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## Oblong, Inc. (NASDAQ: OBLG)

July 6, 2021

### Buy: Capital Raise for Product and Market Development

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We reiterate our Buy recommendation on Oblong, Inc. and have adjusted our price target to \$13 from \$15 to reflect the greater share count after the company's recent capital raise. Oblong raised gross proceeds of \$12.4 million with the sale of 4 million shares at \$3.10 per share. Two tranches of warrants, totaling 4 million potential shares were also issued. The weighted average strike price for these warrants is \$4.30 per share and would generate an additional \$17.2 million if fully exercised for cash. We remain bullish on the company's position in the video conferencing and collaboration market and expect Oblong's unique technology platform, Mezzanine, will make remote work collaboration more productive and more efficient. We forecast the success of Mezzanine will drive sales and margins substantially higher.

As the vaccinations increase, and work and travel restrictions decrease, more workers will return to offices. 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 believe this will necessitate greater team interaction over videoconferencing. Oblong's Mezzanine is a unique technology platform that makes remote work collaboration more productive and more efficient and will benefit greatly from the changes to work that are underway.

The company continues to build its sales pipeline, primarily in conjunction with Cisco Systems. The qualified pipeline of leads at the end of Q1 was \$25 million, double the year-ago level. The median deal size is also increasing and was \$40,000 at the end of Q1 also double the year-ago level. These metrics support our optimistic long-term outlook.

In the short term, we expect modest revenue growth as many customers continue to evaluate the disposition of their workforces, how often workers will telecommute and what resources are needed to maintain and improve productivity. We expect this evaluation to continue through Labor Day and orders to pick up afterwards.

We expect Oblong to use the proceeds of the capital raise to fund a more aggressive development and deployment of its cloud strategy. We believe this could shorten the sales cycle by reducing the capital required by customers to implement a hybrid work environment. If successful, this should result in meaningful installations in the second half of this year.

**Valuation:** We use a multiple of 15x on the \$100 million revenue we expect Oblong to achieve in 5 to 7 years. This puts our projected valuation at \$1.5 billion. Discounting this amount with a 25% discount rate results in an 18-month price target range of approximately \$12 to \$17 per share. Our \$13 price target is based on the lower end of this range, partly to reflect the risks to our projections.

**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.

Current Price	\$3.24		
Price Target	\$13.00		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 15,333	\$ 10,611 E	\$ 25,219
1Q March	\$ 5,328	\$ 1,918 A	\$ 4,915
2Q June	\$ 2,816	\$ 2,593 E	\$ 5,837
3Q September	\$ 3,266	\$ 2,600 E	\$ 6,766
4Q December	\$ 3,923	\$ 3,500 E	\$ 7,701
	F2020A	F2021E	F2022E
EPS (diluted)	\$ (1.48)	\$ (0.58) E	\$ (0.45)
1Q March	\$ (0.60)	\$ (0.23) A	\$ (0.12)
2Q June	\$ (0.65)	\$ (0.11) E	\$ (0.12)
3Q September	\$ (0.40)	\$ (0.14) E	\$ (0.11)
4Q December	\$ 0.06	\$ (0.13) E	\$ (0.10)
EBITDA (\$Ms)	\$ (5.0)	\$ (10.8)	\$ (9.9)
EV/EBITDA (x)	-17.3x	-8.1x	-8.8x
Stock Data			
52-Week Range	\$1.44	-	\$12.25
Shares Outstanding (mil.)	30.6		
Market Capitalization (mil.)	\$99		
Enterprise Value (mil.)	\$87		
Debt to Capital	14%		
Book Value/Share	\$1.00		
Price/Book	4.6x		
Average Three Months Trading Volume (K)	538		
Insider Ownership	66.9%		
Institutional Ownership	15.2%		
Short interest (mil.)	0.3%		
Dividend / Yield	\$0.00/0.0%		



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.

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 below). 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.

## Outlook

We expect modest sequential sales growth for the next two quarters to reflect an elongated sales cycle and assume revenue accelerates in the second half and into next year as workers return to the office and companies adopt a hybrid work environment that enables portions of its work force to work from home more often. We forecast an increase in operating expenses will be 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 49% in 2021 to 69% 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

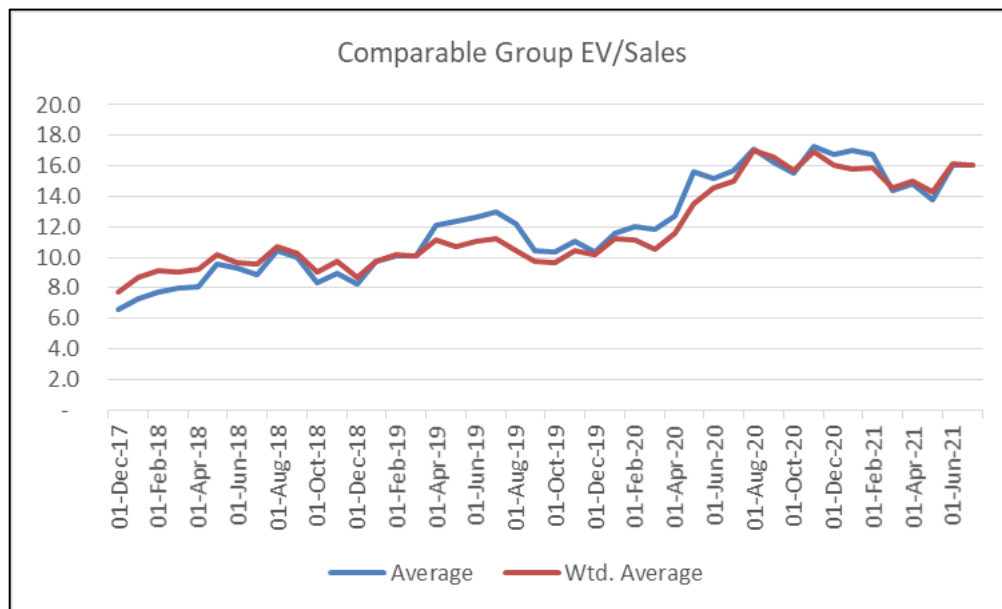
Our valuation is based on the assumption Oblong will be successful transitioning to a SaaS provider. This should drive margins higher, and higher margins should drive an EV/Sales multiple expansion. If there are delays in developing the SaaS platform, or the company is less successful than we model in 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 16x, but SaaS providers have EV/Sales multiples of approximately 15x to 30x.

		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.	\$ 593.07	\$ 13.29	44.6	\$281,463.5	\$ 17,065.7	16.49	\$ 8,408.9	33.5
ASAN	Asana, Inc. Class A	67.16	(1.02)	NM	11,216.4	379.4	29.56	(171.5)	NM
TEAM	Atlassian Corp. Plc Class A	262.72	1.45	181.0	65,512.8	2,365.4	27.70	577.9	113.4
CTXS	Citrix Systems, Inc.	118.93	6.28	18.9	17,937.7	3,517.1	5.10	1,166.2	15.4
DOCU	DocuSign, Inc.	278.82	1.85	150.7	54,490.0	2,301.7	23.67	474.3	114.9
DBX	Dropbox, Inc. Class A	30.68	1.43	21.4	12,863.1	2,223.0	5.79	773.9	16.6
HUBS	HubSpot, Inc.	591.11	2.01	294.6	27,180.9	1,410.5	19.27	179.6	151.4
NTNX	Nutanix, Inc. Class A	38.42	(1.34)	NM	8,050.2	1,547.2	5.20	(135.0)	NM
ONTF	ON24, Inc.	38.46	(0.00)	NM	1,397.5	230.9	6.05	5.7	245.9
RNG	RingCentral, Inc. Class A	289.56	1.41	204.8	27,294.9	1,686.1	16.19	236.4	115.4
SMAR	Smartsheet, Inc. Class A	73.47	(0.33)	NM	8,838.2	573.7	15.41	(26.3)	NM
TWLO	Twilio, Inc. Class A	388.68	(0.04)	NM	62,924.4	2,924.9	21.51	251.6	250.1
WDAY	Workday, Inc. Class A	238.30	3.18	75.0	58,017.5	5,406.5	10.73	1,329.5	43.6
ZM	Zoom Video Communications, Inc. C	388.89	4.67	83.4	109,957.5	4,320.0	25.45	1,630.2	67.4
	Median			83.4			16.34		113.4
OBLG	Oblong Inc.	\$ 3.24	\$ (0.29)	NM	\$ 85.2	\$ 18.1	4.71	\$ (10.4)	NM

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 early this year, before falling back recently to 16x 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 16x FTM sales. We use a multiple of 15x on the \$100 million revenue we expect Oblong to achieve in 5 to 7 years. This puts our projected valuation at \$1.5 billion. Discounting this amount with a 25% discount rate results in an 18-month price target range of approximately \$12 to \$17 per share. Our \$13 price target is based on the lower end of this range, partly to reflect the risks to our projections. Relative to our prior price target of \$15, our current price target reflects the increase in the share count and additional shares from the potential exercise of warrants.

### 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	\$ 2,600	\$ 3,500	\$ 10,611	\$ 25,219	\$ 42,453
COGS	7,598	7,427	7,280	1,290	1,290	1,295	1,575	5,450	9,353	12,966
Gross Profit	4,959	5,400	8,053	628	1,303	1,305	1,925	5,161	15,866	29,487
	39%	42%	53%	33%	50%	50%	55%	49%	63%	69%
R&D	921	2,023	3,711	692	850	1,200	1,200	3,942	5,431	6,601
Sales and marketing	319	1,936	3,392	527	750	1,200	1,400	3,877	5,044	7,642
G&A	4,611	5,377	6,724	2,067	2,200	2,400	2,600	9,267	16,027	20,229
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	5,522	5,922	20,005	29,489	37,550
Operating Income	\$ (6,740)	\$ (7,574)	\$ (10,064)	\$ (3,411)	\$ (3,219)	\$ (4,217)	\$ (3,997)	\$ (14,844)	\$ (13,623)	\$ (8,063)
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)	(4,282)	(4,062)	(15,061)	(13,883)	(8,323)
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)	\$ (4,282)	\$ (4,062)	\$ (15,728)	\$ (13,883)	\$ (8,323)
Basic Shares	4,795	5,108	5,547	17,756	28,673	30,616	30,616	26,915	31,000	33,520
Diluted Shares	4,795	5,108	5,547	17,756	28,673	30,616	30,616	26,915	31,000	33,520
Basic EPS	\$ (1.49)	\$ (1.52)	\$ (1.48)	\$ (0.23)	\$ (0.11)	\$ (0.14)	\$ (0.13)	\$ (0.58)	\$ (0.45)	\$ (0.25)
Diluted EPS	\$ (1.49)	\$ (1.52)	\$ (1.48)	\$ (0.23)	\$ (0.11)	\$ (0.14)	\$ (0.13)	\$ (0.58)	\$ (0.45)	\$ (0.25)
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	721	1,092
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)	(3,245)	(2,975)	(10,818)	(9,915)	(3,893)
Margin	-4.2%	-29.8%	-32.9%	-122.6%	-86.6%	-124.8%	-85.0%	-101.9%	-39.3%	-9.2%

Source: Oblong, Inc. and Dawson James Securities estimates



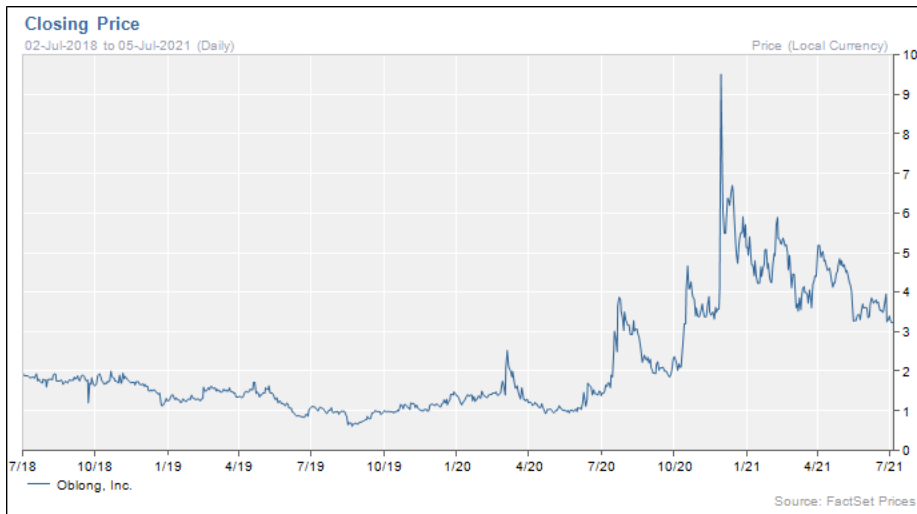
**Exhibit 2. Balance Sheet and Cash Flow Statement**

(\$ 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	\$ 6,250	\$ 6,695	\$ 13,354
Restricted Cash	0	0	158	\$ 61	\$ 61	\$ 61
A/R	1,371	2,543	3,166	2,333	5,134	8,490
Inventory	0	1,816	920	1,494	1,494	1,494
Prepaid Expenses & other	547	965	691	1,504	3,310	5,474
Current Assets	\$ 3,925	\$ 9,926	\$ 9,993	\$ 11,643	\$ 16,694	\$ 28,872
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	\$ 28,303	\$ 31,166	\$ 41,066
LTD, current	0	2,664	2,014	0	0	0
A/P	222	647	313	1,415	3,114	5,149
Accrued Expenses	867	1,752	1,201	2,011	4,424	7,316
Deferred revenue	43	1,901	1,217	1,220	2,684	4,438
Operating lease	0	1,294	830	797	797	797
Current Liabilities	\$ 1,132	\$ 8,258	\$ 5,575	\$ 5,443	\$ 11,019	\$ 17,700
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	21,876	19,163	22,382
Total Liabilities & Equity	\$ 7,962	\$ 34,909	\$ 29,143	\$ 28,303	\$ 31,166	\$ 41,066
	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)	\$ (15,061)	\$ (13,883)	\$ (8,323)
Depreciation & Amort.	755	1,321	3,140	2,888	2,988	3,078
Stock Comp	365	110	198	533	721	1,092
Working Capital & Other	4,893	3,077	(2,483)	4,052	970	1,162
Operating CF	\$ (1,155)	\$ (3,253)	\$ (6,566)	\$ (7,588)	\$ (9,205)	\$ (2,991)
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	11,656	10,450	10,450
Debt	(1,832)	0	(83)	(2,417)	0	0
Financing	\$ (449)	\$ 3,699	\$ 7,272	\$ 9,239	\$ 10,450	\$ 10,450
Change in Cash	\$ (1,939)	\$ 2,595	\$ 675	\$ 1,034	\$ 445	\$ 6,659

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

Price Target Change – Buy – July 6, 2021 – Price Target changed from \$15.00 to \$13.00

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- 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: 30-Jun-21

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	<b># of Companies</b>	<b>% of Total</b>	<b># of Companies</b>	<b>% of Totals</b>
Market Outperform (Buy)	24	71%	4	17%
Market Perform (Neutral)	10	29%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>34</b>	<b>100%</b>	<b>4</b>	<b>12%</b>

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