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SRAX, Inc. (NASDAQ: SRAX)

May 18, 2021

BUY: Q1 Revenue Exceeds Expectations

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SRAX reported summary Q1 results and raised revenue guidance for the year to a range of \$25 million to \$27 million. The company expects to recognize \$19.8 million in revenue this year from existing contracts, and that, combined with revenue from BIGToken, conferences and additional Sequire bookings and sales provides excellent visibility for the year. In our view, the potential to exceed current guidance is high. We reiterate our Buy recommendation and \$10 price target.

Q1 revenue of \$5.4 million exceeded our \$5.0 million estimate, with almost the entire delta attributable to Sequire. The company raised revenue guidance for this year from a range of \$23 million to \$25 million, to a new range of \$25 million to \$27 million. We are raising our revenue estimate for the year from \$26.1 million to \$27.0 million and believe there is upside potential from that estimate.

Sequire bookings in Q1 were \$10 million, and quarter-to-date Sequire bookings were \$7.2 million. The company expects to book at least \$10 million for all of Q2, and for the year, expects to recognize \$19.8 million from contracts already booked. With \$3 million to \$4 million of revenue from BIGToken and one to two million from conferences and events, we believe the path to achieve or exceed current guidance is highly visible.

Consolidated EBITDA for Q1 was a loss of \$0.9 million. Of this, Sequire contributed \$1.3 million (positive) EBITDA, BIGToken contributed a \$1.4 million EBITDA loss and corporate overhead an additional \$0.8 million EBITDA loss. Excluding BIGToken, EBITDA was \$0.5 million. When SRAX ownership of FPVD falls under 50%, BIGToken's results will not be consolidated and the profitability and financial strength will, in our opinion, become more apparent.

Sequire subscribers grew from 125 at the end of 2020 to 183 at the end of Q1 and 200 as of the end of last week. We had previously forecast 203 subscribers by the end of Q2 and have increased that to 210. The company's goal is 1,000 subscribers in three years.

Cash at quarter-end was \$13.5 million and marketable securities was \$18 million.

Valuation: Our price target of \$10 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$32.8 million. The EV/Sales multiple is a discount of about 25% to the group median of 9.4x (see table on page 2). At the group median, the price target would be \$13.57. Our revenue estimate for 2022 includes \$3.4 million from BIGtoken so implicitly values SRAX's 57% share of BIGtoken at \$14 million, far below the \$75 million current public market value of SRAX's ownership of BIGtoken.

Risks to Target: Risks to achieving our price target include negative impacts of the COVID-19 pandemic, the ability to scale the Sequire platform, introduction of new platform services, ability to make debt and acquisition payments, potential pressure on the share price from conversion of the OID and exercise of warrants followed by sale of the shares received in the exercise.

Current Price				\$4.66
Price Target				\$10.00
Estimates	F2020A	F2021E	F2022E	
Revenues (\$000s)	\$ 8,647	\$ 26,968 E	\$ 32,850	
1Q March	\$ 351	\$ 5,442 A	\$ 7,130	
2Q June	\$ 1,165	\$ 6,896 E	\$ 8,210	
3Q September	\$ 2,609	\$ 7,230 E	\$ 8,340	
4Q December	\$ 4,522	\$ 7,400 E	\$ 9,170	
	F2020A	F2021E	F2022E	
EPS (diluted)	\$ (1.00)	\$ (0.13)	\$ 0.00	
1Q March	\$ (0.21)	\$ (0.09)	\$ (0.03)	
2Q June	\$ (0.38)	\$ (0.03)	\$ 0.00	
3Q September	\$ (0.45)	\$ 0.01	\$ 0.00	
4Q December	\$ 0.01	\$ (0.03)	\$ 0.03	
EBITDA (\$Ms)	\$ (8.4)	\$ 3.0	\$ 5.2	
EV/EBITDA (x)	-9.8x	27.2x	15.9x	
Stock Data				
52-Week Range	\$1.60	-	\$7.20	
Shares Outstanding (mil.)				23.6
Market Capitalization (mil.)				\$110
Enterprise Value (mil.)				\$82
Debt to Capital				12%
Book Value/Share				\$1.19
Price/Book				3.9x
Average Three Months Trading Volume (K)				1,856
Insider Ownership				11.3%
Institutional Ownership				7.0%
Short interest (mil.)				4.4%
Dividend / Yield				\$0.00/0.0%



Sequire gross margin was 70% for the quarter and this will fluctuate based on the mix of higher-margin subscription revenue and media purchases. We have forecast gross margin to remain at elevated levels, projecting 72% in 2021 and 71% in 2022. As the business scales, the EBITDA margin should improve. We estimate an EBITDA margin of 11% this year, improving as the year progresses, with a Q4 EBITDA margin of 16%. For 2022, we estimate EBITDA margin of 16% for the year, and an EBITDA margin of 21% in the final quarter of 2022.

SRAX owns 149.6 billion shares of Force Protection Video Equipment (FPVD) as a result of a share exchange agreement for its ownership of BIGToken. At the current market price, this stake is worth \$75 million. Based on the latest financial data available for FPVD, we believe the company will need to raise capital before year-end and this could reduce SRAX's ownership below 50%. At that point, FPVD's results would most likely not be consolidated with SRAX.

Q1 Results				
\$ in millions	Sequire	BIGToken	Corp./Other	Consolidated
Revenue	4.5	0.9	0.0	5.4
Gross Margin	3.2	0.6	0.0	3.8
Cash Opex	1.9	2.0	0.8	4.7
EBITDA	\$ 1.3	\$ (1.4)	\$ (0.8)	\$ (0.9)

Source: SRAX, Inc.

Full financial results were not released pending resolution of issues surrounding valuation of certain instruments related to Force Protection. We believe this will impact only non-cash items.

Outlook

Our revenue estimates build off three sources of revenue: 1) Sequire, 2) BIGToken, and 3) conferences/events from LD Micro. We assume most of the growth over our forecast horizon comes from Sequire's subscription platform and associated media/data revenue.

Our estimate for consolidated sales (including BIGToken) for 2021 is \$27.0 million, up from \$8.6 million in 2020, with most of the increase coming from Sequire. For 2022, we project revenue of \$32.8 million, with all of the increase driven by Sequire.

\$ in millions	2020A	2021E	2022E
Sequire	5.8	21.6	27.8
BigToken	2.2	3.8	3.4
Conference & other	0.7	1.6	1.6
Total	\$ 8.6	\$ 27.0	\$ 32.8

Source Dawson James Securities estimates

For modeling purposes, we have assumed BIGToken will be consolidated for our forecast period with revenue and opex about flat with current levels. However, BIGToken will not be subject to consolidation when SRAX's ownership falls below 50%, which could be by year-end. Also, BIGToken revenue and opex will likely be driven by the company's ability to raise additional capital.

Valuation

SaaS/Database providers' shares commonly trade between 5x and 20x forward-12-month (FTM) sales partly due to their 40% to 55% EBITDA margins. We think SRAX is capable of achieving that level of margins, but it will require greater scale.

		Price	TEV (\$ in M)	FTM Sales (\$ in M)	EV/ Sales
BR	Broadridge Financial Solutions, Inc.	\$ 162.24	\$ 20,928.5	\$ 5,233.4	4.0x
CSGP	CoStar Group, Inc.	817.96	29,771.9	2,021.2	14.7x
DNB	Dun & Bradstreet Holdings Inc	21.86	12,934.5	2,187.1	5.9x
EFX	Equifax Inc.	237.69	33,148.1	4,705.1	7.0x
GPV	Global Payments Inc.	196.81	66,683.9	7,809.9	8.5x
INFO	IHS Markit Ltd.	103.71	47,385.0	4,638.4	10.2x
MCO	Moody's Corporation	329.69	66,349.5	5,738.7	11.6x
MSCI	MSCI Inc. Class A	455.78	40,986.0	2,026.7	20.2x
NLSN	Nielsen Holdings Plc	28.10	16,096.3	3,508.3	4.6x
SPGI	S&P Global, Inc.	374.95	94,697.1	7,958.6	11.9x
TRU	TransUnion	108.04	23,888.1	3,038.8	7.9x
VRSK	Verisk Analytics Inc	172.94	31,848.8	3,027.5	10.5x
	Median				9.4
SRAX	SRAX, Inc. Class A	\$ 4.66	\$ 82.4	\$ 29.2	2.8x

Source: FactSet and Dawson James Securities estimates

Based on our forward-12-month revenue estimate of \$28 million, SRAX shares trade below that range, or at 2.8x forward-12-month sales, and at 2.5x our 2022 sales estimate of \$32.8 million.

Price Target

Our price target of \$10 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$32.8 million. The EV/Sales multiple is a discount of about 25% to the group median of 9.4x and reflects the risks of achieving our revenue estimate. At the group median, the price target would be \$13.57. Our revenue estimate for 2022 includes \$3.4 million from BIGToken so implicitly values SRAX's 57% share of BIGToken at \$14 million, far below the \$75 million current public market value of SRAX's ownership of BIGToken.

Risk Analysis

Risks to achieving our price target include negative impacts of the COVID-19 pandemic, the ability to scale the Sequire platform, introduction of new platform services, ability to make debt and acquisition payments, potential pressure on the share price from conversion of the OID and exercise of warrants followed by sale of the shares received in the exercise.

Exhibit 1. Summary Financial Data

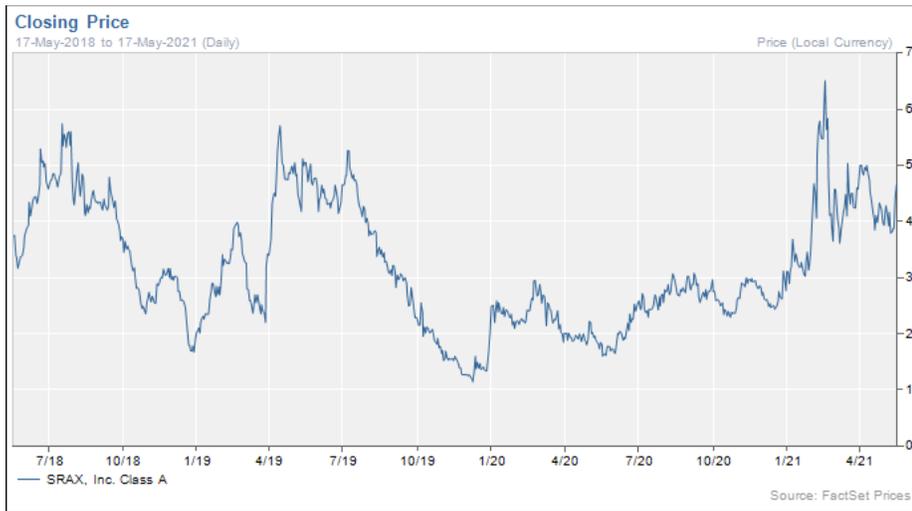
(\$ in 000s, except per-share data)

\$ in 000's	2018	2019	2020	Q1 21 A	Q2 21 E	Q3 21 E	Q4 21 E	2021 E	2022 E
Revenues	\$ 9,881	\$ 3,584	\$ 8,647	\$ 5,442	\$ 6,896	\$ 7,230	\$ 7,400	\$ 26,968	\$ 32,850
Cost of Revenues	3,157	1,680	2,589	1,650	1,882	2,087	2,033	7,652	9,842
Gross Profit	6,724	1,904	6,058	3,792	5,014	5,143	5,367	19,316	23,008
Operating Expenses	18,443	19,762	17,655	5,277	5,277	5,404	5,431	21,389	22,932
Operating Income	\$ (11,719)	\$ (17,858)	\$ (11,597)	\$ (1,485)	\$ (263)	\$ (261)	\$ (64)	\$ (2,073)	\$ 76
Adj. EBITDA	\$ (9,073)	\$ (15,528)	\$ (8,442)	\$ (862)	\$ 1,013	\$ 1,016	\$ 1,212	\$ 3,031	\$ 5,180

Source: SRAX, Inc. and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

Initiated – Buy – April 19, 2021 – Price Target \$10.00

Update – Buy – May 18, 2021 – Price Target \$10.00

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As of: 17-May-21

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	71%	5	21%
Market Perform (Neutral)	10	29%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	34	100%	5	15%

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