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Oblong, Inc. (NASDAQ: OBLG)

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Buy: Q1 Review. Lowering Price Target

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We are lowering our price target on Oblong to reflect continued delays in deployment of Oblong's Mezzanine video conferencing and collaboration platform as well as the need for the company to raise capital given its low cash balance. Our price target of \$1 is based on an enterprise value of about \$30 million.

In the long-term, we believe Oblong's unique technology platform, Mezzanine, can make remote work collaboration more productive and more efficient. However, it has taken longer than expected for widespread deployment and we have adjusted our projections to reflect this reality. The continued slow return of workers to offices has delayed demand for Mezzanine and delayed revenue and cash generation. This has led to a strain on the company's balance sheet. As of the end of Q1 the company's cash balance was \$6.6 million, less than one year of cash at recent burn rates. We have modeled capital raises this year and next and given the depressed stock price and current challenging market conditions, we expect a capital raise will be very expensive.

We believe Oblong's Mezzanine platform is well-suited for a hybrid work environment where office workers can effectively interact with each other from multiple locations, using multiple devices. However, the continued unwillingness 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. Now, with interest rates increasing, we believe capital spending plans will be scrutinized and possibly delayed to ensure projects meet return objectives. Our estimates for this year reflect this dynamic and we expect more meaningful deployments could begin next year.

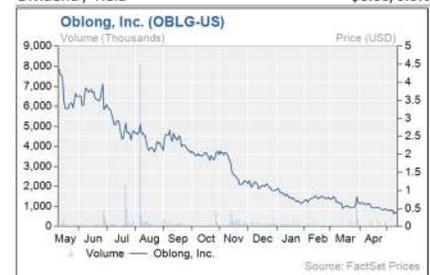
Delays in deployments has strained the company's balance sheet. At the end of Q1 Oblong had \$6.6 million in cash and the recent quarterly burn rate has been about \$2.5 million. The company is cutting costs to conserve cash but will still need to raise capital and given the current environment, we expect this will be an expensive project.

Ultimately, we expect that businesses globally, when they can, will 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: Our price target of \$1 reflects an enterprise value of \$30 million, at the low end of a \$25 to \$50 million range that we believe reflects the risks of new technologies attempting to deploy in today's markets where interest rates are rising, the company's low cash balances, the necessity of raising capital, and a discount to the \$100 million that has been invested to develop the underlying technology and platform.

Risks: Risks include further delays in workers returning to offices, increasing interest rates slowing demand for new equipment, interest rate increases slowing the economy, dependence on channel partner Cisco and the necessity of raising capital.

Current Price	\$0.37		
Price Target	\$1.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 7,739	\$ 6,281 E	\$ 10,982
1Q March	\$ 1,918	\$ 1,532 A	\$ 1,877
2Q June	\$ 2,049	\$ 1,450 E	\$ 2,020
3Q September	\$ 1,799	\$ 1,559 E	\$ 3,067
4Q December	\$ 1,973	\$ 1,740 E	\$ 4,019
EPS (diluted)	F2021A	F2022E	F2023E
	\$ (0.37)	\$ (0.45)E	\$ (0.26)
1Q March	\$ (0.23)	\$ (0.15)A	\$ (0.10)
2Q June	\$ (0.08)	\$ (0.10)E	\$ (0.08)
3Q September	\$ (0.02)	\$ (0.10)E	\$ (0.06)
4Q December	\$ (0.09)	\$ (0.10)E	\$ (0.05)
EBITDA (\$Ms)	\$ (5.0)	\$ (7.7)	\$ (10.1)
EV/EBITDA (x)	-1.1x	-0.7x	-0.5x
Stock Data			
52-Week Range	\$0.36	-	\$4.42
Shares Outstanding (mil.)	30.8		
Market Capitalization (mil.)	\$11		
Enterprise Value (mil.)	\$5		
Debt to Capital	3%		
Cash (mil.)	\$6.6		
Cash/Sh.	\$0.21		
Average Three Months Trading Volume (K)	35		
Insider Ownership	59.0%		
Institutional Ownership	15.3%		
Short interest (mil.)	0.1%		
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 often sport elevated EV/Sales multiples.

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 price target of \$1 reflects an enterprise value of \$30 million, at the low end of a \$25 to \$50 million range that we believe reflects the risks of new technologies attempting to deploy in today's markets where interest rates are rising, the company's low cash balances, the necessity of raising capital, and a discount to the \$100 million that has been invested to develop the underlying technology and platform.

Risk Analysis

The company faces considerable risks. Risks include further delays in workers returning to offices, increasing interest rates slowing demand for new equipment, interest rate increases slowing the economy, dependence on channel partner Cisco and the necessity of raising capital.

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-19 FY2019	31-Dec-20 FY2020	31-Dec-21 FY2021 A	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 FY2022 E	31-Dec-23 FY2023 E
Revenue	\$ 12,827	\$ 15,333	\$ 7,739	\$ 1,532	\$ 1,450	\$ 1,559	\$ 1,740	\$ 6,281	\$ 10,982
COGS	7,427	7,280	5,021	1,033	942	1,013	1,131	4,120	6,486
Gross Profit	5,400	8,053	2,718	499	507	546	609	2,161	4,497
	42%	53%	35%	33%	35%	35%	35%	34%	41%
R&D	2,023	3,711	2,913	1,004	1,004	1,004	1,004	4,016	4,016
Sales and marketing	1,936	3,392	2,195	562	562	562	562	2,248	2,248
G&A	5,377	6,724	6,363	1,690	1,521	1,520	1,520	6,251	6,536
Impairment charges	2,317	1,150	305	1,138	0	0	0	1,138	0
D&A	1,321	3,140	2,736	627	627	627	627	2,508	2,552
Opex	12,974	18,117	14,512	5,021	3,714	3,713	3,713	16,161	15,352
Operating Income	\$ (7,574)	\$ (10,064)	\$ (11,794)	\$ (4,522)	\$ (3,207)	\$ (3,168)	\$ (3,104)	\$ (14,000)	\$ (10,855)
Interest and other	(187)	2,765	2,653	(6)	(6)	(6)	(6)	(24)	(24)
Pretax Income	(7,761)	(7,318)	(9,141)	(4,528)	(3,213)	(3,174)	(3,110)	(14,024)	(10,879)
Taxes	0	103	(90)	11	10	10	10	41	40
Preferred dividends	23	805	704	0	0	0	0	0	0
Net to common	\$ (7,784)	\$ (8,226)	\$ (9,755)	\$ (4,539)	\$ (3,223)	\$ (3,184)	\$ (3,120)	\$ (14,065)	\$ (10,919)
Basic Shares	5,108	5,547	26,489	30,816	30,816	31,019	31,817	31,117	41,369
Diluted Shares	5,108	5,547	26,489	30,816	30,816	31,019	31,817	31,117	41,369
Basic EPS	\$ (1.52)	\$ (1.48)	\$ (0.37)	\$ (0.15)	\$ (0.10)	\$ (0.10)	\$ (0.10)	\$ (0.45)	\$ (0.26)
Diluted EPS	\$ (1.52)	\$ (1.48)	\$ (0.37)	\$ (0.15)	\$ (0.10)	\$ (0.10)	\$ (0.10)	\$ (0.45)	\$ (0.26)
D&A	1,321	3,140	2,736	627	627	627	627	2,508	2,552
Stock Comp	110	198	383	52	52	52	52	208	208
Stock Issued for Svcs.	0	0	590	0	0	0	0	0	0
Other	2,317	1,686	360	1,432	0	0	0	1,138	0
EBITDA	(3,826)	(5,040)	(7,725)	(2,411)	(2,528)	(2,489)	(2,425)	(10,146)	(8,096)
Margin	-29.8%	-32.9%	-99.8%	-157.4%	-174.3%	-159.6%	-139.4%	-161.5%	-73.7%

Source: Oblong, Inc. and Dawson James Securities estimates

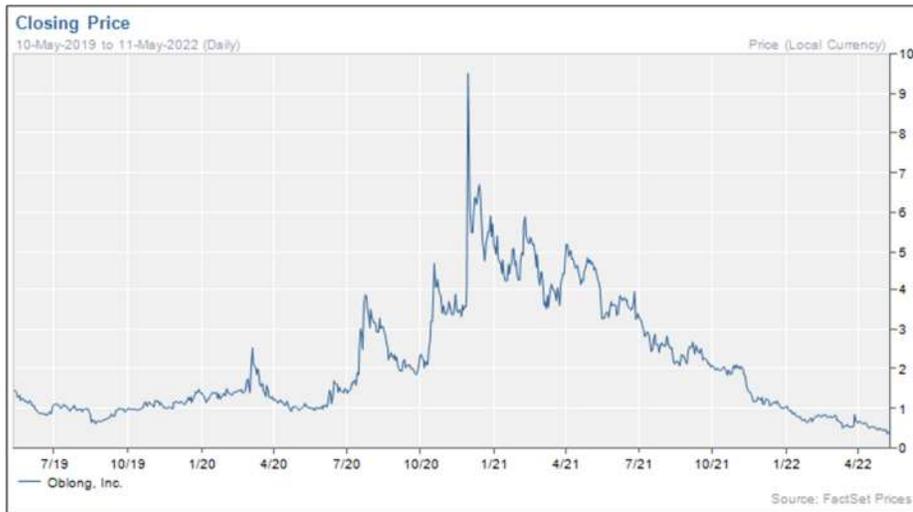
Exhibit 2. Balance Sheet and Cash Flow Statement

(\$ in 000's)	31-Dec-19 FY2019	31-Dec-20 FY2020	31-Dec-21 FY2021 A	31-Dec-22 FY2022 E	31-Dec-23 FY2023 E
Cash	\$ 4,602	\$ 5,058	\$ 8,939	\$ 3,866	\$ 1,527
Restricted Cash	0	158	\$ 61	\$ 61	\$ 61
A/R	2,543	3,166	849	870	2,296
Inventory	1,816	920	1,821	1,718	1,718
Prepaid Expenses & other	965	691	1,081	2,259	5,962
Current Assets	\$ 9,926	\$ 9,993	\$ 12,751	\$ 8,773	\$ 11,564
PP&E	1,316	573	159	579	1,188
Goodwill	7,907	7,367	7,367	6,229	6,229
Intangibles	12,572	10,140	7,562	5,244	2,884
Operating lease	3,117	903	659	532	532
Other	71	167	109	64	64
Total Assets	\$ 34,909	\$ 29,143	\$ 28,607	\$ 21,421	\$ 22,461
LTD, current	2,664	2,014	0	0	0
A/P	647	313	259	867	2,288
Accrued Expenses	1,752	1,201	959	1,798	4,746
Deferred revenue	1,901	1,217	783	1,154	3,045
Operating lease	1,294	830	492	395	395
Current Liabilities	\$ 8,258	\$ 5,575	\$ 2,493	\$ 4,214	\$ 10,474
LTD	2,843	403	0	0	0
Operating lease	2,020	602	236	170	170
Deferred revenue	0	506	381	302	302
Other	3	0	0	0	0
Equity	21,785	22,057	25,497	16,736	11,514
Total Liabilities & Equity	\$ 34,909	\$ 29,143	\$ 28,607	\$ 21,421	\$ 22,461
	31-Dec-19 FY2019	31-Dec-20 FY2020	31-Dec-21 FY2021 A	31-Dec-22 FY2022 E	31-Dec-23 FY2023 E
Net Income	\$ (7,761)	\$ (7,421)	\$ (9,051)	\$ (14,035)	\$ (10,879)
Depreciation & Amort.	1,321	3,140	2,736	2,508	2,552
Stock Comp	110	198	597	208	208
Working Capital & Other	3,077	(2,483)	(2,014)	1,706	1,131
Operating CF	\$ (3,253)	\$ (6,566)	\$ (7,732)	\$ (9,613)	\$ (6,989)
Capx	(45)	(38)	(50)	(611)	(800)
Acquisitions/Other	2,194	7	1	1	0
Investing Activities	\$ 2,149	\$ (31)	\$ (49)	\$ (610)	\$ (800)
Equity	3,699	7,355	11,504	5,150	5,450
Debt	0	(83)	0	0	0
Financing	\$ 3,699	\$ 7,272	\$ 11,504	\$ 5,150	\$ 5,450
Change in Cash	\$ 2,595	\$ 675	\$ 3,723	\$ (5,073)	\$ (2,339)

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
 Price Target Change – Buy – May 12, 2022 – Price Target changed from \$5.00 to \$1.00

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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.

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Current as of 26-Apr-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	32	74%	4	13%
Market Perform (Neutral)	11	26%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	4	9%

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