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Crown Electrokinetics Corp. (NASDAQ: CRKN)

December 27, 2021

Buy: Hudson Pacific Master Supply Agreement Signed.

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Crown signed a master supply agreement (MSA) with Hudson Pacific Properties. This is the precursor, we believe, to purchase orders that will occur in 2022. With full conversion of its warrants, Hudson owns almost 8% of Crown and we estimate the revenue opportunity for Crown, with Hudson, is \$100 million. We reiterate our Buy recommendation and \$8.50 price target.

Crown and Hudson Pacific Properties signed a master supply agreement (MSA) that we expect to result in purchase orders in 2022. Hudson Pacific Properties has been a key supporter for Crown's technology and major shareholder since June 2020. Assuming full conversion and exercise of the warrants it holds, Hudson would own 1.4 million shares, or almost 8% of Crown's outstanding shares. At the time of the investment, Crown indicated Hudson would implement the DynamicTint technology at select properties across its West Coast portfolio. We estimate Hudson Pacific's office portfolio of 15.6 million square feet of space has 2.34 million square feet of window space and a revenue opportunity for Crown of \$100 million.

The initial installation of Crown's Smart Window insert is expected to occur in Metrospace's 70,000 square foot Brazos Atrium office building in Houston. We estimate the order's value, of 450 Smart Window inserts, at approximately \$500 thousand and have modeled completion in the March quarter of 2022. We expect this to be followed by installations in Los Angeles, the Bay Area and a location in the Pacific Northwest. The Hudson MSA suggests strong demand throughout calendar 2022.

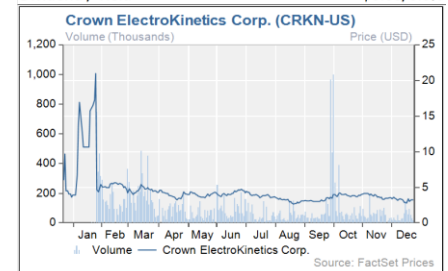
Crown is expanding thin film and lamination capacity and capabilities for the demand it is forecasting for calendar 2022. This will require additional capital which we expect to be available since there is likely a short payback and high ROI.

The company's initial target market is the 5.6 million commercial office buildings in the U.S. and Crown is engaged with over two-dozen REITs discussing the cost savings provided by the company's Smart Window inserts. With energy prices rising, alternative sources of energy far from being able to supply the country's needs in the intermediate term (at best) and government policies dis-favoring additional production of oil and gas, we believe Crown's Smart Window inserts could find a receptive audience among building owners.

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				\$3.22
Price Target				\$8.50
Estimates	F2021A	F2022E	F2023E	
Revenues (\$000s)	\$ -	\$ 500 E	\$ 12,500	
1Q June	\$ -	\$ - A	\$ 1,500	
2Q September	\$ -	\$ - A	\$ 2,500	
3Q December	\$ -	\$ - E	\$ 3,500	
4Q March	\$ -	\$ 500 E	\$ 5,000	
	F2021A	F2022E	F2023E	
EBITDA (\$000s)	\$ (5,123)	\$ (9,880)E	\$ (5,713)	
1Q June	\$ (1,216)	\$ (2,991)A	\$ (2,303)	
2Q September	\$ (1,092)	\$ (2,479)A	\$ (1,828)	
3Q December	\$ (1,062)	\$ (2,292)E	\$ (1,253)	
4Q March	\$ (1,753)	\$ (2,117)E	\$ (328)	
EV/Sales	NM	92.9 x	3.7 x	
EV/EBITDA	NM	(4.7) x	(8.1) x	
Stock Data				
52-Week Range	\$2.36	-	\$27.00	
Shares Outstanding (mil.)				17.3
Market Capitalization (mil.)				\$56
Enterprise Value (mil.)				\$46
Debt to Capital				0%
Cash (mil.)				\$9.7
Cash/Sh.				\$0.56
Average Three Months Trading Volume (K)				67
Insider Ownership				25.0%
Institutional Ownership				10.8%
Short interest (mil.)				0.6%
Dividend / Yield				\$0.00/0.0%



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 another incentive to purchase.

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	2,422	4,000
SG&A	5,492	15,812	19,556	20,000
Opex	7,318	19,352	21,978	24,000
Operating Income	(7,838)	(19,352)	(21,803)	(18,400)
Interest expense and other	(1,766)	(21,403)	(53)	0
Pretax Income	(9,604)	(40,755)	(21,803)	(18,400)
Taxes	0	0	0	0
Net Income	(9,604)	(40,755)	(21,803)	(18,400)
Basic Shares	4,117	8,851	14,497	14,730
Basic EPS	\$ (2.33)	\$ (4.60)	\$ (1.50)	\$ (1.25)
Depreciation & Amortization	77	103	282	287
Stock Compensation	4,496	14,126	11,642	12,400
EBITDA	(3,265)	(5,123)	(9,880)	(5,713)

Source: Crown Electrokinetics Corp. and Dawson James Securities estimates

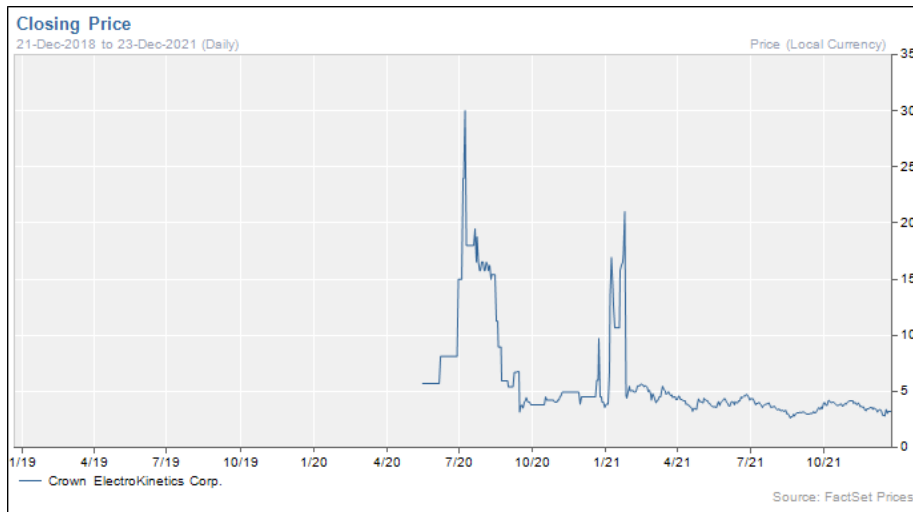
Exhibit 2. Balance Sheet and Cash Flow Statement

	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	5,446	2,879
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	\$ 6,366	\$ 5,720
PP&E	93	209	780	6,903
Intangible assets	235	1,650	1,669	1,441
Deferred offering costs	0	20	28	28
Total Assets	\$ 389	\$ 17,522	\$ 8,842	\$ 14,092
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	6,903	11,053
Total Liabilities & Equity	\$ 389	\$ 17,522	\$ 8,842	\$ 14,092
	31-Mar-20 FY2020A	31-Mar-21 FY2021A	31-Mar-22 FY 2022E	31-Mar-23 FY 2023E
Net Income	(9,604)	(40,755)	(21,803)	(18,400)
D&A	77	103	282	287
Stock Comp.	4,496	14,126	11,642	12,400
Other	2,270	21,232	244	0
Working Capital	1,717	(1,290)	422	(822)
Operating CF	\$ (1,044)	\$ (6,584)	\$ (9,213)	\$ (6,535)
CapEx	(27)	(159)	(640)	(6,183)
Other	0	(1,475)	(231)	0
Investing Activities	\$ (27)	\$ (1,634)	\$ (871)	\$ (6,183)
Equity	0	20,655	286	10,150
Debt	1,020	2,812	0	0
Financing	\$ 1,020	\$ 23,467	\$ 286	\$ 10,150
Change in Cash	\$ (51)	\$ 15,249	\$ (9,798)	\$ (2,567)

Source: Crown Electrokinetics 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
 Update – Buy – November 15, 2021 – Price Target \$8.50
 Update – Buy – December 27, 2021 – Price Target \$8.50

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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;
- 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.

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Current as of... 20-Dec-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	68%	5	19%
Market Perform (Neutral)	12	32%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	38	100%	5	13%

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