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Crown Electrokinetics Corp. (NASDAQ: CRKN)

September 28, 2021

Buy: Order from Metrospace

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Crown Electrokinetics received an order to install 450 smart window inserts in Metrospace's 70,000 square foot Brazos Atrium office building in Houston. We reiterate our Buy recommendation and \$8.50 price target.

Crown announced an order to install 450 smart window inserts in Metrospace's 70,000 square foot Brazos Atrium office building in Houston. The company expects to start installation in Q1 of next year and we have modeled completion in that quarter. We estimate the order's value at approximately \$500 thousand.

Crown Electrokinetics has developed a smart glass solution that controls the amount of UV (ultraviolet), visible and IR (infrared) light that comes through a window. The applications for this technology include skylights in residential structures, sunroofs in automobiles and windows in residential and commercial office buildings. In commercial office buildings, the benefit includes comfort and productivity gains for the occupants, reduced HVAC costs, avoided costs of installation and maintenance of blinds, complying with increasing regulations, and societal demands to lower the release of greenhouse gases.

The Department of Energy estimates 30% of a building's heating and cooling energy is lost through inefficient window stocks and commercial buildings are responsible for about 22% of non-transportation energy consumption in the U.S. Crown's EK technology can lower a building owner's operating costs.

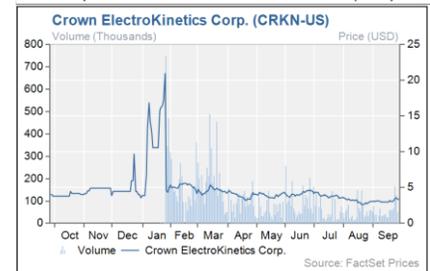
Prominent companies such as Apple, Amazon, Google, JP Morgan and Coca-Cola have aggressive goals for greenhouse gas reductions. Property owners such as Jones Lang LaSalle and Hudson Pacific Properties are also looking to lower their portfolios' greenhouse gas emissions. Regulatory mandates by U.S. cities, states and the federal government, as well as by the European commission, add to the demand for solutions that lower greenhouse gas emissions. Crown's EK solution can help satisfy that demand.

We believe property owners will be required by market forces to upgrade their properties in order to maintain occupancy levels. We also expect companies will have to offer incentives to lure workers back to the office. A more pleasant environment that can be created with Crown's glass is a possible incentive.

Valuation: Our price target of \$8.50 is based on an EV/Sales multiple of 5.5x and the \$100 million in revenue we believe the company can achieve in 5 to 7 years. We have discounted the target EV at a 25% discount rate and included an estimate of the cashless exercise of warrants and options.

Risks: Risks to achieving our price target include an interruption in the economic recovery, closure of offices in response to the COVID-19 pandemic and obtaining the necessary manufacturing partnerships to satisfy demand.

Current Price	\$3.40		
Price Target	\$8.50		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ -	\$ 500	\$ 12,500
1Q June	\$ -	\$ -	\$ 1,500
2Q September	\$ -	\$ -	\$ 2,500
3Q December	\$ -	\$ -	\$ 3,500
4Q March	\$ -	\$ 500	\$ 5,000
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ (5,123)	\$ (5,705)	\$ (6,136)
1Q June	\$ (1,216)	\$ (2,991)	\$ (2,409)
2Q September	\$ (1,092)	\$ (1,495)	\$ (1,934)
3Q December	\$ (1,062)	\$ (1,545)	\$ (1,359)
4Q March	\$ (1,753)	\$ (1,370)	\$ (434)
EV/Sales	NM	91.4 x	3.7 x
EV/EBITDA	NM	(8.0) x	(7.4) x
Stock Data			
52-Week Range	\$2.58	-	\$27.00
Shares Outstanding (mil.)	17.8		
Market Capitalization (mil.)	\$61		
Enterprise Value (mil.)	\$46		
Debt to Capital	3%		
Book Value/Share	\$0.92		
Price/Book	3.7x		
Average Three Months Trading Volume (K)	205		
Insider Ownership	15.2%		
Institutional Ownership	9.6%		
Short interest (mil.)	0.6%		
Dividend / Yield	\$0.00/0.0%		



Valuation

We believe Crown can achieve \$100 million in revenue over the next 5 to 7 years. The closest comp to Crown, with a high-growth profile, a product addressing a large market and the potential to capture meaningful share, is View, Inc.; the company's shares have traded between 5x and 13x forward-twelve-month revenue since March of this year, when sales estimates from FactSet were first available. Using this multiple range and a \$100 million revenue bogey results in a 5- to 7-year enterprise value target of \$550 million to \$1.3 billion. We discount this to arrive at an 18-month enterprise target range of \$161 million to \$595 million. Using a share count of 17.9 million, which includes conversion of the convertible preferred, leads to a price target of \$9 to \$33. There are also substantial warrants and options outstanding with cashless exercise provisions. The amount of additional shares will be determined by the share price at time of exercise. Using a price exercise range of \$3.70 to \$9.00 (the current price to the low end of the target price above) leads to 4.2 million to 10.5 million additional shares. Adjusting the target range for these additional shares brings the price target range to \$5.66 to \$26.92 per share. This is a wide range.

For our price target, we focus on the lower EV/Sales multiple of 5.5x to reflect the risks of achieving our revenue estimate. An 18-month EV target range, with a 25% discount rate and assuming 5-7 years to achieve \$100 million in revenue is \$161 million to \$251 million. With a share count of 17.9 million, this equates to a price target of \$9 to \$14 per share. Including the exercise of the existing warrants and options, using the share price at the time of exercise shown above leads to a price target range of \$5.72 to \$11.35. Our price target of \$8.50 is the midpoint of this range.

Our price target of \$8.50 is based on an EV/Sales multiple of 5.5x and the \$100 million in revenue we believe the company can achieve in 5 to 7 years. We have discounted the target EV at a 25% discount rate and included an estimate of the cashless exercise of warrants and options.

Risk Analysis

There are meaningful risks to achieving our price target. Our price target assumes a substantial share of revenue in the short and medium term will come from the office retrofit market. The sales cycle can be long and installation time could hinder the pace of sales. The Federal Reserve has had a highly accommodative policy, but this could change due to increased inflation, and policy changes could lead to a slowdown in economic growth, demand for office space, and capital available for retrofitting windows. We have assumed the comfort of offices will be a factor in retrofitting windows. This assumption could be incorrect. Many employees have been working from home and it is unknown when they will return to the office, or how many will return or how often they will utilize existing office space. These factors could have an impact on demand and our estimates. Crown requires manufacturing partners to fill orders. There is no assurance the company will be able to obtain capacity on terms that are consistent with our model. Bills have been introduced in the previous legislative session and the current session that would give buyers a tax credit for smart glass purchases. Pending legislation could incentivize buyers to pause purchases until these bills are passed or killed. Crown is pursuing a model that includes leasing its window inserts to customers. This would place a burden on the company's balance sheet. Also, accounting for leases is complex and revenue recognition could be meaningfully different than what we have estimated. The market is competitive. There are many options available for building owners, including double-paned windows, low-e windows, and products from, among others, Gauzy, SAGE and View. Crown is smaller than many of these competitors. We believe View has been selling its smart glass at a significant discount. At the end of the March quarter, View had over \$500 million in cash, and given its current burn, will likely be able to continue discounting for the coming year. We have assumed a driver of demand is customers' desire to lower greenhouse gas emissions. That desire could fade and have an impact on our estimates.

Exhibit 1. Income Statement

(\$ in 000's) (except per share data)	31-Mar-20 FY 2020A	31-Mar-21 FY 2021A	31-Mar-22 FY 2022E	31-Mar-23 FY 2023E
Revenue	100	0	500	12,500
COGS	620	0	325	6,900
Gross Profit	(520)	0	175	5,600
R&D	1,826	3,540	2,350	4,000
SG&A	5,492	15,812	13,150	14,000
Opex	7,318	19,352	15,500	18,000
Operating Income	(7,838)	(19,352)	(15,325)	(12,400)
Interest expense and other	(1,766)	(21,403)	(2)	0
Pretax Income	(9,604)	(40,755)	(15,325)	(12,400)
Taxes	0	0	0	0
Net Income	(9,604)	(40,755)	(15,325)	(12,400)
Basic Shares	4,117	8,851	14,867	15,237
Diluted Shares	4,117	8,851	16,943	18,006
Basic EPS	\$ (2.33)	\$ (4.60)	\$ (1.03)	\$ (0.81)
Diluted EPS	\$ (2.33)	\$ (4.60)	\$ (0.90)	\$ (0.69)
Depreciation & Amortization	77	103	264	264
Stock Compensation	4,496	14,126	9,356	6,000
EBITDA	(3,265)	(5,123)	(5,705)	(6,136)

Source: Crown Electrokinetics Corp. and Dawson James Securities estimates

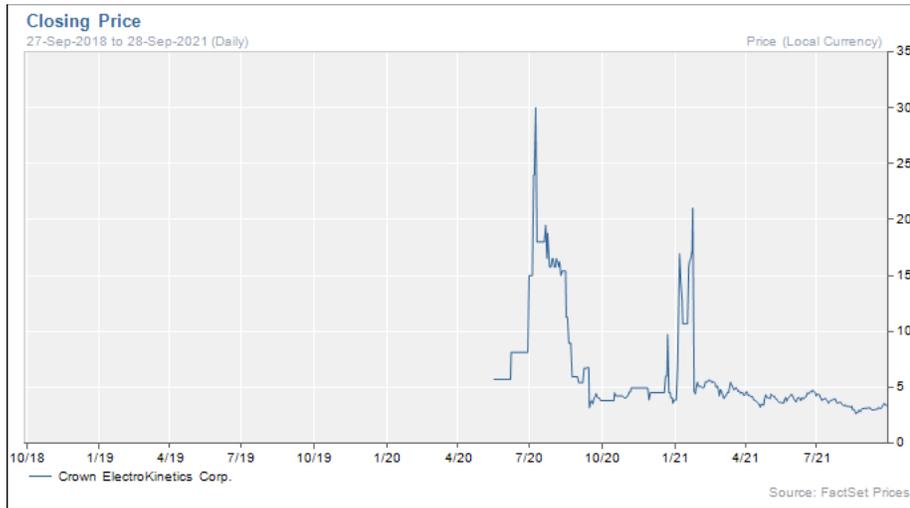
Exhibit 2. Balance Sheet and Cash Flow Statement

	31-Mar-20 FY2020A	31-Mar-21 FY2021A	31-Mar-22 FY 2022E	31-Mar-23 FY 2023E
(\$ in 000's)				
Cash & Equivalents	48	15,297	8,303	5,313
A/R	0	0	103	1,027
Inventory	0	0	67	514
Prepaid & other assets	13	346	750	1,300
Current Assets	\$ 61	\$ 15,643	\$ 9,223	\$ 8,155
PP&E	93	209	573	6,720
Intangible assets	235	1,650	1,432	1,204
Deferred offering costs	0	20	29	29
Total Assets	\$ 389	\$ 17,522	\$ 11,257	\$ 16,107
A/P	1,262	285	1,000	1,733
Accrued expenses	765	211	500	867
Accrued interest	455	0	0	0
Notes payable	3,083	439	439	439
Warrant liability	1,734	0	0	0
Related party payable	50	0	0	0
Current Liabilities	\$ 7,349	\$ 935	\$ 1,939	\$ 3,039
Equity	(6,961)	16,587	9,318	13,068
Total Liabilities & Equity	\$ 389	\$ 17,522	\$ 11,257	\$ 16,107
	31-Mar-20 FY2020A	31-Mar-21 FY2021A	31-Mar-22 FY 2022E	31-Mar-23 FY 2023E
Net Income	(9,604)	(40,755)	(15,325)	(12,400)
D&A	77	103	264	264
Stock Comp.	4,496	14,126	9,356	6,000
Other	2,270	21,232	244	0
Working Capital	1,717	(1,290)	421	(822)
Operating CF	\$ (1,044)	\$ (6,584)	\$ (5,040)	\$ (6,958)
CapEx	(27)	(159)	(410)	(6,183)
Other	0	(1,475)	0	0
Investing Activities	\$ (27)	\$ (1,634)	\$ (410)	\$ (6,183)
Equity	0	20,655	154	10,150
Debt	1,020	2,812	0	0
Financing	\$ 1,020	\$ 23,467	\$ 154	\$ 10,150
Change in Cash	\$ (51)	\$ 15,249	\$ (5,296)	\$ (2,990)

Source: Crown Electrokinesis Corp. and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

Initiated – Buy – August 3, 2021 – Price Target \$8.50

Update – Buy – September 28, 2021 – Price Target \$8.50

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Current as of... 27-Aug-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	4	15%
Market Perform (Neutral)	10	28%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	4	11%

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