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Oblong, Inc. (NASDAQ: OBLG)

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Buy: Lowering Estimates and Price Target

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We are lowering our estimates and price target on Oblong to reflect delays in deployment of Oblong's Mezzanine video conferencing and collaboration platform. We attribute this delay to the reaction to the pandemic which has caused a slowdown in the return to offices and lower demand for Mezzanine. We remain bullish on the company's position in the video conferencing and collaboration market and expect Oblong's unique technology platform, Mezzanine, to make remote work collaboration more productive and more efficient. However, it has taken longer than expected and we have adjusted our projections to reflect this reality.

Oblong's Mezzanine platform, we believe, is well positioned to benefit from, and drive, a hybrid work environment where office workers can effectively interact with each other from multiple locations, using multiple devices. However, the continuing impact of the pandemic on the willingness of office workers to return to the office, for corporations to force that return and the evaluation of companies regarding their need for office space and the equipment needed has resulted in purchase delays for video collaboration software like Oblong's Mezzanine.

We have lowered our estimates to reflect this delay and expect revenue and EBITDA for the next few quarters to remain modest. We expect the company to continue development of its cloud-based platform and possibly see some initial pilots, tests and deployments in the coming quarters.

The lower estimates also increase the company's cash needs. The decline in the stock price will increase the number of shares issued when the company raises capital and this has a direct impact on our price target.

Ultimately, as 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 likely benefit greatly from the changes to work that are underway.

Valuation: We use a multiple of 10x on the \$100 million revenue we expect Oblong to achieve in 5 to 7 years. This puts our projected valuation at \$1 billion. Discounting this amount with a 25% discount rate results in an 18-month price target range of approximately \$5 per share.

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	\$1.02		
Price Target	\$5.00		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 15,333	\$ 7,486 E	\$ 6,363
1Q March	\$ 5,328	\$ 1,918 A	\$ 1,642
2Q June	\$ 2,816	\$ 2,049 A	\$ 1,571
3Q September	\$ 3,266	\$ 1,799 A	\$ 1,505
4Q December	\$ 3,923	\$ 1,720 E	\$ 1,645
	F2020A	F2021E	F2022E
EPS (diluted)	\$ (1.48)	\$ (0.38)E	\$ (0.31)
1Q March	\$ (0.60)	\$ (0.23)A	\$ (0.10)
2Q June	\$ (0.65)	\$ (0.08)A	\$ (0.10)
3Q September	\$ (0.40)	\$ (0.02)A	\$ (0.03)
4Q December	\$ 0.06	\$ (0.10)E	\$ (0.09)
EBITDA (\$Ms)	\$ (5.0)	\$ (7.9)	\$ (9.4)
EV/EBITDA (x)	-4.2x	-2.7x	-2.2x
Stock Data			
52-Week Range	\$1.00	-	\$6.23
Shares Outstanding (mil.)	30.6		
Market Capitalization (mil.)	\$31		
Enterprise Value (mil.)	\$21		
Debt to Capital	2%		
Cash (mil.)	\$10.8		
Cash/Sh.	\$0.35		
Average Three Months Trading Volume (K)	52		
Insider Ownership	58.5%		
Institutional Ownership	15.4%		
Short interest (mil.)	0.2%		
Dividend / Yield	\$0.00/0.0%		



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.

Valuation and Price Target

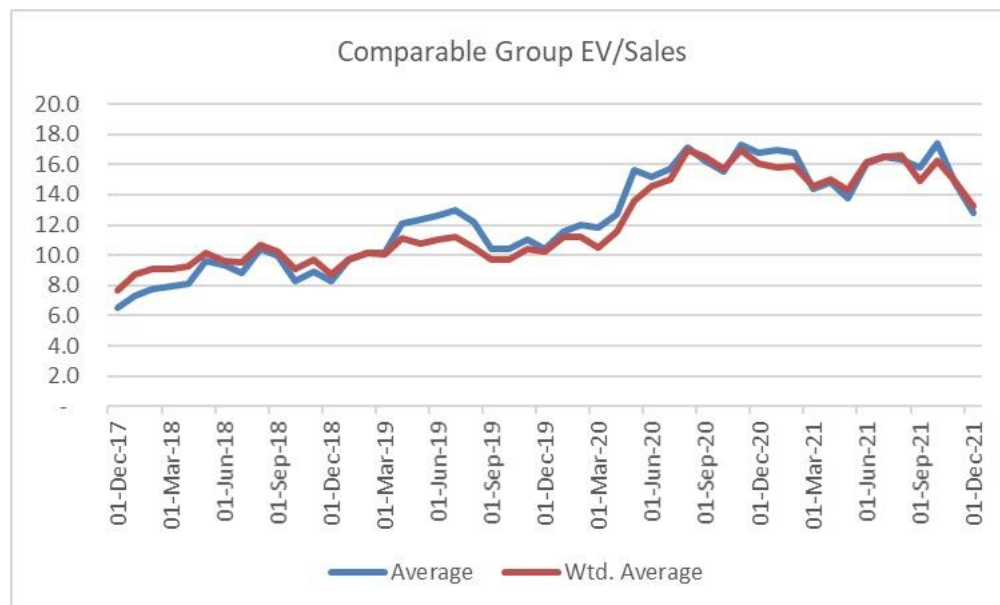
Our valuation is based on the assumption Oblong will be successful transitioning to a SaaS provider. This should drive margins higher, and higher margins should drive an EV/Sales multiple expansion. If there are delays in developing the SaaS platform, or the company is less successful than we model in 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 11.5x, but SaaS providers have EV/Sales multiples of approximately 15x to 30x.

		Price	TEV (in M's)	FTM Sales (in M's)	EV/ Sales	FTM EBITDA (in M's)	EV/ EBITDA
ADBE	Adobe Inc.	\$ 570.53	\$ 271,017.8	\$ 18,169.0	14.9x	\$ 8,833.3	30.7 x
ASAN	Asana, Inc. Class A	76.57	14,186.6	494.5	28.7x	(188.4)	NM
TEAM	Atlassian Corp. Plc Class A	385.36	97,053.6	2,915.1	33.3x	757.2	128.2 x
CTXS	Citrix Systems, Inc.	95.73	14,999.7	3,346.3	4.5x	1,040.3	14.4 x
DOCU	DocuSign, Inc.	155.16	30,785.9	2,564.0	12.0x	546.0	56.4 x
DBX	Dropbox, Inc. Class A	24.63	10,247.3	2,348.2	4.4x	836.3	12.3 x
HUBS	HubSpot, Inc.	663.25	30,882.6	1,662.8	18.6x	208.9	147.8 x
NTNX	Nutanix, Inc. Class A	32.17	7,094.8	1,753.5	4.0x	35.7	198.8 x
ONTF	ON24, Inc.	17.39	432.2	224.1	1.9x	(3.5)	NM
RNG	RingCentral, Inc. Class A	194.53	19,016.8	1,974.0	9.6x	269.1	70.7 x
SMAR	Smartsheet, Inc. Class A	78.82	9,630.0	716.1	13.4x	(15.9)	NM
TWLO	Twilio, Inc. Class A	265.35	43,223.9	3,664.3	11.8x	302.4	142.9 x
WDAY	Workday, Inc. Class A	276.50	67,698.7	6,032.7	11.2x	1,464.5	46.2 x
ZM	Zoom Video Communications, Inc. C	190.52	51,433.4	4,694.8	11.0x	1,796.4	28.6 x
	Median				11.5x		56.4 x
OBLG	Oblong, Inc.	\$ 1.02	\$ 21.6	\$ 6.4	3.4x	\$ (9.4)	NM

Source: FactSet, Dawson James Securities estimates

We believe the accommodative Fed policy resulted in an increase in overall equity multiples, and we also believe SaaS and enterprise productivity software, on a relative basis, benefitted from the changes in business wrought by the pandemic. This, too, resulted in a multiple increase for the group. Since the end of 2019, a comp group (broader than the table above) average EV/Sales increased from 10.8x FTM sales to 17x FTM sales early this year, before falling back recently to 13x 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 accommodative policy. As 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 13x FTM sales. We use a multiple of 10x on the \$100 million revenue we expect Oblong to achieve in 5 to 7 years. This puts our projected valuation at \$1 billion. Discounting this amount with a 25% discount rate results in an 18-month price target range of approximately \$5 per share. Relative to our prior price target of \$13, 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 (000s)

(\$ 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 A	30-Sep-21 Q3 21 A	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	\$ 2,049	\$ 1,799	\$ 1,720	\$ 7,486	\$ 6,363	\$ 10,677
COGS	7,598	7,427	7,280	1,290	1,249	1,228	1,118	4,885	4,136	6,272
Gross Profit	4,959	5,400	8,053	628	800	571	602	2,601	2,227	4,405
	39%	42%	53%	33%	39%	32%	35%	35%	35%	41%
R&D	921	2,023	3,711	692	599	693	700	2,684	2,907	3,493
Sales and marketing	319	1,936	3,392	527	572	438	500	2,037	3,225	5,400
G&A	4,611	5,377	6,724	2,067	1,383	1,628	1,700	6,778	6,800	7,310
Impairment charges	5,093	2,317	1,150	31	17	254	0	302	0	0
D&A	755	1,321	3,140	722	707	669	707	2,805	2,988	3,078
Opex	11,699	12,974	18,117	4,039	3,278	3,682	3,607	14,606	15,920	19,281
Operating Income	\$ (6,740)	\$ (7,574)	\$ (10,064)	\$ (3,411)	\$ (2,478)	\$ (3,111)	\$ (3,005)	\$ (12,005)	\$ (13,693)	\$ (14,876)
Interest and other	(415)	(187)	2,765	(22)	232	2,449	(65)	2,659	2,222	(195)
Pretax Income	(7,155)	(7,761)	(7,318)	(3,433)	(2,246)	(662)	(3,070)	(9,411)	(11,536)	(15,136)
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)	\$ (2,246)	\$ (662)	\$ (3,070)	\$ (10,078)	\$ (11,536)	\$ (15,136)
Basic Shares	4,795	5,108	5,547	17,756	26,644	30,739	30,816	26,489	37,132	47,266
Diluted Shares	4,795	5,108	5,547	17,756	26,644	30,739	30,816	26,489	37,132	47,266
Basic EPS	\$ (1.49)	\$ (1.52)	\$ (1.48)	\$ (0.23)	\$ (0.08)	\$ (0.02)	\$ (0.10)	\$ (0.38)	\$ (0.31)	\$ (0.32)
Diluted EPS	\$ (1.49)	\$ (1.52)	\$ (1.48)	\$ (0.23)	\$ (0.08)	\$ (0.02)	\$ (0.10)	\$ (0.38)	\$ (0.31)	\$ (0.32)
D&A	755	1,321	3,140	722	707	669	707	2,805	2,988	3,078
Stock Comp	365	110	198	33	0	150	200	383	1,290	2,160
Stock Issued for Svcs.	0	0	0	274	116	100	100	590	0	0
Other	5,093	2,317	1,686	31	72	254	0	357	0	0
EBITDA	(527)	(3,826)	(5,040)	(2,351)	(1,583)	(1,938)	(1,998)	(7,870)	(9,415)	(9,638)
Margin	-4.2%	-29.8%	-32.9%	-122.6%	-77.3%	-107.7%	-116.1%	-105.1%	-148.0%	-90.3%

Source: Oblong, Inc. and Dawson James Securities estimates

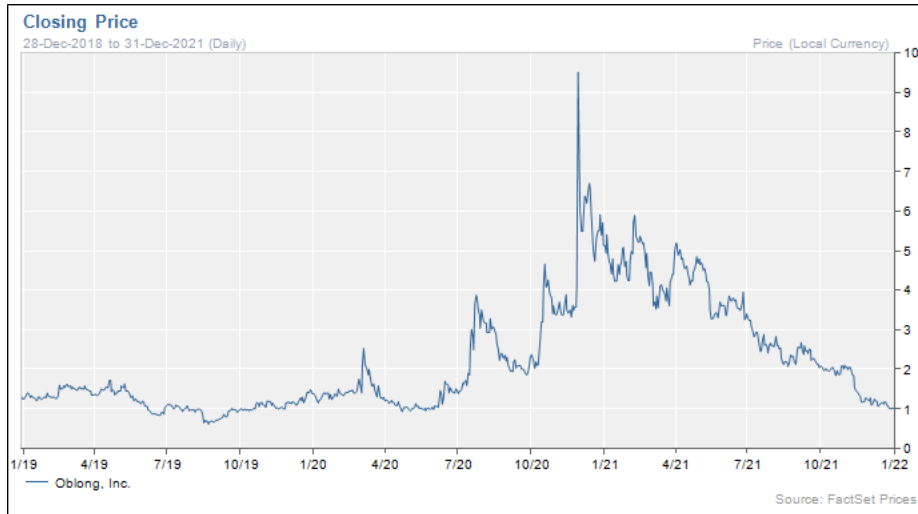
Exhibit 2. Balance Sheet and Cash Flow Statement

(\$ 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
Cash	\$ 2,007	\$ 4,602	\$ 5,058	\$ 8,395	\$ 10,796
Restricted Cash	0	0	158	\$ 61	\$ 61
A/R	1,371	2,543	3,166	1,147	1,097
Inventory	0	1,816	920	1,856	1,856
Prepaid Expenses & other	547	965	691	1,296	1,239
Current Assets	\$ 3,925	\$ 9,926	\$ 9,993	\$ 12,755	\$ 15,050
PP&E	728	1,316	573	288	488
Goodwill	2,795	7,907	7,367	7,367	7,367
Intangibles	499	12,572	10,140	7,545	5,157
Operating lease	0	3,117	903	531	531
Other	15	71	167	91	91
Total Assets	\$ 7,962	\$ 34,909	\$ 29,143	\$ 28,577	\$ 28,684
LTD, current	0	2,664	2,014	0	0
A/P	222	647	313	484	462
Accrued Expenses	867	1,752	1,201	890	851
Deferred revenue	43	1,901	1,217	859	822
Operating lease	0	1,294	830	475	475
Current Liabilities	\$ 1,132	\$ 8,258	\$ 5,575	\$ 2,708	\$ 2,610
LTD	0	2,843	403	0	0
Operating lease	0	2,020	602	182	182
Deferred revenue	0	0	506	412	412
Other	0	3	0	0	0
Equity	6,830	21,785	22,057	25,275	25,480
Total Liabilities & Equity	\$ 7,962	\$ 34,909	\$ 29,143	\$ 28,577	\$ 28,684
	31-Dec-18 FY2018	31-Dec-19 FY2019	31-Dec-20 FY2020	31-Dec-21 FY2021 E	31-Dec-22 FY2022 E
Net Income	\$ (7,168)	\$ (7,761)	\$ (7,421)	\$ (9,411)	\$ (11,536)
Depreciation & Amort.	755	1,321	3,140	2,805	2,988
Stock Comp	365	110	198	735	1,290
Working Capital & Other	4,893	3,077	(2,483)	(2,224)	9
Operating CF	\$ (1,155)	\$ (3,253)	\$ (6,566)	\$ (8,095)	\$ (7,248)
Capx	(335)	(45)	(38)	(230)	(800)
Acquisitions/Other	0	2,194	7	0	0
Investing Activities	\$ (335)	\$ 2,149	\$ (31)	\$ (230)	\$ (800)
Equity	1,383	3,699	7,355	11,504	10,450
Debt	(1,832)	0	(83)	0	0
Financing	\$ (449)	\$ 3,699	\$ 7,272	\$ 11,504	\$ 10,450
Change in Cash	\$ (1,939)	\$ 2,595	\$ 675	\$ 3,179	\$ 2,402

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

Update – Buy – August 12, 2021 – Price Target \$13.00

Price Target Change – Buy – December 31, 2021 – Price Target changed from \$13.00 to \$5.00

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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.

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.

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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