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Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

SRAX, Inc. (NASDAQ: SRAX)

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BUY: FPVD Merger with BritePool

James McIlree, CFA

561-237-2709

jmcilree@dawsonjames.com

Force Protection Video Equipment (FPVD) announced a merger with privately-held BritePool that will result in a deconsolidation of FPVD's results from SRAX, a revaluation of SRAX's investment in FPVD to current market value, a large gain when the merger is complete and the ability for SRAX to monetize its investment. We reiterate our Buy recommendation and \$11.50 price target

Force Protection Video Equipment and privately-held BritePool announced a merger where FPVD shareholders will own approximately 55% of the combined company, renamed BIGtoken. BritePool's shareholders will own the remaining 45% of BIGtoken's common stock post-merger on an outstanding share basis. As part of the merger SRAX will convert its 150 billion shares of FPVD into preferred shares. This will enable SRAX to deconsolidate FPVD results from its financial statements and provide a path to monetize its investment. This is a significant positive for the company and the shares and we reiterate our Buy recommendation and \$11.50 price target.

We expect a substantial gain in the quarter the transaction is completed. SRAX will increase the value of its investment to market value, about \$1 billion currently, from \$6 million and the delta will run through the income statement as a very large gain. At yesterday's close the gain would exceed \$40 per share.

Deconsolidating will result in a projected reduction in revenue in 2022 of \$3.4 million. In Q2 SRAX reported FPVD generated a \$1.8 million EBITDA loss and cash operating expenses of \$2.5 million. We believe some of these are expenses charged by SRAX to FPVD and the separation may not result in a dollar for dollar decrease in SRAX's expenses. Even so, we estimate there will be a large improvement in EBITDA post deconsolidation. In Q2 Sequire generated \$1.4 million in EBITDA after corporate expenses of \$2.4 million. Sequire gross margin is over 80% and we expect incremental costs needed to serve increased revenue will be modest, leading to substantial improvements in EBITDA and EBITDA margin as revenue scales.

Valuation: Our price target of \$11.50 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$38.7 million. The EV/Sales multiple is a discount of about 25% to the group median of 9.3x (see table on page 3). At the group median, the price target would be \$15.16.

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	\$5.34		
Price Target	\$11.50		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 8,647	\$ 30,244 E	\$ 38,690
1Q March	\$ 351	\$ 5,442 A	\$ 8,430
2Q June	\$ 1,165	\$ 7,677 A	\$ 9,400
3Q September	\$ 2,609	\$ 8,190 E	\$ 10,020
4Q December	\$ 4,522	\$ 8,935 E	\$ 10,840
	F2020A	F2021E	F2022E
EPS (diluted)	\$ (1.00)	\$ (0.58)E	\$ 0.30
1Q March	\$ (0.21)	\$ (0.57)A	\$ 0.04
2Q June	\$ (0.38)	\$ (0.24)A	\$ 0.07
3Q September	\$ (0.45)	\$ 0.06 E	\$ 0.08
4Q December	\$ 0.01	\$ 0.06 E	\$ 0.11
EBITDA (\$Ms)	\$ (8.4)	\$ 0.7	\$ 6.7
EV/EBITDA (x)	-12.1x	141.7x	15.2x
Stock Data			
52-Week Range	\$2.06 - \$7.29		
Shares Outstanding (mil.)	24.9		
Market Capitalization (mil.)	\$133		
Enterprise Value (mil.)	\$102		
Debt to Capital	9%		
Book Value/Share	\$1.24		
Price/Book	4.3x		
Average Three Months Trading Volume (K)	502		
Insider Ownership	10.5%		
Institutional Ownership	19.3%		
Short interest (mil.)	1.7%		
Dividend / Yield	\$0.00/0.0%		

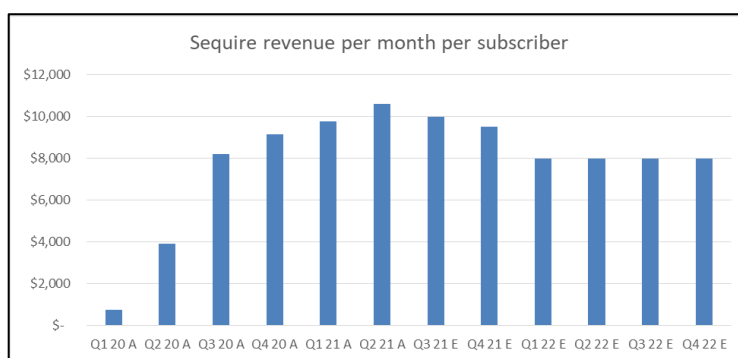


We believe the company can exceed our revenue and EBITDA estimates for the year. Our revenue estimate for Q3 of \$8.2 million and full-year estimate of \$30.2 million are in-line with consensus estimates and guidance, however, we believe there is a good chance for upside.

Sequire subscribers grew from 125 at the end of 2020 to 183 at the end of Q1 and 225 as of the end of Q2. The company is targeting quarterly increases of 50 subscribers, although we have assumed less than the company's target in our forecast. Average monthly revenue per subscriber has been increasing steadily and exceeded \$10 thousand in Q2. We have assumed average monthly revenue per subscriber declines beginning in Q3, but this could be conservative.

The company is monetizing its portfolio of marketable securities, that was valued at \$24.1 million, or almost \$1 per share at the end of Q2. SRAX will distribute to shareholders a preferred share that entitles the holder to the proceeds from the sale of 24 enumerated securities totaling \$6.5 million as of mid-September. If the proceeds of the sale equal the current value that would be about \$0.25 per share or about a 4.5% dividend.

Revenue per month per subscriber continues to rise and reached a record of \$10,593 in Q2. Revenue is a combination of a subscription fee and optional managed services. The managed services piece will fluctuate with various factors including renewal rates and the ratio of managed services clients to the total. We have assumed revenue per month per subscriber falls from current levels, primarily to be conservative until a longer record is available.



Source: SRAX, Inc. and Dawson James Securities estimates

The company booked a \$4.6 million loss on its portfolio of marketable securities in Q2 yet ended the quarter with a portfolio valued at \$24.1 million, up from \$18 million at the end of Q1. The increase was driven by additions to the portfolio of \$11.3 million, a function of the \$11.4 million in bookings, offset by sales of \$600 thousand and the change in the value of the portfolio. We expect the portfolio to be a volatile part of the company's earnings. For example, in Q1, the portfolio posted a gain of \$4.5 million, reversing in Q2. The company has mitigated this volatility by issuing a \$6.5 million special dividend to shareholders in the form of a non-voting, non-tradeable preferred that will hold \$6.5 million of the portfolio. As the shares are sold, the proceeds will be distributed to the owners of the preferred shares. This is a clever way to lower earnings volatility and return excess cash to shareholders, in our view.

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 \$30.2 million, up from \$8.6 million in 2020, with most of the increase coming from Sequire. For 2022, we project revenue of \$38.7 million, with almost all of the increase driven by Sequire.

\$ in millions	2020A	2021E	2022E
Sequire	5.8	25.7	34.1
BigToken	2.2	3.4	3.4
Conference & other	0.7	1.1	1.2
Total	\$ 8.6	\$ 30.2	\$ 38.7

Source: Dawson James Securities estimates

We have modeled subscribers increasing from 225 at the end of Q2 to 295 by year-end and 415 by the end of 2022. As mentioned above, we have assumed revenue per month per subscriber subsides from current levels, but there is currently no indication this is occurring and is a source of upside to our estimates if monthly revenue per subscribers stays at current levels or increases.

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 with the conclusion of the merger with BritePool.

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.	\$ 166.64	\$ 23,545.9	\$ 5,483.8	4.3x
CSGP	CoStar Group, Inc.	86.06	31,371.7	2,099.1	14.9x
DNB	Dun & Bradstreet Holdings Inc	16.81	10,762.9	2,209.3	4.9x
EFX	Equifax Inc.	253.42	34,759.0	4,918.2	7.1x
GPX	Global Payments Inc.	157.58	55,639.4	8,111.1	6.9x
INFO	IHS Markit Ltd.	116.62	51,679.3	4,795.8	10.8x
MCO	Moody's Corporation	355.11	70,855.2	6,051.6	11.7x
MSCI	MSCI Inc. Class A	608.34	52,830.0	2,131.5	24.8x
NLSN	Nielsen Holdings Plc	19.19	12,777.4	3,549.2	3.6x
SPGI	S&P Global, Inc.	424.89	105,391.4	8,204.5	12.8x
TRU	TransUnion	112.31	24,639.4	3,160.3	7.8x
VRSK	Verisk Analytics Inc	200.27	35,775.3	3,096.0	11.6x
	Median				9.3x
SRAX	SRAX, Inc. Class A	\$ 5.34	\$ 103.5	\$ 36.6	2.8x

Source: FactSet and Dawson James Securities estimates

Based on our forward-12-month revenue estimate of \$35.5 million, SRAX shares trade below that range, or at 2.8x forward-12-month sales, and at 2.7x our 2022 sales estimate of \$38.7 million.

Price Target

Our price target of \$11.50 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$38.7 million. The EV/Sales multiple is a discount of about 25% to the group median of 9.3x and reflects the risks of achieving our revenue estimate. At the group median, the price target would be \$15.16. Our revenue estimate for 2022 includes \$3.4 million from BIGToken so implicitly values SRAX's 62% share of BIGToken at \$15 million, far below the \$1 billion 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. Income Statement

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

\$ in 000's	2018	2019	2020	Q1 21 A	Q2 21 A	Q3 21 E	Q4 21 E	2021 E	2022 E
Revenues	\$ 9,881	\$ 3,584	\$ 8,647	\$ 5,442	\$ 7,677	\$ 8,190	\$ 8,935	\$ 30,244	\$ 38,690
Cost of Revenues	3,157	1,680	2,589	1,650	1,453	1,628	1,757	6,487	7,876
Gross Profit	6,724	1,904	6,058	3,792	6,224	6,563	7,179	23,757	30,814
Operating Expenses	18,443	19,762	17,655	5,218	7,293	6,692	6,345	25,548	26,615
Operating Income	\$ (11,719)	\$ (17,858)	\$ (11,597)	\$ (1,426)	\$ (1,069)	\$ (130)	\$ 833	\$ (1,791)	\$ 4,199
Total Financial Expenses	(3,057)	(716)	(12,150)	(15,025)	(382)	(297)	(297)	(16,000)	32
Other	23,519	1,715	9,068	4,507	(4,561)	1,126	0	1,072	0
Pretax Income	8,744	(16,859)	(14,679)	(11,944)	(6,012)	700	537	(16,719)	4,231
Taxes	0	0	26	0	0	0	0	0	0
Loss from noncontrolling interest	0	0	0	854	272	945	945	3,016	3,780
Net Income (Loss)	\$ 8,744	\$ (16,859)	\$ (14,705)	\$ (11,090)	\$ (5,740)	\$ 1,645	\$ 1,482	\$ (13,703)	\$ 8,011
Diluted EPS	\$ 0.86	\$ (1.37)	\$ (1.00)	\$ (0.57)	\$ (0.24)	\$ 0.06	\$ 0.06	\$ (0.58)	\$ 0.30
Diluted Shares	10,121	12,293	14,650	19,412	23,631	25,496	26,067	23,651	26,787
Operating Income	(11,719)	(17,858)	(11,597)	(1,426)	(1,069)	(130)	833	(1,791)	4,199
Equity based compensation	1,879	1,167	1,852	253	253	253	253	1,012	1,012
Depreciation & Amort.	768	1,163	1,303	384	372	372	372	1,500	1,488
Adj. EBITDA	\$ (9,073)	\$ (15,528)	\$ (8,442)	\$ (789)	\$ (444)	\$ 495	\$ 1,458	\$ 721	\$ 6,699
	2018	2019	2020	Q1 21 A	Q2 21 A	Q3 21 E	Q4 21 E	2021 E	2022 E
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenues	32.0%	46.9%	29.9%	30.3%	18.9%	19.9%	19.7%	21.4%	20.4%
Gross Profit	68.0%	53.1%	70.1%	69.7%	81.1%	80.1%	80.3%	78.6%	79.6%
Operating Expenses	186.7%	551.4%	204.2%	95.9%	95.0%	81.7%	71.0%	84.5%	68.8%
Operating Income	-118.6%	-498.3%	-134.1%	-26.2%	-13.9%	-1.6%	9.3%	-5.9%	10.9%
Total Financial Expense	-30.9%	-20.0%	-140.5%	-276.1%	-5.0%	-3.6%	-3.3%	-52.9%	0.1%
Other	238.0%	47.9%	104.9%	82.8%	-59.4%	13.7%	0.0%	3.5%	0.0%
Net Income (Loss)	88.5%	-470.4%	-170.1%	-203.8%	-74.8%	20.1%	16.6%	-45.3%	20.7%
EBITDA	-91.8%	-433.3%	-97.6%	-14.5%	-5.8%	6.0%	16.3%	2.4%	17.3%

Source: SRAX, Inc. and Dawson James Securities estimates

Exhibit 2. Balance Sheet and Cash Flow Statements

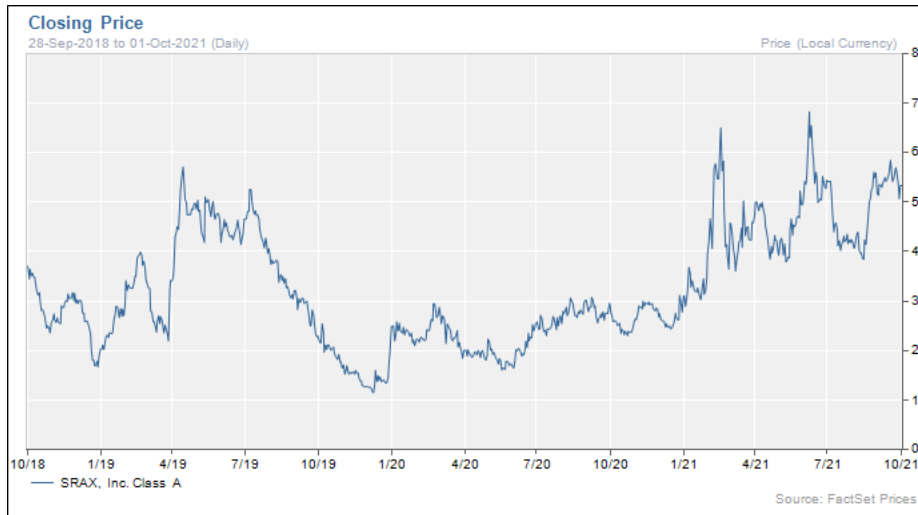
(\$ in 000s, except per-share data)

\$ in 000's	2018	2019	2020	2021 E	2022 E
Current Assets					
Cash and Cash Equivalents	2,785	32	451	8,109	16,409
Accounts Receivables	1,829	805	2,608	5,385	6,534
Prepaid Expenses	467	715	367	1,309	1,589
Marketable Securities	0	0	8,447	24,130	24,130
Other Current Assets	387	306	0	0	0
Total Current Assets	\$ 5,468	\$ 1,858	\$ 11,873	\$ 38,934	\$ 48,661
Non Current Assets					
Notes Receivable	0	0	893	917	917
Property and Equipment, net	192	191	118	169	185
Goodwill	15,645	15,645	23,351	23,351	23,351
Intangible Assets	1,763	1,966	2,409	2,044	1,799
Right-of-Use Asset	0	456	366	314	314
Other Assets	51	118	3	36	36
Total Assets	\$ 23,118	\$ 20,234	\$ 39,013	\$ 65,765	\$ 75,264
Current Liabilities					
AP and Accrued Expenses	3,575	2,442	3,561	3,873	4,699
Derivative liability	496	4,397	0	0	0
Other Current Liabilities	0	537	8,711	12,895	12,545
Payroll protection loan	0	0	747	0	0
OID convertible debentures	0	0	6,016	0	0
Total Current Liabilities	\$ 9,017	\$ 7,376	\$ 19,035	\$ 16,768	\$ 17,244
Non Current Liabilities					
Lease Obligation	0	352	243	182	182
Payroll protection loan	0	0	379	0	0
Deferred tax liability	0	0	131	131	131
Total Stockholders' Equity	14,101	12,506	19,225	48,684	57,706
Total Liabilities & Stockholders' Equity	\$ 23,118	\$ 20,234	\$ 39,013	\$ 65,765	\$ 75,264
Operating Activities					
Net Income	8,744	(16,859)	(14,705)	(13,703)	8,011
Depreciation and Amortization	768	1,163	1,303	1,500	1,488
Stock based Compensation	1,879	1,167	1,852	1,012	1,012
Other	(22,481)	(654)	1,317	15,082	0
Working Capital	(2,572)	(167)	(3,256)	(14,870)	(952)
Operating Cash Flow	\$ (13,663)	\$ (15,350)	\$ (13,489)	\$ (12,106)	\$ 9,559
Investing Activities					
CapEx	(82)	(73)	0	(132)	(100)
Digital Currency Assets/Other	(63)	0	32	(33)	0
Development of Software	(961)	(1,292)	(1,205)	(1,054)	(1,159)
Sale of marketable securities	0	0	916	2,903	0
Acquisition/Disposal	22,981	570	6,303	(1,784)	0
Cash from Investing Activities	\$ 21,875	\$ (795)	\$ 6,046	\$ (100)	\$ (1,259)
Financing Activities					
Debt	(6,545)	0	7,862	(1,026)	0
Equity	100	13,393	0	20,890	0
Other	0	0	0	0	0
Cash from Financing Activities	\$ (6,445)	\$ 13,393	\$ 7,862	\$ 19,864	\$ -
Change in Cash	\$ 1,768	\$ (2,752)	\$ 419	\$ 7,658	\$ 8,300

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
 Price Target Change – Buy – August 18, 2021 – Price Target \$11.50
 Update – Buy – September 29, 2021 – Price Target \$11.50
 Update – Buy – October 1, 2021 – Price Target \$11.50

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