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Crown Electrokinetics Corp. (NASDAQ: CRKN)

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Buy: Q2 Review.

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The key issue for Crown remains financing for equipment purchases and to cover operating losses. The company is exploring debt and equity financing for future needs. 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.

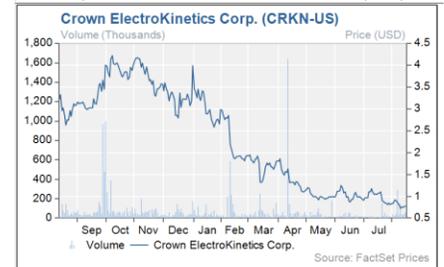
Cash at the end of Q2 was less than \$1 million and post the end of the quarter the company raised an additional \$855 thousand. The company has a \$10 million standby letter of credit and is exploring other debt options to finance equipment purchases. We estimate equipment purchases will require up to \$10 million in cash.

In the coming months, the company expects to manufacture and deliver its first smart window inserts and we forecast this will generate about \$500 thousand 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				\$0.77
Price Target				\$1.50
Estimates	F2021A	F2022E	F2023E	
Revenues (\$000s)	\$ -	\$ 500 E	\$ 500	
1Q March	\$ -	\$ - A	\$ -	
2Q June	\$ -	\$ - A	\$ -	
3Q September	\$ -	\$ 500 E	\$ -	
4Q December	\$ -	\$ - E	\$ 500	
	F2021A	F2022E	F2023E	
EBITDA (\$000s)	\$ (9,933)	\$ (11,852)E	\$ (11,350)	
1Q March	\$ (1,753)	\$ (3,377)A	\$ (2,900)	
2Q June	\$ (2,991)	\$ (2,900)A	\$ (2,900)	
3Q September	\$ (2,479)	\$ (2,675)E	\$ (2,900)	
4Q December	\$ (2,710)	\$ (2,900)E	\$ (2,650)	
EV/Sales	NM	25.1 x	25.1 x	
EV/EBITDA	NM	(1.1) x	(1.1) x	
Stock Data				
52-Week Range	\$0.62	-	\$4.48	
Shares Outstanding (mil.)				15.9
Market Capitalization (mil.)				\$12
Enterprise Value (mil.)				\$13
Debt to Capital				22%
Cash (mil.)				\$1.9
Cash/Sh.				\$0.12
Average Three Months Trading Volume (K)				55
Insider Ownership				23.0%
Institutional Ownership				14.9%
Short interest (mil.)				0.1%
Dividend / Yield				\$0.00/0.0%



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 A	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	0	500	0	500	500
COGS	160	0	0	0	275	0	275	250
Gross Profit	(160)	0	0	0	225	0	225	250
R&D	2,906	3,401	1,096	1,473	1,473	1,473	5,515	5,892
SG&A	12,650	18,724	3,471	3,002	3,002	3,002	12,477	12,008
Opex	15,556	22,126	4,567	4,475	4,475	4,475	17,992	17,900
Operating Income	(15,716)	(22,126)	(4,567)	(4,475)	(4,250)	(4,475)	(17,767)	(17,650)
Interest expense and other	(6,668)	(15,035)	(3)	(2)	(2)	(2)	(9)	(8)
Pretax Income	(22,384)	(37,160)	(4,570)	(4,477)	(4,252)	(4,477)	(17,776)	(17,658)
Taxes	0	0	0	0	0	0	0	0
Net Income	(22,384)	(37,160)	(4,570)	(4,477)	(4,252)	(4,477)	(17,776)	(17,658)
Basic Shares	6,893	14,056	15,856	16,420	15,245	15,900	15,855	20,132
Basic EPS	\$ (3.25)	\$ (2.64)	\$ (0.29)	\$ (0.27)	\$ (0.28)	\$ (0.28)	\$ (1.12)	\$ (0.88)
Depreciation & Amortization	76	271	107	127	127	127	488	508
Stock Compensation	11,445	11,921	1,083	1,448	1,448	1,448	5,427	5,792
EBITDA	(4,195)	(9,933)	(3,377)	(2,900)	(2,675)	(2,900)	(11,852)	(11,350)

Source: Crown Electrokinetics Corp. and Dawson James Securities estimates

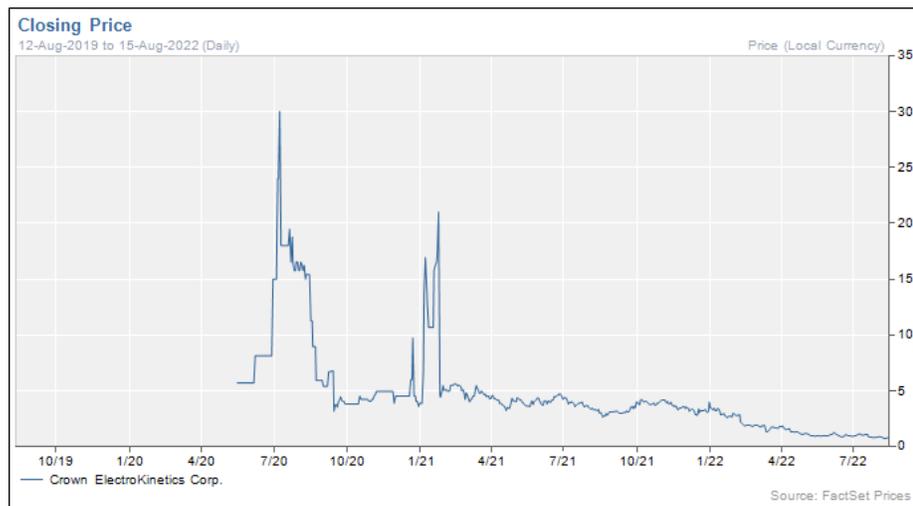
Exhibit 2. Balance Sheet and Cash Flow Statement

	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	5,454	3,880
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	\$ 6,754	\$ 5,334
PP&E	148	895	1,204	8,644
Intangible assets	205	1,761	1,591	1,355
Right of use asset	0	0	2,097	2,097
Other assets	0	179	403	403
Total Assets	\$ 642	\$ 9,652	\$ 12,049	\$ 17,833
A/P	1,183	358	1,599	1,599
Accrued expenses	356	298	221	221
Lease liability	0	0	378	378
Accrued interest	465	0	0	0
Shares liability	0	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	\$ 2,206	\$ 2,206
Lease Liability	\$ -	\$ -	\$ 1,815	\$ 9,315
Equity	(6,771)	8,988	8,028	6,312
Total Liabilities & Equity	\$ 642	\$ 9,652	\$ 12,049	\$ 17,833
	31-Dec-20 FY2020	31-Dec-21 FY2021	31-Dec-22 2022 E	31-Dec-23 2023 E
Net Income	(22,384)	(37,160)	(17,776)	(17,658)
D&A	76	271	488	508
Stock Comp.	11,445	11,921	5,427	5,792
Other	6,786	15,152	291	0
Working Capital	190	(1,700)	295	(154)
Operating CF	\$ (3,888)	\$ (11,516)	\$ (11,275)	\$ (11,512)
CapEx	(82)	(629)	(506)	(7,713)
Other	(25)	(1,714)	(61)	0
Investing Activities	\$ (107)	\$ (2,343)	\$ (567)	\$ (7,713)
Equity	1,149	19,692	11,166	10,150
Debt	2,882	261	0	7,500
Financing	\$ 4,030	\$ 19,953	\$ 11,166	\$ 17,650
Change in Cash	\$ 36	\$ 6,094	\$ (676)	\$ (1,575)

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
- Update – Buy – August 16, 2022 – Price Target \$1.50

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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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- 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 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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