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Crown Electrokinetics Corp. (NASDAQ: CRKN)

May 16, 2022

Buy: Q1 Results. Lower Target to \$1.50

We are lowering our price target to \$1.50 from \$4.50, to reflect the financing risk for Crown given the low cash balance and need to fund operating losses and capital equipment purchases over the coming quarters. Our price target is equivalent to a pro forma enterprise value of about \$40 million, a significant discount to the \$94 million appraised value of the company's intellectual property.

At the end of Q1 Crown had \$2.5 million in cash and over the past four quarters has had, on average, a quarterly operating cash flow burn of \$3 million. The need to fund operating losses through 2023 as well as fund equipment purchases contemplated late this year or early next will weigh on the stock until the company's financial situation is more secure. We have lowered our price target to \$1.50 per share and using our estimate of shares and debt as of the end of 2023 equals an enterprise value of about \$40 million, which is a significant discount to the \$94 million appraised value of the company's intellectual property.

This summer, the company expects to manufacture and deliver its first smart window inserts and we forecast this will generate about \$1 million in revenue. Post a six-to-nine-month testing and evaluation process the company will integrate feedback for the second generation window insert to be manufactured on a purpose-built line. We believe this will cause a pause in revenue while the second gen product is designed and the manufacturing equipment is built, installed and tested.

The company needs, we estimate, \$5 to \$10 million for its equipment purchase and has indicated debt financing will be available. We expect this will be debt with equity features, such as a convert and warrants. We also expect the company will need to raise equity capital to fund operating losses through 2023 and stated on its earnings call it has secured a term sheet at an above-market price.

Valuation: Our price target of \$1.50 is based on an enterprise value of about \$40 million and assumes an equity capital raise and debt funding for the company's equipment needs. This enterprise value is a discount to the \$94 million appraised value of the company's intellectual property.

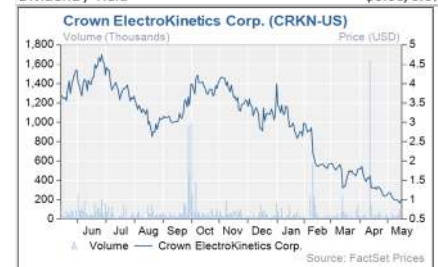
Risks: Risks to achieving our price target include an interruption in the economic recovery, closure of offices in response to the COVID-19 pandemic and obtaining the necessary manufacturing partnerships to satisfy demand.

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Current Price				\$1.00
Price Target				\$1.50
Estimates	F2021A	F2022E	F2023E	
Revenues (\$000s)	\$ -	\$ 1,000 E	\$ 500	
1Q March	\$ -	\$ - A	\$ -	
2Q June	\$ -	\$ 500 E	\$ -	
3Q September	\$ -	\$ 500 E	\$ -	
4Q December	\$ -	\$ - E	\$ 500	
	F2021A	F2022E	F2023E	
EBITDA (\$000s)	\$ (9,933)	\$(11,488)E	\$(11,398)	
1Q March	\$ (1,753)	\$(3,177)A	\$(2,912)	
2Q June	\$ (2,991)	\$(2,712)E	\$(2,912)	
3Q September	\$ (2,479)	\$(2,687)E	\$(2,912)	
4Q December	\$ (2,710)	\$(2,912)E	\$(2,662)	
EV/Sales	NM	14.4 x	28.8 x	
EV/EBITDA	NM	(1.3) x	(1.3) x	
Stock Data				
52-Week Range	\$0.88	-	\$4.85	
Shares Outstanding (mil.)				14.6
Market Capitalization (mil.)				\$15
Enterprise Value (mil.)				\$14
Debt to Capital				6%
Cash (mil.)				\$2.5
Cash/Sh.				\$0.17
Average Three Months Trading Volume (K)				149
Insider Ownership				25.0%
Institutional Ownership				16.7%
Short interest (mil.)				0.3%
Dividend / Yield				\$0.00/0.0%



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 disfavoring 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.

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

Our price target of \$1.50 is based on an enterprise value of about \$40 million and assumes an equity capital raise and debt funding for the company's equipment needs. This enterprise value is a discount to the \$94 million appraised value of the company's intellectual property.

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 A	30-Jun-22 Q2 22 E	30-Sep-22 Q3 22 E	31-Dec-22 Q4 22 E	31-Dec-22 2022 E	31-Dec-23 2023 E
Revenue	0	0	0	500	500	0	1,000	500
COGS	160	0	0	300	275	0	575	250
Gross Profit	(160)	0	0	200	225	0	425	250
R&D	2,906	3,401	1,096	1,096	1,096	1,096	4,384	4,384
SG&A	12,650	18,724	3,471	2,971	2,971	2,971	12,384	11,884
Opex	15,556	22,126	4,567	4,067	4,067	4,067	16,768	16,268
Operating Income	(15,716)	(22,126)	(4,567)	(3,867)	(3,842)	(4,067)	(16,343)	(16,018)
Interest expense and other	(6,668)	(15,035)	(3)	(3)	(3)	(3)	(12)	(12)
Pretax Income	(22,384)	(37,160)	(4,570)	(3,870)	(3,845)	(4,070)	(16,355)	(16,030)
Taxes	0	0	0	0	0	0	0	0
Net Income	(22,384)	(37,160)	(4,570)	(3,870)	(3,845)	(4,070)	(16,355)	(16,030)
Basic Shares	6,893	14,056	15,856	17,875	21,211	21,261	19,051	25,494
Basic EPS	\$ (3.25)	\$ (2.64)	\$ (0.29)	\$ (0.22)	\$ (0.18)	\$ (0.19)	\$ (0.86)	\$ (0.63)
Depreciation & Amortization	76	271	307	72	72	72	523	288
Stock Compensation	11,445	11,921	1,083	1,083	1,083	1,083	4,332	4,332
EBITDA	(4,195)	(9,933)	(3,177)	(2,712)	(2,687)	(2,912)	(11,488)	(11,398)

Source: Crown Electrokinetics Corp. and Dawson James Securities estimates

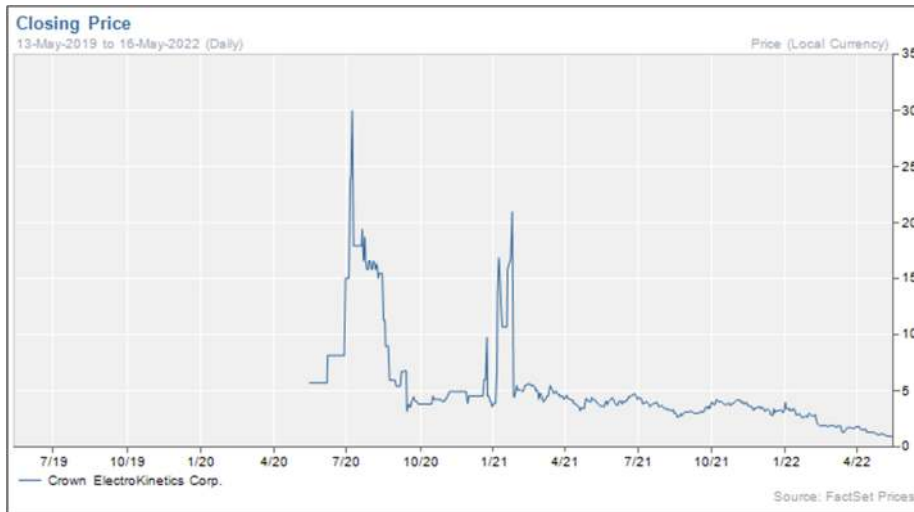
Exhibit 2. Balance Sheet and Cash Flow Statement

	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	3,535	1,908
A/R	0	0	0	103
Inventory	0	0	0	51
Prepaid & other assets	254	687	1,300	1,300
Current Assets	\$ 290	\$ 6,817	\$ 4,835	\$ 3,362
PP&E	148	895	1,306	8,934
Intangible assets	205	1,761	1,562	1,358
Right of use asset	0	0	2,218	2,218
Other assets	0	179	402	402
Total Assets	\$ 642	\$ 9,652	\$ 10,322	\$ 16,274
A/P	1,183	358	554	554
Accrued expenses	356	298	151	151
Lease liability	0	0	507	507
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	\$ 1,220	\$ 1,220
Lease Liability	\$ -	\$ -	\$ 1,814	\$ 9,314
Equity	(6,771)	8,988	7,288	5,740
Total Liabilities & Equity	\$ 642	\$ 9,652	\$ 10,322	\$ 16,274
	31-Dec-20 FY2020	31-Dec-21 FY2021	31-Dec-22 2022 E	31-Dec-23 2023 E
Net Income	(22,384)	(37,160)	(16,355)	(16,030)
D&A	76	271	523	288
Stock Comp.	11,445	11,921	4,332	4,332
Other	6,786	15,152	170	0
Working Capital	190	(1,700)	(783)	(154)
Operating CF	\$ (3,888)	\$ (11,516)	\$ (12,113)	\$ (11,564)
CapEx	(82)	(629)	(576)	(7,713)
Other	(25)	(1,714)	(7)	0
Investing Activities	\$ (107)	\$ (2,343)	\$ (583)	\$ (7,713)
Equity	1,149	19,692	10,100	10,150
Debt	2,882	261	0	7,500
Financing	\$ 4,030	\$ 19,953	\$ 10,100	\$ 17,650
Change in Cash	\$ 36	\$ 6,094	\$ (2,595)	\$ (1,627)

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

Price Target Change – Buy – May 16, 2022 – Price Target Price Target changed from \$4.25 to \$1.50

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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 16-May-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	72%	4	13%
Market Perform (Neutral)	12	28%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	4	9%

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