

Member FINRA/SIPC

Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

## SRAX, Inc. (NASDAQ: SRAX)

August 15, 2022

### Buy: \$9.45M Revolving Credit Facility Bridges Cash Needs.

James McIlree, CFA

561-237-2709

jmcilree@dawsonjames.com

SRAX announced a \$9.45 million revolving credit facility that bridges its cash needs until it can generate cash from the sale of some of its \$32 million Sequire portfolio. We have lowered our estimates to reflect a lower customer addition assumption and lowered our price target to \$10, from \$13, to reflect the lower estimates and risk of converting the Sequire portfolio to cash.

The rapid increase in reported Sequire revenue over the past two years has been the result of accepting payment for services in the form of stocks, warrants, and convertible debentures of the customer. This has been highly attractive to the customer base, but the downturn in the market has left SRAX in a vulnerable position. The company entered into a \$9.45 million revolving credit facility that bridges its cash needs until it is able to monetize its Sequire portfolio.

We estimate cumulative Sequire bookings since inception of about \$90 million (about \$55 million in revenue). We estimate the company has received about \$76 million in securities as payment, or 84% of total bookings. We believe this payment mechanism has been a key component of the company's success in the space. We also estimate about \$20 million of the received securities have been sold or placed in trust for a dividend distribution. The current market value of the portfolio of \$32.6 million shows the large decline in value as the micro-cap market peaked late in 2021.

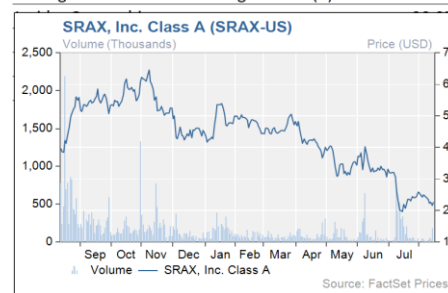
Since expenses are mostly in cash, and revenue is mostly in securities, the company has faced the challenge of monetizing its Sequire portfolio at a rate necessary to fund operations, constrained by the liquidity of the portfolio and the potential opportunity cost of selling securities that could be re-priced under various conditions of their issuance. That is, oftentimes, SRAX receives price protection in the event of the customer raising capital at prices lower than when it issued shares to SRAX. The recent revolving credit facility aids the company in its cash challenge.

We estimate one of the impacts of the recent events will be greater unwillingness by the sales force and the company to accept restricted securities as a form of payment. This, in our view, will result in a reduction in the pace of customer additions and we have adjusted our model to reflect this assumption. We have lowered our price target to reflect the lower estimates as well as a lower multiple to reflect the risk of converting the portfolio to cash.

**Valuation:** Our price target of \$10 is based on an EV/Sales multiple of 4.5x our 2023 revenue estimate of \$52.6 million. The EV/Sales multiple is at discount to the group median of 6.2x (see table on page 2). Our price target does not include any value of its investment in BIGtoken.

**Risks to Target:** Risks to achieving our price target include negative impacts of the COVID-19 pandemic, the ability to scale the Sequire platform, introduction of new platform services, ability to make debt and acquisition payments, potential pressure on the share price from conversion of the OID and exercise of warrants followed by sale of the shares received in the exercise.

Current Price	\$2.27		
Price Target	\$10.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 28,550	\$ 45,694 E	\$ 52,656
1Q March	\$ 5,442	\$ 11,310 E	\$ 12,114
2Q June	\$ 7,677	\$ 10,512 E	\$ 12,774
3Q September	\$ 8,313	\$ 11,332 E	\$ 13,194
4Q December	\$ 9,587	\$ 12,540 E	\$ 14,574
	F2021A	F2022E	F2023E
EPS (diluted)	\$ (1.64)	\$ 0.08 E	\$ 0.49
1Q March	\$ (0.57)	\$ (0.10)E	\$ 0.09
2Q June	\$ (0.24)	\$ (0.03)E	\$ 0.11
3Q September	\$ (0.15)	\$ 0.09 E	\$ 0.12
4Q December	\$ (0.20)	\$ 0.12 E	\$ 0.16
EBITDA (\$Ms)	\$ 3.9	\$ 12.3	\$ 16.1
EV/EBITDA (x)	15.3x	4.8x	3.7x
Stock Data			
52-Week Range	\$1.75	-	\$6.50
Shares Outstanding (mil.)	26.1		
Market Capitalization (mil.)	\$59		
Enterprise Value (mil.)	\$59		
Debt to Capital	6%		
Cash (mil.)	\$1.3		
Cash/Share	\$0.05		
Average Three Months Trading Volume (K)	63		



## Valuation

SaaS/Database providers' shares commonly trade between 4x and ~20x forward-12-month (FTM) sales partly due to their 40% to 55% EBITDA margins. We think SRAX is capable of achieving that level of margins, but it will require greater scale.

		Price	TEV (\$ in M)	FTM Sales (\$ in M)	EV/ Sales	EBITDA	EV/ EBITDA	EBITDA Margin
BR	Broadridge Financial Solutions, Inc.	\$ 183.11	\$ 25,552.5	\$ 6,062.3	4.2x	\$ 1,374.1	18.6x	22.7%
CSGP	CoStar Group, Inc.	75.46	26,761.0	2,387.7	11.2x	711.3	37.6	29.8%
DNB	Dun & Bradstreet Holdings Inc	16.41	10,617.4	2,310.5	4.6x	916.6	11.6	39.7%
EFX	Equifax Inc.	222.89	32,890.9	5,313.5	6.2x	1,869.2	17.6	35.2%
GPN	Global Payments Inc.	136.76	48,431.6	8,530.7	5.7x	4,185.1	11.6	49.1%
MCO	Moody's Corporation	324.96	66,382.2	6,108.0	10.9x	2,823.5	23.5	46.2%
MSCI	MSCI Inc. Class A	507.60	45,019.8	2,411.6	18.7x	1,402.3	32.1	58.1%
NLSN	Nielsen Holdings Plc	27.52	15,268.3	3,681.5	4.1x	1,583.4	9.6	43.0%
SPGI	S&P Global, Inc.	394.23	144,321.5	12,605.2	11.4x	6,172.3	23.4	49.0%
TRU	TransUnion	84.22	21,814.8	3,926.9	5.6x	1,452.5	15.0	37.0%
VRSK	Verisk Analytics Inc	206.11	35,552.2	3,086.2	11.5x	1,558.4	22.8	50.5%
	Median				6.2x		18.6	41.8%
SRAX	SRAX, Inc. Class A	\$ 2.27	\$ 35.5	\$ 50.0	0.7x	\$ 14.7	2.4x	29.3%

Source: FactSet and Dawson James Securities estimates. SRAX EV adjusted for Sequire portfolio.

Based on our forward-12-month revenue estimate of \$50.0 million, SRAX shares trade below that range, or at 0.7x forward-12-month sales.

## Price Target

Our price target of \$10 is based on an EV/Sales multiple of 4.5x our 2023 revenue estimate of \$52.6 million. The EV/Sales multiple is a discount to the group median of 6.2x.

## Risk Analysis

Risks to achieving our price target include negative impacts of the COVID-19 pandemic, the ability to scale the Sequire platform, introduction of new platform services, ability to make debt and acquisition payments, potential pressure on the share price from conversion of the OID and exercise of warrants followed by sale of the shares received in the exercise.

**Exhibit 1. Income Statement**

\$ in 000's	Restated 2020 A	Restated 2021 A	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	2022 E	2023 E
Revenues	\$ 6,479	\$ 28,550	\$ 11,310	\$ 10,512	\$ 11,332	\$ 12,540	\$ 45,694	\$ 52,656
Cost of Revenues	1,789	6,294	2,254	2,094	2,258	2,500	9,107	10,499
Gross Profit	4,690	22,256	9,056	8,418	9,074	10,040	36,587	42,157
Operating Expenses	7,706	20,301	6,555	6,561	6,566	6,572	26,254	28,051
Operating Income	\$ (3,016)	\$ 1,955	\$ 2,501	\$ 1,857	\$ 2,507	\$ 3,468	\$ 10,333	\$ 14,106
Total Financial Expenses	(12,150)	(1,763)	(192)	(192)	(192)	(192)	(768)	(768)
Other	9,068	(18,310)	(5,000)	(2,500)	0	0	(7,500)	0
Pretax Income	(6,098)	(18,118)	(2,691)	(835)	2,315	3,276	2,065	13,338
Taxes (Benefit)	0	(14)	0	0	0	0	0	0
<b>Net Income (loss) continuing operations</b>	<b>\$ (6,098)</b>	<b>\$ (18,104)</b>	<b>\$ (2,691)</b>	<b>\$ (835)</b>	<b>\$ 2,315</b>	<b>\$ 3,276</b>	<b>\$ 2,065</b>	<b>\$ 13,338</b>
Loss from noncontrolling interest	0	5,406	0	0	0	0	0	0
<b>Net to SRAX, continuing operations</b>	<b>\$ (6,098)</b>	<b>\$ (12,698)</b>	<b>\$ (2,691)</b>	<b>\$ (835)</b>	<b>\$ 2,315</b>	<b>\$ 3,276</b>	<b>\$ 2,065</b>	<b>\$ 13,338</b>
Loss from discontinued operations	0	(23,808)	0	0	0	0	0	0
<b>Net Income (Loss)</b>	<b>\$ (6,098)</b>	<b>\$ (36,506)</b>	<b>\$ (2,691)</b>	<b>\$ (835)</b>	<b>\$ 2,315</b>	<b>\$ 3,276</b>	<b>\$ 2,065</b>	<b>\$ 13,338</b>
Diluted EPS continuing operations	\$ (0.42)	\$ (1.64)	\$ (0.10)	\$ (0.03)	\$ 0.09	\$ 0.12	\$ 0.08	\$ 0.49
Diluted Shares	14,650	22,325	26,149	26,199	26,899	26,999	26,562	27,249
Operating Income	(3,016)	1,955	2,501	1,857	2,507	3,468	10,333	14,106
Equity based compensation	1,852	1,006	250	250	250	250	1,000	1,000
Depreciation & Amort.	1,303	919	245	245	245	245	980	980
Adj. EBITDA	\$ 139	\$ 3,880	\$ 2,996	\$ 2,352	\$ 3,002	\$ 3,963	\$ 12,313	\$ 16,086
	2020 A	2021 A	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	2022 E	2023 E
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenues	27.6%	22.0%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%
Gross Profit	72.4%	78.0%	80.1%	80.1%	80.1%	80.1%	80.1%	80.1%
Operating Expenses	118.9%	71.1%	58.0%	62.4%	57.9%	52.4%	57.5%	53.3%
Operating Income	-46.6%	6.8%	22.1%	17.7%	22.1%	27.7%	22.6%	26.8%
Total Financial Expense	-187.5%	-6.2%	-1.7%	-1.8%	-1.7%	-1.5%	-1.7%	-1.5%
Other	140.0%	-64.1%	-44.2%	-23.8%	0.0%	0.0%	-16.4%	0.0%
Net Income (Loss)	-94.1%	-127.9%	-23.8%	-7.9%	20.4%	26.1%	4.5%	25.3%
EBITDA	2.1%	13.6%	26.5%	22.4%	26.5%	31.6%	26.9%	30.5%

Source: SRAX, Inc. and Dawson James Securities estimates

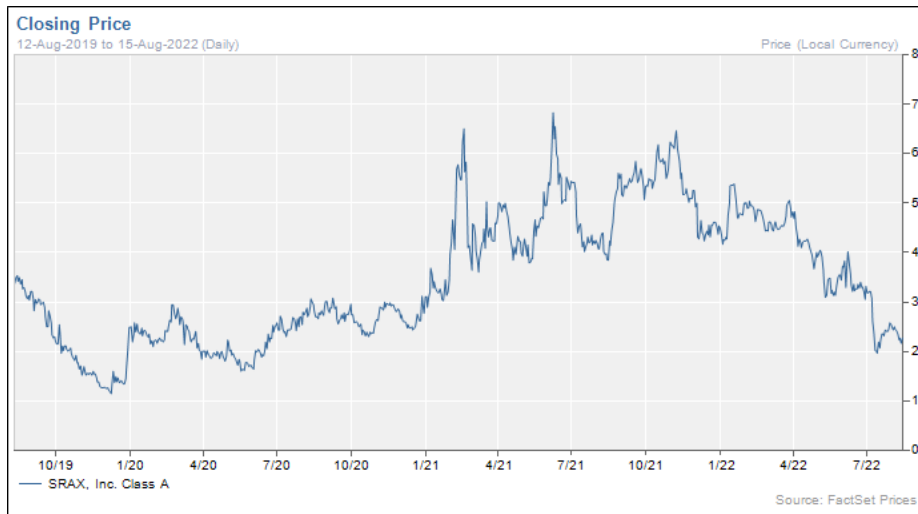
**Exhibit 2. Balance Sheet and Cash Flow Statement**

\$ in 000's	Restated 2020 A	2021 A	2022 E	2023 E
<b>Current Assets</b>				
Cash and Cash Equivalents	450	1,348	46	6,918
Accounts Receivables	1,409	821	1,374	2,396
Prepaid Expenses	361	430	562	654
Marketable Securities	8,447	19,894	35,388	39,388
Designated assets for return of capital	0	4,111	0	0
Other Current Assets	0	1,282	1,282	1,282
Discontinued operations	1,206	0	0	0
<b>Total Current Assets</b>	<b>\$ 11,873</b>	<b>\$ 27,886</b>	<b>\$ 38,653</b>	<b>\$ 50,638</b>
<b>Non Current Assets</b>				
Notes Receivable	893	935	935	0
Property and Equipment, net	117	114	114	114
Intangible Assets	1,492	1,443	1,363	1,363
Right-of-Use Asset	366	257	257	257
Investment in FPVD	0	0	1,000	1,000
Other Assets	2	36	36	36
Goodwill	17,906	17,906	17,906	17,906
<b>Total Assets</b>	<b>\$ 39,013</b>	<b>\$ 48,577</b>	<b>\$ 60,264</b>	<b>\$ 71,314</b>
<b>Current Liabilities</b>				
AP and Accrued Expenses	2,708	3,893	5,092	5,918
Deferred Revenue	4,842	17,398	17,098	12,723
Other Current Liabilities	3,417	763	998	1,160
Payroll protection loan	747	10	0	0
OID convertible debentures	6,016	1,164	1,222	1,222
Series A Preferred	0	4,111	0	0
Liabilities for disposal	1,305	0	0	0
Revolving line of credit	0	0	11,450	11,450
<b>Total Current Liabilities</b>	<b>\$ 19,035</b>	<b>\$ 27,339</b>	<b>\$ 35,860</b>	<b>\$ 32,473</b>
<b>Non Current Liabilities</b>				
Lease Obligation	243	114	114	114
Payroll protection loan	379	0	0	0
Deferred tax liability	131	131	131	131
<b>Total Stockholders' Equity</b>	<b>19,225</b>	<b>20,993</b>	<b>24,158</b>	<b>38,596</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>\$ 39,013</b>	<b>\$ 48,577</b>	<b>\$ 60,264</b>	<b>\$ 71,314</b>
<b>Operating Activities</b>	<b>2020 A</b>	<b>2021 A</b>	<b>2022 E</b>	<b>2023 E</b>
Net Income	(14,705)	(39,728)	2,065	13,338
Loss from discontinued operations	(4,641)	(23,808)	0	0
Income (loss) from continuing operations	(10,064)	(15,920)	2,065	13,338
Depreciation and Amortization	712	919	980	980
Stock based Compensation	1,615	1,006	1,000	1,000
Other	1,259	17,028	(15,494)	(4,000)
Working Capital	(2,676)	(18,827)	448	(3,565)
Cash used in continuing operations	(9,154)	(15,794)	(11,001)	7,753
Cash used in discontinued operations	(4,335)	(8,118)	0	0
<b>Operating Cash Flow</b>	<b>\$ (13,489)</b>	<b>\$ (23,912)</b>	<b>\$ (11,001)</b>	<b>\$ 7,753</b>
<b>Investing Activities</b>				
CapEx	0	0	(100)	(100)
Digital Currency Assets/Other	32	(102)	0	0
Development of Software	(633)	(798)	(800)	(880)
Sale of marketable securities	519	7,693	0	0
Acquisition/Disposal	6,303	(3,004)	(1,000)	0
<b>Cash from Investing Activities</b>	<b>\$ 6,221</b>	<b>\$ 3,789</b>	<b>\$ (1,900)</b>	<b>\$ (980)</b>
<b>Financing Activities</b>				
Debt	7,862	0	11,498	0
Equity	0	16,236	100	100
Other	0	(793)	0	0
Cash from continuing operations	7,862	15,443	11,598	100
Cash from discontinued operations	0	4,736	0	0
<b>Cash from Financing Activities</b>	<b>\$ 7,862</b>	<b>\$ 20,179</b>	<b>\$ 11,598</b>	<b>\$ 100</b>
<b>Change in Cash</b>	<b>\$ 594</b>	<b>\$ 56</b>	<b>\$ (1,302)</b>	<b>\$ 6,873</b>

Source: SRAX, Inc. and Dawson James Securities estimates

**Important Disclosures:**

**Price Chart:**



**Price target and ratings changes over the past three years:**

Initiated – Buy – April 19, 2021 – Price Target \$10.00  
 Update – Buy – May 18, 2021 – Price Target \$10.00  
 Price Target Change – Buy – August 18, 2021 – Price Target changed from \$10.00 to \$11.50  
 Update – Buy – September 29, 2021 – Price Target \$11.50  
 Update – Buy – October 1, 2021 – Price Target \$11.50  
 Update – Buy – November 16, 2021 – Price Target \$11.50  
 Update – Buy – January 3, 2022 – Price Target \$11.50  
 Price Target Change – Buy – January 10, 2022 – Price Target changed from \$11.50 to \$13.00  
 Update – Buy – February 22, 2022 – Price Target \$13.00  
 Update – Buy – April 5, 2022 – Price Target \$13.00  
 Update – Buy – July 14, 2022 – Price Target \$13.00  
 Price Target Change – Buy – August 15, 2022 – Price Target changed from \$13.00 to \$10.00

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject company(s). The Firm has not engaged in investment banking relationships with the subject company in the prior twelve months, as a manager or co-manager of a public offering and has not received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has received/earned other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director, or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of August 1, 2022, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts, or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

**Information about valuation methods and risks can be found in the "Valuation" and "Risk Analysis" sections of this report.**

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

#### **Ratings Definitions:**

- 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.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 8-Aug-22

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# 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%
<b>Total</b>	<b>44</b>	<b>100%</b>	<b>4</b>	<b>9%</b>

#### **Analyst Certification:**

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.