0	1,456.3	3.67	(239.0)	(22.3)
ONTF	ON24, Inc.	33.84	(0.01)	(3,696.7)	1,317.1	224.9	5.86	4.5	NM
RNG	RingCentral, Inc. Class A	237.76	1.37	173.7	23,786.2	1,634.2	14.55	230.7	103.1
SMAR	Smartsheet, Inc. Class A	52.16	(0.36)	(144.2)	6,324.8	542.8	11.65	(30.1)	(210.3)
TWLO	Twilio, Inc. Class A	281.02	(0.10)	(2,815.5)	46,979.4	2,817.0	16.68	254.1	184.9
WDAY	Workday, Inc. Class A	222.58	3.00	74.1	53,451.7	5,242.8	10.20	1,225.1	43.6
ZM	Zoom Video Communications, Inc. (	290.16	3.84	75.5	81,489.2	4,008.8	20.33	1,318.0	61.8
	Median			28.2			14.03		43.6
OBLG	Oblong Inc.	$ 4.03	$ (0.38)	(10.6)	$ 103.7	$ 18.8	5.53	$ (7.4)	(14.0)

Source: FactSet, Dawson James Securities estimates

We believe the accommodative Fed policy has resulted in an increase in overall equity multiples, and we also believe SaaS and enterprise productivity software has, on a relative basis, benefitted from the changes in business wrought by the pandemic. This, too, has resulted in a multiple increase for the group. Since the end of 2019, the comp group average EV/Sales has increased from 10.8x FTM sales to 17x FTM sales, before falling back recently to 13x FTM sales.



Source: FactSet, Dawson James Securities estimates.

We believe multiples for the group can remain at high levels due to changes resulting from the pandemic in business practices and the Fed's stated policy of keeping monetary policy accommodative for an extended period of time. If the Fed changes its policy, our EV/Sales target multiple could be at risk.

We believe Oblong can achieve $100 million in revenue over the next 5 to 7 years. Shares of high-growth SaaS companies, with scale, have traded as high as 30x FTM sales, and shares of a comp group, with a mix of low- and high-growth companies, trade, on average, at 14x FTM sales. We use a multiple of 14x on the $100 million revenue we expect Oblong to achieve in 5 to 7 years. This puts our projected valuation at $1.4 billion. Discounting this amount with a 25% discount rate results in an 18-month price target range of approximately $14 to $21 per share. Our $15 price target is based on the lower end of this range, partly to reflect the risks to our projections.

Risk Analysis

The company faces considerable risks. The digital workplace collaboration market has experienced dramatic growth since COVID disrupted the global economy. As vaccines are deployed, there could be a sharp reduction in demand as workers return to the workplace, and this could impact our revenue estimates. We expect Oblong to generate well over 50% of its sales through Cisco for at least the next 18 months. Our revenue estimates are at risk if Cisco's Webex is unable to compete effectively against Zoom, Microsoft Teams and other videoconferencing services. Oblong's technology is patent protected, but success will likely attract competition. Oblong will need to integrate with other collaboration technology products and services, which could be time-consuming and expensive. Offering a product that is part of a larger service presents opportunities, but also risks since Oblong may not exert price control or have direct contact with the customer. This could put the company's revenue stream at risk.

Exhibit 1. Income Statement

($ in 000's) (except per share data)	31-Dec-18 FY2018	31-Dec-19 FY2019	31-Dec-20 FY2020	31-Mar-21 Q1 21 A	30-Jun-21 Q2 21 E	30-Sep-21 Q3 21 E	31-Dec-21 Q4 21 E	31-Dec-21 FY2021 E	31-Dec-22 FY2022 E	31-Dec-23 FY2023 E
Revenue	$ 12,557	$ 12,827	$ 15,333	$ 1,918	$ 2,593	$ 3,500	$ 4,915	$ 12,927	$ 28,947	$ 48,005
COGS	7,598	7,427	7,280	1,290	1,290	1,575	2,041	6,197	10,463	14,459
Gross Profit	4,959	5,400	8,053	628	1,303	1,925	2,875	6,731	18,484	33,546
	39%	42%	53%	33%	50%	55%	58%	52%	64%	70%
R&D	921	2,023	3,711	692	850	1,000	1,200	3,742	5,431	6,601
Sales and marketing	319	1,936	3,392	527	750	1,000	1,400	3,677	5,789	8,641
G&A	4,611	5,377	6,724	2,067	2,200	2,400	2,600	9,267	13,000	15,798
Impairment charges	5,093	2,317	1,150	31	0	0	0	31	0	0
D&A	755	1,321	3,140	722	722	722	722	2,888	2,988	3,078
Opex	11,699	12,974	18,117	4,039	4,522	5,122	5,922	19,605	27,208	34,118
Operating Income	$ (6,740)	$ (7,574)	$ (10,064)	$ (3,411)	$ (3,219)	$ (3,197)	$ (3,047)	$ (12,874)	$ (8,724)	$ (572)
Interest and other	(415)	(187)	2,765	(22)	(65)	(65)	(65)	(152)	(195)	(195)
Pretax Income	(7,155)	(7,761)	(7,318)	(3,433)	(3,284)	(3,262)	(3,112)	(13,091)	(8,984)	(832)
Taxes	0	0	103	0	0	0	0	0	0	0
Preferred dividends	13	23	805	667	0	0	0	667	0	0
Net to common	$ (7,168)	$ (7,784)	$ (8,226)	$ (4,100)	$ (3,284)	$ (3,262)	$ (3,112)	$ (13,758)	$ (8,984)	$ (832)
Basic Shares	4,795	5,108	5,547	17,756	26,673	27,236	29,097	25,191	30,413	30,561
Diluted Shares	4,795	5,108	5,547	17,756	26,673	27,236	29,097	25,191	30,413	30,561
Basic EPS	$ (1.49)	$ (1.52)	$ (1.48)	$ (0.23)	$ (0.12)	$ (0.12)	$ (0.11)	$ (0.55)	$ (0.30)	$ (0.03)
Diluted EPS	$ (1.49)	$ (1.52)	$ (1.48)	$ (0.23)	$ (0.12)	$ (0.12)	$ (0.11)	$ (0.55)	$ (0.30)	$ (0.03)
D&A	755	1,321	3,140	722	722	722	722	2,888	2,988	3,078
Stock Comp	365	110	198	33	150	150	200	533	827	1,234
Stock Issued for Svcs.	0	0	0	274	100	100	100	574	0	0
Other	5,093	2,317	1,686	31	0	0	0	31	0	0
EBITDA	(527)	(3,826)	(5,040)	(2,351)	(2,247)	(2,225)	(2,025)	(8,848)	(4,909)	3,740
Margin	-4.2%	-29.8%	-32.9%	-122.6%	-86.6%	-63.6%	-41.2%	-68.4%	-17.0%	7.8%

Source: Oblong, Inc. and Dawson James Securities estimates

Exhibit 2. Balance Sheet and Cash Flow Statement

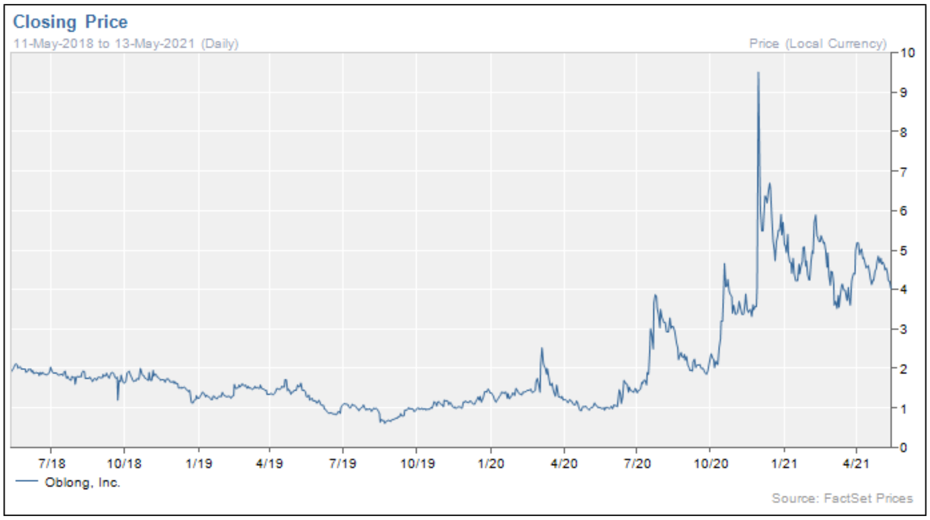
($ in 000's)	31-Dec-18 FY2018	31-Dec-19 FY2019	31-Dec-20 FY2020	31-Dec-21 FY2021 E	31-Dec-22 FY2022 E	31-Dec-23 FY2023 E
Cash	$ 2,007	$ 4,602	$ 5,058	$ 11,890	$ 7,382	$ 12,000
Restricted Cash	0	0	158	$ 61	$ 61	$ 61
A/R	1,371	2,543	3,166	3,277	5,761	9,628
Inventory	0	1,816	920	1,494	1,494	1,494
Prepaid Expenses & other	547	965	691	2,113	3,714	6,208
Current Assets	$ 3,925	$ 9,926	$ 9,993	$ 18,835	$ 18,412	$ 29,391
PP&E	728	1,316	573	655	855	955
Goodwill	2,795	7,907	7,367	7,367	7,367	7,367
Intangibles	499	12,572	10,140	7,752	5,364	2,986
Operating lease	0	3,117	903	773	773	773
Other	15	71	167	113	113	113
Total Assets	**$ 7,962**	**$ 34,909**	**$ 29,143**	**$ 35,495**	**$ 32,884**	**$ 41,585**
LTD, current	0	2,664	2,014	0	0	0
A/P	222	647	313	1,988	3,494	5,840
Accrued Expenses	867	1,752	1,201	2,824	4,964	8,297
Deferred revenue	43	1,901	1,217	1,713	3,012	5,033
Operating lease	0	1,294	830	797	797	797
Current Liabilities	$ 1,132	$ 8,258	$ 5,575	$ 7,321	$ 12,267	$ 19,966
LTD	0	2,843	403	0	0	0
Operating lease	0	2,020	602	423	423	423
Deferred revenue	0	0	506	561	561	561
Other	0	3	0	0	0	0
Equity	6,830	21,785	22,057	27,190	19,633	20,635
Total Liabilities & Equity	**$ 7,962**	**$ 34,909**	**$ 29,143**	**$ 35,495**	**$ 32,884**	**$ 41,585**

	31-Dec-18 FY2018	31-Dec-19 FY2019	31-Dec-20 FY2020	31-Dec-21 FY2021 E	31-Dec-22 FY2022 E	31-Dec-23 FY2023 E
Net Income	$ (7,168)	$ (7,761)	$ (7,421)	$ (13,091)	$ (8,984)	$ (832)
Depreciation & Amort.	755	1,321	3,140	2,888	2,988	3,078
Stock Comp	365	110	198	533	827	1,234
Working Capital & Other	4,893	3,077	(2,483)	4,379	860	1,339
Operating CF	**$ (1,155)**	**$ (3,253)**	**$ (6,566)**	**$ (5,292)**	**$ (4,309)**	**$ 4,819**
Capx	(335)	(45)	(38)	(617)	(800)	(800)
Acquisitions/Other	0	2,194	7	0	0	0
Investing Activities	**$ (335)**	**$ 2,149**	**$ (31)**	**$ (617)**	**$ (800)**	**$ (800)**
Equity	1,383	3,699	7,355	15,000	600	600
Debt	(1,832)	0	(83)	(2,417)	0	0
Financing	**$ (449)**	**$ 3,699**	**$ 7,272**	**$ 12,583**	**$ 600**	**$ 600**
Change in Cash	**$ (1,939)**	**$ 2,595**	**$ 675**	**$ 6,674**	**$ (4,509)**	**$ 4,619**

Source: Oblong, Inc. and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:
Initiated – Buy – April 27, 2021 – Price Target $15.00
Update – Buy – May 14, 2021 – Price Target $15.00

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Buy: The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months.

2) **Neutral**: The analyst believes the price of the stock is fairly valued for the next 12-18 months.

3) **Sell**: The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

As of: 5-May-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	70%	5	22%
Market Perform (Neutral)	10	30%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	33	100%	5	15%

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