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SRAX, Inc. (NASDAQ: SRAX)

November 16, 2021

BUY: Q3 Results. Strong Outlook. Reiterate Buy, \$11.50 Target.

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Q3 revenue exceeded our estimate and guidance for Q4 exceeded our estimate as well as the consensus estimate. We expect Force Protection will be de-consolidated this quarter after its merger with BritePool. Subsequent financial results will reflect the high margin, high growth, Sequire business and we think this will drive the multiple higher. We reiterate our Buy recommendation and \$11.50 price target

Q3 was another strong quarter for Sequire. Revenue of \$7.5 million was 16% above Q2 and Q4 estimated Sequire revenue of \$9.4 million is 25% above Q3 driven by an exceptionally strong quarter of bookings. Bookings in Q3 were \$8.9 million, down from the \$10.7 million averaged in the first half, but Q4 bookings through mid-November were over \$12 million and expected to exceed \$16 million for the quarter. Gross margin for Sequire again exceeded 80%.

The merger between Force Protection Video Equipment (FPVD) and BritePool is schedule to close this quarter, resulting in the de-consolidation of Force from SRAX. This transaction should result in a revaluation of SRAX's investment in FPVD to current market value and a very large gain. When the merger is complete SRAX will also have an ability to monetize its investment which at the current FPVD price exceeds \$350 million.

Our 2022 estimates now excludes FPVD. Despite the loss of the \$3 to \$4 million revenue contribution from FPVD, we are increasing our revenue estimates for next year to \$39 million, based on the strong growth in Sequire's customer base and continued high bookings for its media services. We believe there is potential for the company to exceed this estimate.

Valuation: Our price target of \$11.50 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$39.0 million. The EV/Sales multiple is a discount of over 25% to the group median of 9.6x (see table on page 3). At the group median, the price target would be over \$15 per share.

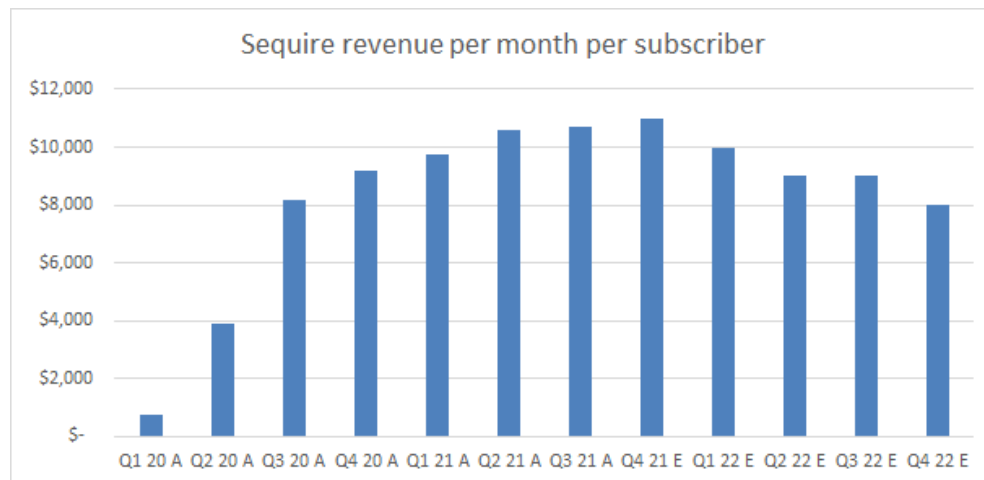
Risks to Target: Risks to achieving our price target include negative impacts of the COVID-19 pandemic, the ability to scale the Sequire platform, introduction of new platform services, ability to make debt and acquisition payments, potential pressure on the share price from conversion of the OID and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

Current Price	\$5.60		
Price Target	\$11.50		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 8,647	\$ 31,432 E	\$ 39,030
1Q March	\$ 351	\$ 5,442 A	\$ 9,390
2Q June	\$ 1,165	\$ 7,677 A	\$ 9,570
3Q September	\$ 2,609	\$ 8,313 A	\$ 10,080
4Q December	\$ 4,522	\$ 10,000 E	\$ 9,990
	F2020A	F2021E	F2022E
EPS (diluted)	\$ (1.00)	\$ (0.84)E	\$ 0.19
1Q March	\$ (0.21)	\$ (0.57)A	\$ 0.04
2Q June	\$ (0.38)	\$ (0.24)A	\$ 0.04
3Q September	\$ (0.45)	\$ (0.15)A	\$ 0.06
4Q December	\$ 0.01	\$ 0.03 E	\$ 0.05
EBITDA (\$Ms)	\$ (8.4)	\$ (1.6)	\$ 3.8
EV/EBITDA (x)	-14.5x	-74.4x	32.6x
Stock Data			
52-Week Range	\$2.37	-	\$7.29
Shares Outstanding (mil.)	26.1		
Market Capitalization (mil.)	\$146		
Enterprise Value (mil.)	\$123		
Debt to Capital	4%		
Book Value/Share	\$1.24		
Price/Book	4.5x		
Average Three Months Trading Volume (K)	781		
Insider Ownership	16.9%		



We believe the company can exceed our revenue and EBITDA estimates for 2022. Our revenue estimate assumes subscribers grow from 250 at the end of this year (up 125 from the end of 2020) to 415 by the end of 2022. We also assume revenue per month per subscriber moderates, a conservative assumption, we believe, given the pattern of the past two years.

Revenue per month per subscriber continues to rise and reached a record of \$11,840 in Q3. 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

Sequire subscribers grew from 125 at the end of 2020 to 225 as of the end of Q3 and an expected 250 by year-end. The company has indicated a target of 50 incremental subscribers per quarter, although we have assumed less than the company's target in our forecast.

Cash and marketable securities, including \$6.2 million designated for a preferred share dividend distribution, totaled over \$31 million at the end of Q3. SRAX has distributed to shareholders a preferred share that entitles the holder to the proceeds from the sale of 24 enumerated securities valued at \$6.2 million. If the proceeds of the sale equal the current value that would be about \$0.25 per share or about a 4.5% dividend.

Outlook

Our revenue estimates had built off three sources of revenue: 1) Sequire, 2) BIGToken, and 3) conferences/events from LD Micro. Beginning in 2022 we are removing BigToken from our estimates.

Our estimate for consolidated sales (including BIGToken) for 2021 is \$31.4 million, up from \$8.6 million in 2020, with most of the increase coming from Sequire. For 2022, we project revenue of \$39.0 million, with the entire increase driven by Sequire, and the elimination of \$3 million in revenue from BigToken.

\$ in millions	2020A	2021E	2022E
Sequire	5.8	27.4	38.1
BigToken	2.2	3.1	0.0
Conference & other	0.7	0.9	0.9
Total	\$ 8.6	\$ 31.4	\$ 39.0

Source: Dawson James Securities estimates

We have modeled subscribers increasing from 250 at the end of 2021 to 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.

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	EBITDA	EV/ EBITDA	EBITDA Margin
BR	Broadridge Financial Solutions, Inc.	\$ 177.08	\$ 25,042.0	\$ 5,628.8	4.4x	\$ 1,316.1	19.0x	23.4%
CSGP	CoStar Group, Inc.	83.81	30,027.9	2,136.1	14.1x	721.4	41.6	33.8%
DNB	Dun & Bradstreet Holdings Inc	20.25	12,170.0	2,230.1	5.5x	887.7	13.7	39.8%
EFX	Equifax Inc.	282.37	38,107.5	5,216.9	7.3x	1,848.8	20.6	35.4%
GPNI	Global Payments Inc.	131.79	47,581.6	8,279.7	5.7x	3,979.8	12.0	48.1%
INFO	IHS Markit Ltd.	128.52	55,262.9	4,751.0	11.6x	2,193.1	25.2	46.2%
MCO	Moody's Corporation	390.78	78,571.1	6,502.3	12.1x	3,167.2	24.8	48.7%
MSCI	MSCI Inc. Class A	660.95	57,574.5	2,251.4	25.6x	1,298.2	44.3	57.7%
NLSN	Nielsen Holdings Plc	21.65	13,325.5	3,598.5	3.7x	1,508.4	8.8	41.9%
SPGI	S&P Global, Inc.	459.28	111,643.1	8,496.6	13.1x	4,778.9	23.4	56.2%
TRU	TransUnion	114.50	24,609.9	3,255.1	7.6x	1,328.7	18.5	40.8%
VRSK	Verisk Analytics Inc	218.03	38,312.2	3,154.1	12.1x	1,544.2	24.8	49.0%
	Median				9.6x		22.0	43.4%
SRAX	SRAX, Inc. Class A	\$ 5.60	\$ 122.6	\$ 37.4	3.3x	\$ 2.5	48.8x	6.7%

Source: FactSet and Dawson James Securities estimates

Based on our forward-12-month revenue estimate of \$37.4 million, SRAX shares trade below that range, or at 3.3x forward-12-month sales, and at 3.1x our 2022 sales estimate of \$39.0 million.

Price Target

Our price target of \$11.50 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$39 million. The EV/Sales multiple is a discount of over 25% to the group median of 9.6x and reflects the risks of achieving our revenue estimate. At the group median, the price target would be over \$15 per share.

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 A	Q4 21 E	2021 E	2022 E
Revenues	\$ 9,881	\$ 3,584	\$ 8,647	\$ 5,442	\$ 7,677	\$ 8,313	\$ 10,000	\$ 31,432	\$ 39,030
Cost of Revenues	3,157	1,680	2,589	1,650	1,453	1,804	1,937	6,844	7,774
Gross Profit	6,724	1,904	6,058	3,792	6,224	6,509	8,063	24,588	31,256
Operating Expenses	18,443	19,762	17,655	5,218	7,293	8,107	8,114	28,732	29,965
Operating Income	\$ (11,719)	\$ (17,858)	\$ (11,597)	\$ (1,426)	\$ (1,069)	\$ (1,598)	\$ (51)	\$ (4,144)	\$ 1,291
Total Financial Expenses	(3,057)	(716)	(12,150)	(15,025)	(382)	(518)	(90)	(16,015)	32
Other	23,519	1,715	9,068	4,507	(4,561)	(2,487)	0	(2,541)	0
Pretax Income	8,744	(16,859)	(14,679)	(11,944)	(6,012)	(4,603)	(141)	(22,700)	1,323
Taxes	0	0	26	0	0	0	0	0	0
Loss from noncontrolling interest	0	0	0	854	272	774	945	2,845	3,780
Net Income (Loss)	\$ 8,744	\$ (16,859)	\$ (14,705)	\$ (11,090)	\$ (5,740)	\$ (3,829)	\$ 804	\$ (19,855)	\$ 5,103
Diluted EPS	\$ 0.86	\$ (1.37)	\$ (1.00)	\$ (0.57)	\$ (0.24)	\$ (0.15)	\$ 0.03	\$ (0.84)	\$ 0.19
Diluted Shares	10,121	12,293	14,650	19,412	23,631	25,020	26,147	23,553	26,949
Operating Income	(11,719)	(17,858)	(11,597)	(1,426)	(1,069)	(1,598)	(51)	(4,144)	1,291
Equity based compensation	1,879	1,167	1,852	253	253	251	251	1,008	1,004
Depreciation & Amort.	768	1,163	1,303	384	372	366	366	1,488	1,464
Adj. EBITDA	\$ (9,073)	\$ (15,528)	\$ (8,442)	\$ (789)	\$ (444)	\$ (981)	\$ 566	\$ (1,648)	\$ 3,759
	2018	2019	2020	Q1 21 A	Q2 21 A	Q3 21 A	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%	21.7%	19.4%	21.8%	19.9%
Gross Profit	68.0%	53.1%	70.1%	69.7%	81.1%	78.3%	80.6%	78.2%	80.1%
Operating Expenses	186.7%	551.4%	204.2%	95.9%	95.0%	97.5%	81.1%	91.4%	76.8%
Operating Income	-118.6%	-498.3%	-134.1%	-26.2%	-13.9%	-19.2%	-0.5%	-13.2%	3.3%
Total Financial Expense	-30.9%	-20.0%	-140.5%	-276.1%	-5.0%	-6.2%	-0.9%	-51.0%	0.1%
Other	238.0%	47.9%	104.9%	82.8%	-59.4%	-29.9%	0.0%	-8.1%	0.0%
Net Income (Loss)	88.5%	-470.4%	-170.1%	-203.8%	-74.8%	-46.1%	8.0%	-63.2%	13.1%
EBITDA	-91.8%	-433.3%	-97.6%	-14.5%	-5.8%	-11.8%	5.7%	-5.2%	9.6%

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	10,553	5,984
Accounts Receivables	1,829	805	2,608	6,027	6,021
Prepaid Expenses	467	715	367	1,201	1,199
Marketable Securities	0	0	8,447	18,221	24,608
Designated assets for return of capital	0	0	0	6,255	0
Other Current Assets	387	306	0	0	0
Total Current Assets	\$ 5,468	\$ 1,858	\$ 11,873	\$ 42,257	\$ 37,813
Non Current Assets					
Notes Receivable	0	0	893	926	926
Property and Equipment, net	192	191	118	158	174
Intangible Assets	1,763	1,966	2,409	1,888	1,464
Right-of-Use Asset	0	456	366	286	286
Other Assets	51	118	3	36	36
Goodwill	15,645	15,645	23,351	23,351	23,351
Total Assets	\$ 23,118	\$ 20,234	\$ 39,013	\$ 68,902	\$ 64,050
Current Liabilities					
AP and Accrued Expenses	3,575	2,442	3,561	4,730	4,725
Derivative liability	496	4,397	0	0	0
Deferred Revenue			4,842	19,624	14,949
Other Current Liabilities	0	537	3,869	673	673
Payroll protection loan	0	0	747	0	0
OID convertible debentures	0	0	6,016	0	0
Series A Preferred	0	0	0	6,247	0
Total Current Liabilities	\$ 9,017	\$ 7,376	\$ 19,035	\$ 31,274	\$ 20,347
Non Current Liabilities					
Lease Obligation	0	352	243	148	148
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	37,349	43,424
Total Liabilities & Stockholders' Equity	\$ 23,118	\$ 20,234	\$ 39,013	\$ 68,902	\$ 64,050
	2018	2019	2020	2021 E	2022 E
Operating Activities					
Net Income	8,744	(16,859)	(14,705)	(19,855)	5,103
Depreciation and Amortization	768	1,163	1,303	1,488	1,464
Stock based Compensation	1,879	1,167	1,852	1,008	1,004
Other	(22,481)	(654)	1,317	17,711	0
Working Capital	(2,572)	(167)	(3,256)	(14,753)	(11,060)
Operating Cash Flow	\$ (13,663)	\$ (15,350)	\$ (13,489)	\$ (16,301)	\$ (3,489)
Investing Activities					
CapEx	(82)	(73)	0	(122)	(100)
Digital Currency Assets/Other	(63)	0	32	(33)	0
Development of Software	(961)	(1,292)	(1,205)	(891)	(980)
Sale of marketable securities	0	0	916	6,715	0
Acquisition/Disposal	22,981	570	6,303	(2,049)	0
Cash from Investing Activities	\$ 21,875	\$ (795)	\$ 6,046	\$ 3,620	\$ (1,080)
Financing Activities					
Debt	(6,545)	0	7,862	1,736	0
Equity	100	13,393	0	21,047	0
Other	0	0	0	0	0
Cash from Financing Activities	\$ (6,445)	\$ 13,393	\$ 7,862	\$ 22,783	\$ -
Change in Cash	\$ 1,768	\$ (2,752)	\$ 419	\$ 10,102	\$ (4,569)

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
 Update – Buy – November 16, 2021 – Price Target \$11.50

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- 1) **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.
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Current as of... 15-Nov-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	5	20%
Market Perform (Neutral)	11	31%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	5	14%

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