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SRAX, Inc. (NASDAQ: SRAX)

January 3, 2022

Buy: Expect Strong 2022. Reiterate Buy, \$11.50 Target.
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We expect a strong 2022 for SRAX with revenue from its Sequire platform growing 36%, more than offsetting the deconsolidation of BIGToken. Absent BIGToken, SRAX results will solely reflect Sequire's high-growth, high-margin, low churn, recurring revenue database business. We think these factors will drive the multiple higher. We reiterate our Buy recommendation and \$11.50 price target.

BIGToken's merger with BritePool in November of 2021 and the exchange of SRAX's 149 billion shares of FPVD into 242 thousand Series D convertible preferred shares of FPVD in December of 2021 will result in the deconsolidation of BIGToken beginning Q4 of 2021. It will also result in recognition of a large gain for SRAX as it books its investment in FPVD at the \$179 million market value as of year-end 2020.

Pro forma for the deconsolidation of BIGToken, for the nine-months ending in September, SRAX EBITDA was \$1.5 million on revenue of \$19.0 million. Ex BIGToken, gross margin was 78% and the EBITDA margin was 7.8%. There is room for gross margin to expand, but there is much more significant leverage for the EBITDA margin. Database companies, at scale, have EBITDA margins starting at 35%, and nearing 50% is common. We think significant improvement in EBITDA margin is possible for SRAX as it grows its business.

We estimate there were 250 Sequire customers at year-end 2021 and have modeled 415 by the end of 2022, an increase of 165, an acceleration from the 125 added in 2021. Average revenue per subscriber, per month, in 2021 was over \$11,000. We have assumed this declines to \$9,000 per month in 2022, mostly to be conservative, but also to reflect the limited experience with this service. If average revenue per subscriber, stays at the 2021 level, revenue could exceed \$48 million and EBITDA could be just shy of \$10 million.

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, a yield 5%.

Valuation: Our price target of \$11.50 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$38.4 million. The EV/Sales multiple is a discount of 30% to the group median of 10.0x (see table on page 3). At the group median, the price target would be over \$15 per share.

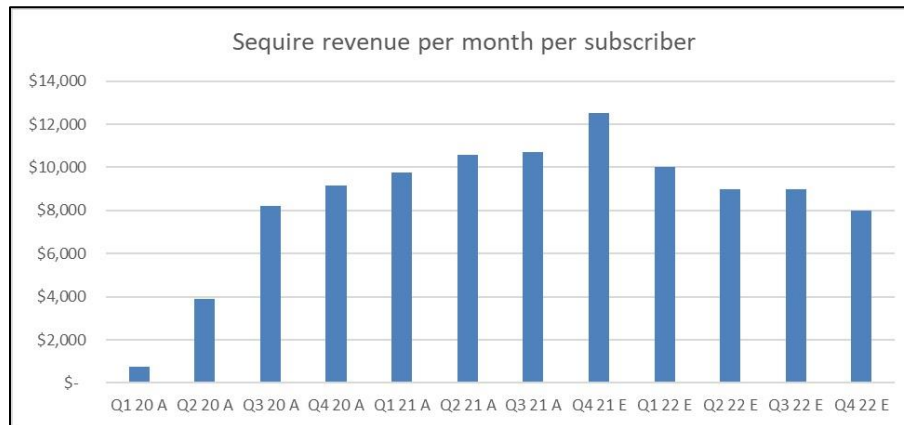
Risks to Target: Risks to achieving our price target include negative impacts of the COVID-19 pandemic, the ability to scale the Sequire platform, introduction of new platform services, ability to make debt and acquisition payments, potential pressure on the share price from conversion of the OID and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

Current Price	\$4.49		
Price Target	\$11.50		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 8,647	\$ 30,828 E	\$ 38,355
1Q March	\$ 351	\$ 5,442 A	\$ 8,715
2Q June	\$ 1,165	\$ 7,677 A	\$ 9,570
3Q September	\$ 2,609	\$ 8,313 A	\$ 10,080
4Q December	\$ 4,522	\$ 9,396 E	\$ 9,990
	F2020A	F2021E	F2022E
EPS (diluted)	\$ (1.00)	\$ (0.86)E	\$ 0.06
1Q March	\$ (0.21)	\$ (0.57)A	\$ (0.01)
2Q June	\$ (0.38)	\$ (0.24)A	\$ 0.01
3Q September	\$ (0.45)	\$ (0.15)A	\$ 0.03
4Q December	\$ 0.01	\$ 0.01 E	\$ 0.03
EBITDA (\$Ms)	\$ (8.4)	\$ (2.1)	\$ 3.4
EV/EBITDA (x)	-11.1x	-44.5x	27.4x
Stock Data			
52-Week Range	\$2.79	-	\$7.29
Shares Outstanding (mil.)	26.1		
Market Capitalization (mil.)	\$117		
Enterprise Value (mil.)	\$94		
Debt to Capital	0%		
Cash (mil.)	\$25.0		
Cash/Share	\$0.96		
Average Three Months Trading Volume (K)	130		
Insider Ownership	15.7%		



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 reached a record of \$11,840 in Q3 2021. 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 in 2022, primarily to be conservative until a longer record is available. If average revenue per subscriber, stays at the 2021 level, revenue in 2022 would exceed \$48 million, based on our subscriber growth projection.



Source: SRAX, Inc. and Dawson James Securities estimates

We also believe there is upside to our EBITDA estimate for 2022. In 2021 operating expenses, including BIGToken, were an estimated \$28.7 million. Excluding BIGToken, pro forma operating expenses were \$18.8 million. However, this burdens BIGToken with certain employee and administrative costs elucidated in the transitional services agreement between the two companies. We have not eliminated all of the shared expenses in our forecast, on the assumption SRAX will increase expenses in order to drive top-line growth and some expenses currently shared will have to be duplicated by both companies. If this latter assumption is correct, the current pro forma results understate operating expenses. We have attempted to adjust for this possibility but believe we may have been too burdensome in our expense estimates.

Outlook

Our revenue estimates had built off three sources of revenue: 1) Sequire, 2) BIGToken through September of 2021, and 3) conferences/events from LD Micro. Beginning in Q4 2021 we removed BIGToken from our estimates.

Our estimate for consolidated sales (including BIGToken for the first nine months of the year) for 2021 is \$30.8 million, up from \$8.6 million in 2020, with most of the increase coming from Sequire. For 2022, we project revenue of \$38.4 million, with the entire increase driven by Sequire, and the elimination of \$2.5 million in revenue from BIGToken.

\$ in millions	2020A	2021E	2022E
Sequire	5.8	27.4	37.4
BIGToken	2.2	2.5	0.0
Conference & other	0.6	0.9	1.0
Total	\$ 8.6	\$ 30.8	\$ 38.4

Source: SRAX, Inc. and 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 4x 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	FTM Sales	EV/	EBITDA	EV/	EBITDA
			(\$ in M)	(\$ in M)	Sales		EBITDA	Margin
BR	Broadridge Financial Solutions, Inc.	\$ 182.82	\$ 25,776.6	\$5,628.8	4.6x	\$ 1,316.1	19.6x	23.4%
CSGP	CoStar Group, Inc.	79.03	28,517.7	2,136.1	13.4x	721.4	39.5	33.8%
DNB	Dun & Bradstreet Holdings Inc	20.49	12,272.9	2,228.2	5.5x	886.6	13.8	39.8%
EFX	Equifax Inc.	292.79	39,678.5	5,220.8	7.6x	1,850.7	21.4	35.4%
GPN	Global Payments Inc.	135.18	48,617.1	8,274.3	5.9x	3,966.1	12.3	47.9%
INFO	IHS Markit Ltd.	132.92	58,220.5	4,751.0	12.3x	2,193.1	26.5	46.2%
MCO	Moody's Corporation	390.58	79,050.6	6,504.0	12.2x	3,167.2	25.0	48.7%
MSCI	MSCI Inc. Class A	612.69	54,242.3	2,253.1	24.1x	1,299.4	41.7	57.7%
NLSN	Nielsen Holdings Plc	20.51	13,116.4	3,598.5	3.6x	1,508.4	8.7	41.9%
SPGI	S&P Global, Inc.	471.93	116,131.5	8,519.0	13.6x	4,807.0	24.2	56.4%
TRU	TransUnion	118.58	25,687.4	3,250.9	7.9x	1,345.6	19.1	41.4%
VRSK	Verisk Analytics Inc	228.73	40,340.6	3,154.1	12.8x	1,547.0	26.1	49.0%
	Median				10.0x		22.8	43.5%
SRAX	SRAX, Inc. Class A	\$ 4.49	\$ 93.6	\$ 38.5	2.4x	\$ 3.5	26.9x	9.1%

Source: FactSet and Dawson James Securities estimates

Based on our forward-12-month revenue estimate of \$38.5 million, SRAX shares trade below that range, or at 2.4x forward-12-month sales, and at 1.7x our 2023 sales estimate of \$56.2 million.

Price Target

Our price target of \$11.50 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$38.4 million. The EV/Sales multiple is a discount of 30% to the group median of 10.0x 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 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	\$ 9,996	\$ 31,428	\$ 38,355
Cost of Revenues	3,157	1,680	2,589	1,650	1,453	1,804	1,936	6,843	7,639
Gross Profit	6,724	1,904	6,058	3,792	6,224	6,509	8,060	24,585	30,716
Operating Expenses	18,443	19,762	17,655	5,218	7,293	8,107	8,114	28,732	29,247
Operating Income	\$ (11,719)	\$ (17,858)	\$ (11,597)	\$ (1,426)	\$ (1,069)	\$ (1,598)	\$ (54)	\$ (4,147)	\$ 1,469
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)	(144)	(22,703)	1,501
Taxes	0	0	26	0	0	0	0	0	0
Loss from noncontrolling interest	0	0	0	854	272	774	945	2,845	0
Net Income (Loss)	\$ 8,744	\$ (16,859)	\$ (14,705)	\$ (11,090)	\$ (5,740)	\$ (3,829)	\$ 801	\$ (19,858)	\$ 1,501
Diluted EPS	\$ 0.86	\$ (1.37)	\$ (1.00)	\$ (0.57)	\$ (0.24)	\$ (0.15)	\$ 0.03	\$ (0.84)	\$ 0.06
Diluted Shares	10,121	12,293	14,650	19,412	23,631	25,020	26,147	23,553	26,799
Operating Income	(11,719)	(17,858)	(11,597)	(1,426)	(1,069)	(1,598)	(54)	(4,147)	1,469
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	940
Adj. EBITDA	\$ (9,073)	\$ (15,528)	\$ (8,442)	\$ (789)	\$ (444)	\$ (981)	\$ 563	\$ (1,651)	\$ 3,413
	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%	81.2%	91.4%	76.3%
Operating Income	-118.6%	-498.3%	-134.1%	-26.2%	-13.9%	-19.2%	-0.5%	-13.2%	3.8%
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%	3.9%
EBITDA	-91.8%	-433.3%	-97.6%	-14.5%	-5.8%	-11.8%	5.6%	-5.3%	8.9%

Source: SRAX, Inc. and Dawson James Securities estimates

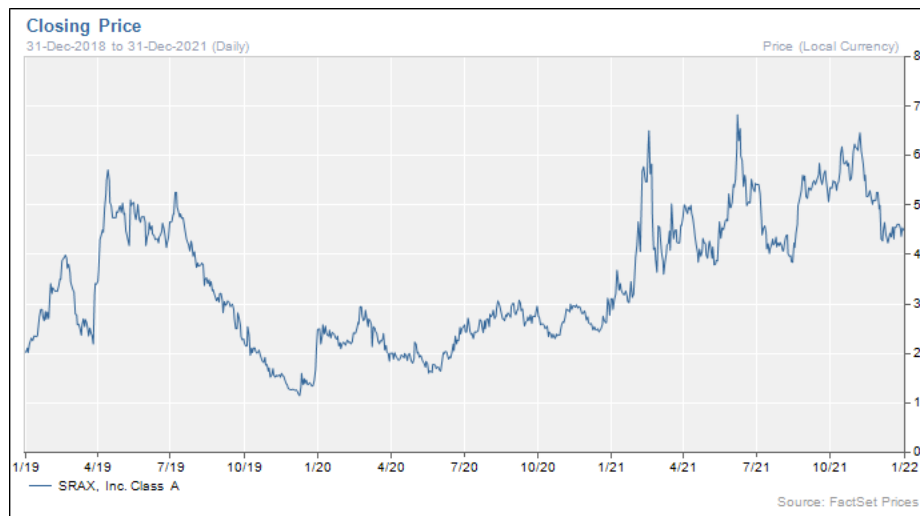
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	2018	2019	2020	2021 E	2022 E
Current Assets					
Cash and Cash Equivalents	2,785	32	451	13,838	11,527
Accounts Receivables	1,829	805	2,608	2,739	2,737
Prepaid Expenses	467	715	367	1,200	1,199
Marketable Securities	0	0	8,447	18,221	18,221
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	\$ 42,253	\$ 33,684
Non Current Assets					
Notes Receivable	0	0	893	926	926
Property and Equipment, net	192	191	118	157	169
Intangible Assets	1,763	1,966	2,409	1,895	2,023
Right-of-Use Asset	0	456	366	286	286
Investment in FPVD	0	0	0	179,475	179,475
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	\$ 248,379	\$ 239,950
Current Liabilities					
AP and Accrued Expenses	3,575	2,442	3,561	4,728	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	\$ 31,272	\$ 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	216,821	219,324
Total Liabilities & Stockholders' Equity	\$ 23,118	\$ 20,234	\$ 39,013	\$ 248,373	\$ 239,950
	2018	2019	2020	2021 E	2022 E
Operating Activities					
Net Income	8,744	(16,859)	(14,705)	(19,858)	1,501
Depreciation and Amortization	768	1,163	1,303	1,488	940
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)	(11,466)	(4,675)
Operating Cash Flow	\$ (13,663)	\$ (15,350)	\$ (13,489)	\$ (13,016)	\$ (1,231)
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	\$ 13,387	\$ (2,311)

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
 Update – Buy – January 3, 2022 – 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;
- 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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