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Crown Electrokinetics Corp. (NASDAQ: CRKN)

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Buy: Q4 Results

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Q4 results were in line with our estimates and the company remains on track for production of its Gen 1 product this summer.

Crown has been developing a smart glass window insert solution that it expects to enter into production in the summer of 2022. 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.

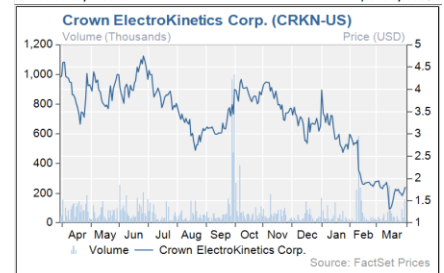
Crown Electrokinetics has developed a smart glass solution that controls the amount of UV (ultraviolet), visible and IR (infrared) light that comes through a window. The applications for this technology include skylights in residential structures, sunroofs in automobiles and windows in residential and 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.

At the end of the December quarter the company had \$6.1 million in cash and its operating cash flow use averaged \$2.9 million per quarter in calendar 2021. Crown is also expanding thin film and lamination capacity and capabilities for the demand it is forecasting. This will also require up to \$10 million of additional capital. We have assumed the company will need to raise capital this year and next to fund operating needs and equipment purchases.

Valuation: Our price target of \$4.25 is based on an EV/Sales multiple of 4.5x 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 issuance of additional shares to fund operations.

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			\$1.80
Price Target			\$4.25
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)			
1Q March	\$ -	\$ 1,500 E	\$ 9,000
2Q June	\$ -	\$ - E	\$ 1,500
3Q September	\$ -	\$ 500 E	\$ 2,500
4Q December	\$ -	\$ 1,000 E	\$ 3,000
	F2021A	F2022E	F2023E
EBITDA (\$000s)			
1Q March	\$ (9,933)	\$(9,951)E	\$(8,562)
2Q June	\$ (1,753)	\$(2,669)E	\$(2,603)
3Q September	\$ (2,991)	\$(2,669)E	\$(2,328)
4Q December	\$ (2,479)	\$(2,444)E	\$(2,003)
	\$ (2,710)	\$(2,169)E	\$(1,628)
EV/Sales	NM	13.7 x	2.3 x
EV/EBITDA	NM	(2.1) x	(2.4) x
Stock Data			
52-Week Range	\$1.29	-	\$4.85
Shares Outstanding (mil.)			14.6
Market Capitalization (mil.)			\$26
Enterprise Value (mil.)			\$21
Debt to Capital			0%
Cash (mil.)			\$6.1
Cash/Sh.			\$0.42
Average Three Months Trading Volume (K)			43
Insider Ownership			23.8%
Institutional Ownership			12.9%
Short interest (mil.)			0.3%
Dividend / Yield			\$0.00/0.0%



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. We capitalize this estimate at 4.5x to reflect the large market, differentiated product and higher growth to arrive at a 5- to 7-year enterprise value target of \$550. We discount this to arrive at an enterprise value target range of \$94 million to \$147 million. Using a share count of 28 million, which includes estimated capital raises, leads to a price target range of \$3.40 to \$5.25. Our price target of \$4.25 is near the center of this range.

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 has changed to combat 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 sessions that would give buyers a tax credit for smart glass purchases. The timing of legislative proposals 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 December quarter, View had over \$280 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-Dec-20 2020A	31-Dec-21 2021A	31-Mar-22 Q1 22	30-Jun-22 Q2 22	30-Sep-22 Q3 22	31-Dec-22 Q4 22	31-Dec-22 2022 E	31-Dec-23 2023 E
Revenue	0	0	0	0	500	1,000	1,500	9,000
COGS	160	0	0	0	275	500	775	5,050
Gross Profit	(160)	0	0	0	225	500	725	3,950
R&D	2,906	3,401	1,300	1,300	1,300	1,300	5,200	5,200
SG&A	12,650	18,724	4,541	4,541	4,541	4,541	18,164	20,000
Opex	15,556	22,126	5,841	5,841	5,841	5,841	23,364	25,200
Operating Income	(15,716)	(22,126)	(5,841)	(5,841)	(5,616)	(5,341)	(22,639)	(21,250)
Interest expense and other	(6,668)	(15,035)	(9)	(9)	(9)	(9)	(36)	(36)
Pretax Income	(22,384)	(37,160)	(5,850)	(5,850)	(5,625)	(5,350)	(22,675)	(21,286)
Taxes	0	0					0	0
Net Income	(22,384)	(37,160)	(5,850)	(5,850)	(5,625)	(5,350)	(22,675)	(21,286)
Basic Shares	6,893	14,056	14,547	17,875	21,211	21,261	18,723	25,494
Basic EPS	\$ (3.25)	\$ (2.64)	\$ (0.40)	\$ (0.33)	\$ (0.27)	\$ (0.25)	\$ (1.21)	\$ (0.83)
Depreciation & Amortization	76	271	72	72	72	72	288	288
Stock Compensation	11,445	11,921	3,100	3,100	3,100	3,100	12,400	12,400
EBITDA	(4,195)	(9,933)	(2,669)	(2,669)	(2,444)	(2,169)	(9,951)	(8,562)

Source: Crown Electrokinetics Corp. and Dawson James Securities estimates

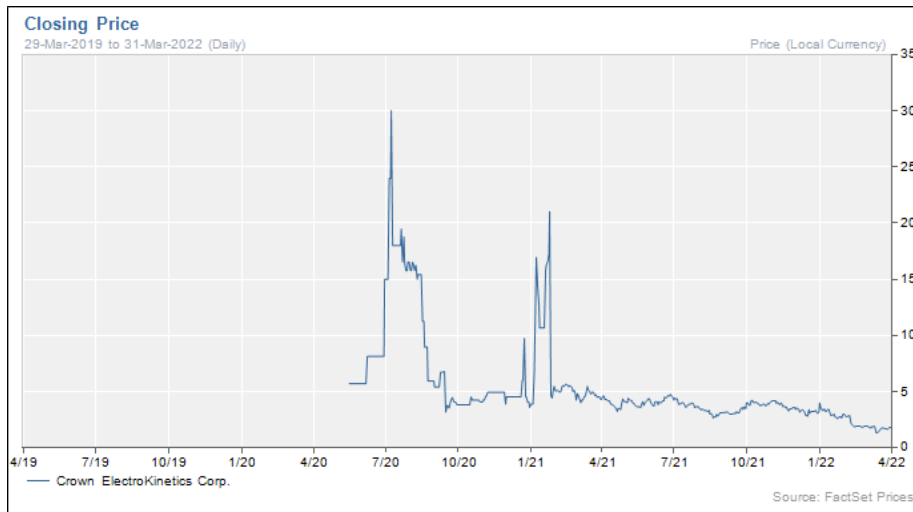
Exhibit 2. Balance Sheet and Cash Flow Statement

	31-Dec-20 FY2020	31-Dec-21 FY2021	31-Dec-22 2022 E	31-Dec-23 2023 E
(\$ in 000's)				
Cash & Equivalents	36	6,130	5,285	1,653
A/R	0	0	205	616
Inventory	0	0	103	308
Prepaid & other assets	254	687	1,300	1,300
Current Assets	\$ 290	\$ 6,817	\$ 6,893	\$ 3,877
PP&E	148	895	1,484	5,967
Intangible assets	205	1,761	1,557	1,353
Deferred offering costs		179	179	179
Total Assets	\$ 642	\$ 9,652	\$ 10,112	\$ 11,376
A/P	1,183	358	677	677
Accrued expenses	356	298	564	564
Accrued interest	465	0	0	0
Notes payable	2,843	8	8	8
Warrant liability	2,542	0	0	0
Related party payable	25	0	0	0
Current Liabilities	\$ 7,414	\$ 664	\$ 1,249	\$ 1,249
Equity	(6,771)	8,988	8,863	10,127
Total Liabilities & Equity	\$ 642	\$ 9,652	\$ 10,112	\$ 11,376
	31-Dec-20 FY2020	31-Dec-21 FY2021	31-Dec-22 2022 E	31-Dec-23 2023 E
Net Income	(22,384)	(37,160)	(22,675)	(21,286)
D&A	76	271	288	288
Stock Comp.	11,445	11,921	12,400	12,400
Other	6,786	15,152	0	0
Working Capital	190	(1,700)	(336)	(616)
Operating CF	\$ (3,888)	\$ (11,516)	\$ (10,323)	\$ (9,214)
CapEx	(82)	(629)	(673)	(4,568)
Other	(25)	(1,714)	0	0
Investing Activities	\$ (107)	\$ (2,343)	\$ (673)	\$ (4,568)
Equity	1,149	19,692	10,150	10,150
Debt	2,882	261	0	0
Financing	\$ 4,030	\$ 19,953	\$ 10,150	\$ 10,150
Change in Cash	\$ 36	\$ 6,094	\$ (845)	\$ (3,632)

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

Price Target Change – Buy – March 18, 2022 – Price Target Price Target changed from \$8.50 to \$4.25

Update – Buy – March 31, 2022 – Price Target \$4.25

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- 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... 15-Mar-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	74%	4	13%
Market Perform (Neutral)	11	26%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	42	100%	4	10%

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