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Crown Electrokinetics Corp. (NASDAQ: CRKN)

August 9, 2022

Buy: Financing Remains Key Issue for Smart Glass Industry

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The key issue for the smart glass industry is under-powered balance sheets. This note is a brief look at balance sheets of Crown competitors: View, Inc. and Research Frontiers.

View, Inc. (VIEW-\$2.37, Not rated) reported Q2 results this week. At the end of Q2 the company had \$111 million in cash, less than two quarters of burn, based on the first half operating cash flow burn of \$153 million. The company announced a \$100 million common stock purchase agreement with CF Principal Investments and Yorkville and a \$200 million senior secured convertible note offering to fill the gap. If the full amount is raised, it would give the company about one-year of operating cash, at current burn rates. The company expects cash needs to diminish as sales ramp, margins expand and opex declines.

Research Frontiers (REFR-\$1.98, Not rated) ended Q2 with \$1.9 million in cash, and in the first half operating cash flow burn was \$1.1 million, giving the company less than one year of cash at current burn rates. The company expects cash burn to decline to \$300 thousand per quarter in the second half as projects with auto makers begin.

Crown, at the end of Q1 had \$2.5 million in cash and has had operating cash flow needs of about \$3 million per quarter. The company announced capital raises totaling \$2.1 million but, in our view, still needs more to fund operations and purchase manufacturing equipment.

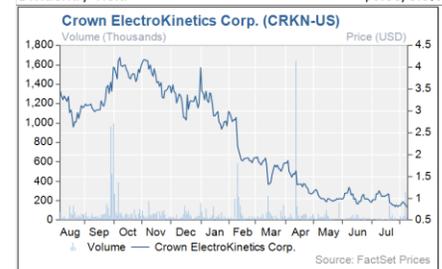
The Inflation Reduction Act included language extending a 30% investment tax credit for “electrochromic glass which uses electricity to change its light transmittance properties in order to heat or cool a structure.” Whether this extends to Crown’s electrokinetic glass could be determined by one or more of the 80,000 additional IRS agents to be hired. If this credit applies to View’s electrochromic glass only, it would put Crown in a less advantageous position.

This summer, the company expects to manufacture and deliver its first smart window inserts and we forecast this will generated 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.

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.

Current Price				\$0.80
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	11.5 x	23.1 x	
EV/EBITDA	NM	(1.0) x	(1.0) x	
Stock Data				
52-Week Range	\$0.62	-	\$4.48	
Shares Outstanding (mil.)				15.8
Market Capitalization (mil.)				\$13
Enterprise Value (mil.)				\$12
Debt to Capital				26%
Cash (mil.)				\$3.5
Cash/Sh.				\$0.22
Average Three Months Trading Volume (K)				66
Insider Ownership				24.9%
Institutional Ownership				16.5%
Short interest (mil.)				0.1%
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

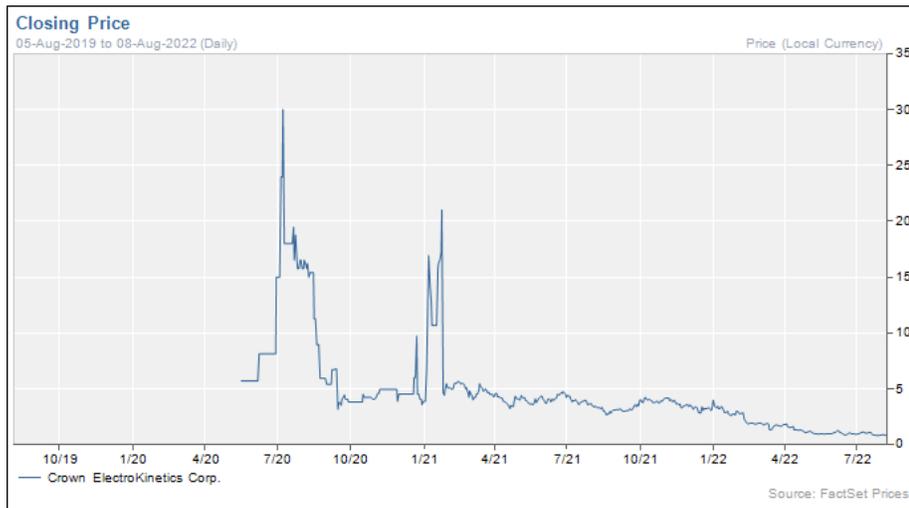
Exhibit 2. Balance Sheet and Cash Flow Statement

	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
- Update – Buy – July 21, 2022 – Price Target \$1.50
- Update – Buy – August 9, 2022 – Price Target \$1.50

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- 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 8-Aug-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	29	66%	4	14%
Market Perform (Neutral)	14	32%	0	0%
Market Underperform (Sell)	1	2%	0	0%
Total	44	100%	4	9%

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