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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)

February 22, 2022

Buy: \$1M Committed to BIGtoken.

SRAX has committed \$1 million to BIGtoken as a bridge, we believe, to a larger financing sought by BIGtoken. We still expect SRAX to liquidate its ownership of BIGtoken over time and this could be a source of considerable cash proceeds. We reiterate our Buy recommendation and price target of \$13.00 per share.

SRAX has committed \$1 million to BIGtoken as a bridge, we believe to a larger financing sought by BIGtoken. \$300,000 has already been funded and the remaining \$700,000 is expected to be released within the next 60 days. This should not put a strain on the company's balance sheet since it had \$25 million in cash and marketable securities at the end of Q3 and is cash flow positive. The investment allows BIGtoken the resources necessary to continue integrating its merger with BritePool and seek additional financing.

Upon completion of a BIGtoken financing, SRAX, at its option, can convert its \$1 million investment into Series D preferred at a 20% discount and receive a like amount of 5-year warrants with a strike price equal to the 20% price discount. Prior to this investment SRAX owned 252,078 shares of Series D Preferred Stock outstanding that are convertible into 149.6 billion shares of common.

At the current price, SRAX's investment in BIGtoken is worth \$224 million, about double the current market value of SRAX and this could reflect skepticism BIGtoken can retain its current value as SRAX ultimately disposes of its position. BIGtoken does face some challenges, including a capital raise, integrating the merger with BritePool and managing its expenses. To that end, earlier this month BIGtoken announced a reduction in force that will reduce its annual payroll by 57% or \$2.09 million and will use external contractors to complete development.

Valuation: Our price target of \$13 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$45.5 million. The EV/Sales multiple is a discount of 12.5% to the group median of 8.0x (see table on page 2). At the group median, the price target would be about \$14.74 per share. Our price target does not include any value of its investment in BIGtoken.

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.

James McIlree, CFA

561-237-2709

jmcilree@dawsonjames.com

Current Price	\$4.85		
Price Target	\$13.00		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 8,647	\$ 30,828 E	\$ 45,473
1Q March	\$ 351	\$ 5,442 A	\$ 11,303
2Q June	\$ 1,165	\$ 7,677 A	\$ 10,590
3Q September	\$ 2,609	\$ 8,313 A	\$ 11,190
4Q December	\$ 4,522	\$ 9,396 E	\$ 12,390
	F2020A	F2021E	F2022E
EPS (diluted)	\$ (1.00)	\$ (0.86)E	\$ 0.27
1Q March	\$ (0.21)	\$ (0.57)A	\$ 0.07
2Q June	\$ (0.38)	\$ (0.24)A	\$ 0.04
3Q September	\$ (0.45)	\$ (0.15)A	\$ 0.06
4Q December	\$ 0.01	\$ 0.01 E	\$ 0.10
EBITDA (\$Ms)	\$ (8.4)	\$ (2.1)	\$ 9.1
EV/EBITDA (x)	-12.2x	-49.0x	11.3x
Stock Data			
52-Week Range	\$3.25	-	\$7.29
Shares Outstanding (mil.)	26.1		
Market Capitalization (mil.)	\$127		
Enterprise Value (mil.)	\$103		
Debt to Capital	0%		
Cash (mil.)	\$25.0		
Cash/Share	\$0.96		
Average Three Months Trading Volume (K)	254		
Insider Ownership	20.0%		



Outlook

Our revenue estimates had been 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, with most of the increase coming from Sequire. For 2022, we project revenue of \$45.5 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	44.5
BIGToken	2.2	2.5	0.0
Conference & other	0.6	0.9	1.0
Total	\$ 8.6	\$ 30.8	\$ 45.5

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.

Valuation

SaaS/Database providers' shares commonly trade between 3x 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.	\$ 142.38	\$ 21,064.5	\$ 5,814.1	3.6x	\$ 1,371.9	15.4x	23.6%
CSGP	CoStar Group, Inc.	64.95	22,966.0	2,121.1	10.8x	713.1	32.2	33.6%
DNB	Dun & Bradstreet Holdings Inc	18.23	11,447.0	2,293.9	5.0x	887.7	12.9	38.7%
EFX	Equifax Inc.	213.04	31,418.7	5,342.5	5.9x	1,932.8	16.3	36.2%
GPN	Global Payments Inc.	136.62	50,871.0	8,459.4	6.0x	4,059.1	12.5	48.0%
INFO	IHS Markit Ltd.	107.11	47,660.5	4,820.6	9.9x	2,174.2	21.9	45.1%
MCO	Moody's Corporation	323.58	67,711.7	6,696.8	10.1x	3,306.7	20.5	49.4%
MSCI	MSCI Inc. Class A	527.00	46,906.8	2,326.3	20.2x	1,338.2	35.1	57.5%
NLSN	Nielsen Holdings Plc	17.31	11,962.7	3,596.0	3.3x	1,501.7	8.0	41.8%
SPGI	S&P Global, Inc.	378.67	93,252.4	8,698.5	10.7x	4,939.5	18.9	56.8%
TRU	TransUnion	97.79	21,672.8	3,626.0	6.0x	1,372.8	15.8	37.9%
VRSK	Verisk Analytics Inc	189.30	33,921.7	3,155.6	10.7x	1,547.5	21.9	49.0%
	Median				8.0x		17.6	43.1%
SRAX	SRAX, Inc. Class A	\$ 4.85	\$ 103.0	\$ 47.0	2.2x	\$ 10.1	10.2x	21.4%

Source: FactSet and Dawson James Securities estimates

Based on our forward-12-month revenue estimate of \$47.0 million, SRAX shares trade below that range, or at 2.2x forward-12-month sales, and at 1.8x our 2023 sales estimate of \$56.2 million.

Price Target

Our price target of \$13 is based on an EV/Sales multiple of 7x our 2022 revenue estimate of \$45.5 million. The EV/Sales multiple is a discount of 12.5% to the group median of 8.0x and reflects the risks of achieving our revenue estimate. At the group median, the price target would be about \$14.74 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	\$ 9,396	\$ 30,828	\$ 45,473
Cost of Revenues	3,157	1,680	2,589	1,650	1,453	1,804	1,786	6,693	9,063
Gross Profit	6,724	1,904	6,058	3,792	6,224	6,509	7,610	24,135	36,410
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)	\$ (504)	\$ (4,597)	\$ 7,163
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)	(594)	(23,153)	7,195
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)	\$ 351	\$ (20,308)	\$ 7,195
Diluted EPS	\$ 0.86	\$ (1.37)	\$ (1.00)	\$ (0.57)	\$ (0.24)	\$ (0.15)	\$ 0.01	\$ (0.86)	\$ 0.27
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)	(504)	(4,597)	7,163
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)	\$ 113	\$ (2,101)	\$ 9,107
	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%	19.0%	21.7%	19.9%
Gross Profit	68.0%	53.1%	70.1%	69.7%	81.1%	78.3%	81.0%	78.3%	80.1%
Operating Expenses	186.7%	551.4%	204.2%	95.9%	95.0%	97.5%	86.3%	93.2%	64.3%
Operating Income	-118.6%	-498.3%	-134.1%	-26.2%	-13.9%	-19.2%	-5.4%	-14.9%	15.8%
Total Financial Expense	-30.9%	-20.0%	-140.5%	-276.1%	-5.0%	-6.2%	-1.0%	-51.9%	0.1%
Other	238.0%	47.9%	104.9%	82.8%	-59.4%	-29.9%	0.0%	-8.2%	0.0%
Net Income (Loss)	88.5%	-470.4%	-170.1%	-203.8%	-74.8%	-46.1%	3.7%	-65.9%	15.8%
EBITDA	-91.8%	-433.3%	-97.6%	-14.5%	-5.8%	-11.8%	1.2%	-6.8%	20.0%

Source: SRAX, Inc. and Dawson James Securities estimates

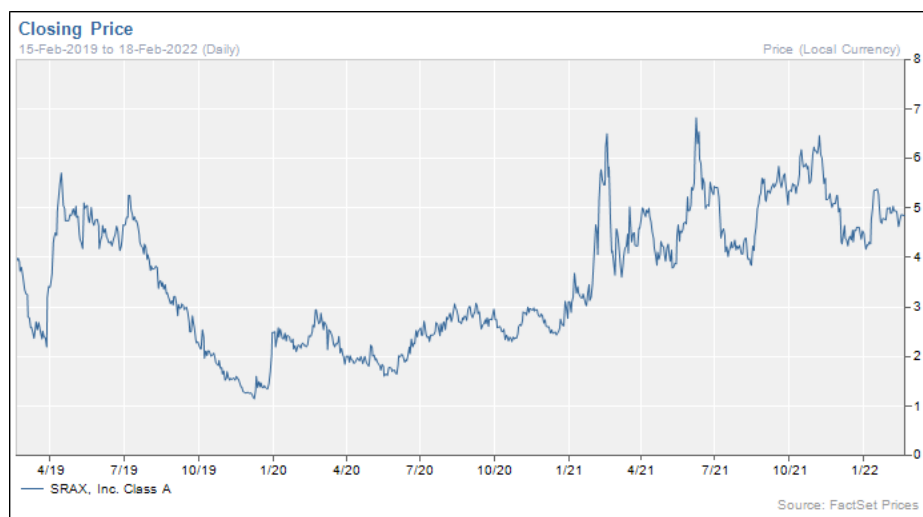
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	2018	2019	2020	2021 E	2022 E
Current Assets					
Cash and Cash Equivalents	2,785	32	451	13,340	16,960
Accounts Receivables	1,829	805	2,608	2,574	3,395
Prepaid Expenses	467	715	367	1,128	1,487
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	\$ 41,519	\$ 40,063
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	\$ 247,645	\$ 246,329
Current Liabilities					
AP and Accrued Expenses	3,575	2,442	3,561	4,444	5,860
Derivative liability	496	4,397	0	0	0
Deferred Revenue	0	0	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	\$ 30,988	\$ 21,482
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	216,377	224,568
Total Liabilities & Stockholders' Equity	\$ 23,118	\$ 20,234	\$ 39,013	\$ 247,645	\$ 246,329
	2018	2019	2020	2021 E	2022 E
Operating Activities					
Net Income	8,744	(16,859)	(14,705)	(20,308)	7,195
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)	(11,513)	(4,439)
Operating Cash Flow	\$ (13,663)	\$ (15,350)	\$ (13,489)	\$ (13,514)	\$ 4,700
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	\$ 12,889	\$ 3,620

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 changed from \$10.00 to \$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

Price Target Change – Buy – January 10, 2022 – Price Target changed from \$11.50 to \$13.00

Update – Buy – February 22, 2022 – Price Target \$13.00

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Information about valuation methods and risks can be found in the "Valuation" and "Risk Analysis" sections of this report.

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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... 8-Feb-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	76%	6	19%
Market Perform (Neutral)	10	24%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	41	100%	6	15%

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