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SRAX, Inc. (NASDAQ: SRAX)

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Buy: Lowering Estimates and Price Target.

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We have lowered our estimates and price target on SRAX. The decline in the overall market, and a change in the company's preference for cash payments for services, we believe, will result in SRAX customers lowering their media purchases from SRAX. We have lowered our estimates and price target to reflect this expectation.

We believe the decline in the market, the Russell Microcap Index has declined 26% this year, will have negative consequences for SRAX over the coming quarters. 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 falling prices and lower volume makes it more difficult for SRAX to turn this into cash. We believe this will result in SRAX demanding greater payments in cash and have lowered our revenue estimates to reflect fewer new customer additions and lower revenue per customer.

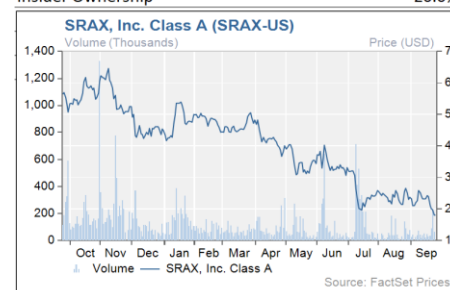
Expenses are mostly in cash, and revenue has been mostly in securities, so the company has faced the challenge of monetizing its Sequire portfolio at a rate necessary to fund operations, constrained by the liquidity of the portfolio. Compensation is tied to cash generation, and we expect the downturn in the market will change the preferences of the sales force to accepting cash payments, but this will result in a reduction in revenue growth.

We have reduced our revenue estimate this year to \$40.5 million from \$45.7 million and our revenue estimate next year to \$46.8 million from \$52.6 million. Our price target is now \$6, versus our prior target of \$10.

Valuation: Our price target of \$6 is based on an EV/Sales multiple of 3x our 2023 revenue estimate of \$46.8 million. The EV/Sales multiple is at discount to the group median of 5.1x (see table on page 2).

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	\$1.81		
Price Target	\$6.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 28,550	\$ 40,485 E	\$ 46,853
1Q March	\$ 5,442	\$ 11,310 E	\$ 9,395
2Q June	\$ 7,677	\$ 10,512 E	\$ 10,410
3Q September	\$ 8,313	\$ 9,110 E	\$ 12,834
4Q December	\$ 9,587	\$ 9,553 E	\$ 14,214
	F2021A	F2022E	F2023E
EPS (diluted)	\$ (1.64)	\$ (0.08)E	\$ 0.32
1Q March	\$ (0.57)	\$ (0.10)E	\$ 0.01
2Q June	\$ (0.24)	\$ (0.03)E	\$ 0.04
3Q September	\$ (0.15)	\$ 0.02 E	\$ 0.11
4Q December	\$ (0.20)	\$ 0.03 E	\$ 0.15
EBITDA (\$Ms)	\$ 3.9	\$ 8.1	\$ 11.4
EV/EBITDA (x)	12.2x	5.8x	4.1x
Stock Data			
52-Week Range	\$1.71	-	\$6.50
Shares Outstanding (mil.)	26.1		
Market Capitalization (mil.)	\$47		
Enterprise Value (mil.)	\$47		
Debt to Capital	6%		
Cash (mil.)	\$1.3		
Cash/Share	\$0.05		
Average Three Months Trading Volume (K)	47		
Insider Ownership	20.0%		



Valuation

SaaS/Database providers' shares commonly trade between 4x and ~16x 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	FTM Sales	EV/	EBITDA	EV/	EBITDA
			(\$ in M)	(\$ in M)	Sales		EBITDA	Margin
BR	Broadridge Financial Solutions, Inc.	\$ 154.44	\$ 22,142.0	\$6,172.8	3.6x	\$ 1,378.4	16.1x	22.3%
CSGP	CoStar Group, Inc.	69.57	24,595.3	2,427.3	10.1x	724.4	34.0	29.8%
DNB	Dun & Bradstreet Holdings Inc	13.04	9,231.3	2,317.8	4.0x	924.8	10.0	39.9%
EFX	Equifax Inc.	174.91	27,044.0	5,342.1	5.1x	1,886.4	14.3	35.3%
GPN	Global Payments Inc.	115.04	42,756.7	8,593.1	5.0x	4,228.6	10.1	49.2%
MCO	Moody's Corporation	254.69	53,757.2	6,134.1	8.8x	2,852.6	18.8	46.5%
MSCI	MSCI Inc. Class A	422.33	38,160.1	2,437.4	15.7x	1,422.4	26.8	58.4%
NLSN	Nielsen Holdings Plc	27.80	15,347.8	3,690.9	4.2x	1,591.1	9.6	43.1%
SPGI	S&P Global, Inc.	317.86	119,192.9	12,722.3	9.4x	6,220.5	19.2	48.9%
TRU	TransUnion	63.17	17,844.6	3,954.3	4.5x	1,466.2	12.2	37.1%
VRSK	Verisk Analytics Inc	175.20	31,149.2	3,094.6	10.1x	1,569.0	19.9	50.7%
	Median				5.1x		16.1	41.9%
SRAX	SRAX, Inc. Class A	\$ 1.81	\$ 27.3	\$ 45.2	0.6x	\$ 10.6	2.6x	23.4%

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

Price Target

Our price target of \$6 is based on an EV/Sales multiple of 3x our 2023 revenue estimate of \$46.8 million. The EV/Sales multiple is a discount to the group median of 5.1x.

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	\$ 9,110	\$ 9,553	\$ 40,485	\$ 46,853
Cost of Revenues	1,789	6,294	2,254	2,094	1,814	1,903	8,065	9,339
Gross Profit	4,690	22,256	9,056	8,418	7,296	7,650	32,420	37,515
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	\$ 730	\$ 1,078	\$ 6,166	\$ 9,463
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)	538	886	(2,102)	8,695
Taxes (Benefit)	0	(14)	0	0	0	0	0	0
Net Income (loss) continuing operations	\$ (6,098)	\$ (18,104)	\$ (2,691)	\$ (835)	\$ 538	\$ 886	\$ (2,102)	\$ 8,695
Loss from noncontrolling interest	0	5,406	0	0	0	0	0	0
Net to SRAX, continuing operations	\$ (6,098)	\$ (12,698)	\$ (2,691)	\$ (835)	\$ 538	\$ 886	\$ (2,102)	\$ 8,695
Loss from discontinued operations	0	(23,808)	0	0	0	0	0	0
Net Income (Loss)	\$ (6,098)	\$ (36,506)	\$ (2,691)	\$ (835)	\$ 538	\$ 886	\$ (2,102)	\$ 8,695
Diluted EPS continuing operations	\$ (0.42)	\$ (1.64)	\$ (0.10)	\$ (0.03)	\$ 0.02	\$ 0.03	\$ (0.08)	\$ 0.32
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	730	1,078	6,166	9,463
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	\$ 1,225	\$ 1,573	\$ 8,146	\$ 11,443
	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%	72.1%	68.8%	64.8%	59.9%
Operating Income	-46.6%	6.8%	22.1%	17.7%	8.0%	11.3%	15.2%	20.2%
Total Financial Expense	-187.5%	-6.2%	-1.7%	-1.8%	-2.1%	-2.0%	-1.9%	-1.6%
Other	140.0%	-64.1%	-44.2%	-23.8%	0.0%	0.0%	-18.5%	0.0%
Net Income (Loss)	-94.1%	-127.9%	-23.8%	-7.9%	5.9%	9.3%	-5.2%	18.6%
EBITDA	2.1%	13.6%	26.5%	22.4%	13.4%	16.5%	20.1%	24.4%

Source: SRAX, Inc. and Dawson James Securities estimates

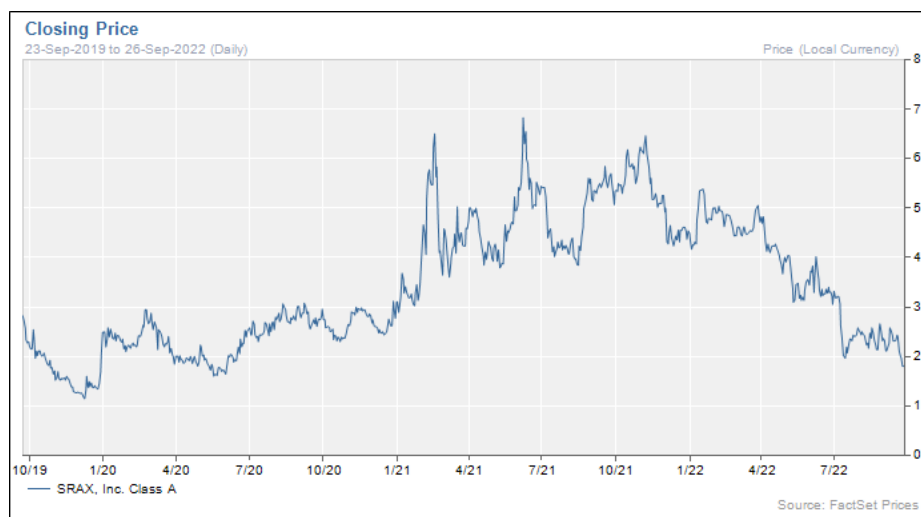
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	Restated 2020 A	2021 A	2022 E	2023 E
Current Assets				
Cash and Cash Equivalents	450	1,348	5,176	8,297
Accounts Receivables	1,409	821	1,047	2,337
Prepaid Expenses	361	430	428	638
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
Total Current Assets	\$ 11,873	\$ 27,886	\$ 43,322	\$ 51,941
Non Current Assets				
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
Total Assets	\$ 39,013	\$ 48,577	\$ 64,933	\$ 72,617
Current Liabilities				
AP and Accrued Expenses	2,708	3,893	3,879	5,772
Deferred Revenue	4,842	17,398	17,098	12,723
Other Current Liabilities	3,417	763	760	1,131
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
Total Current Liabilities	\$ 19,035	\$ 27,339	\$ 34,410	\$ 32,298
Non Current Liabilities				
Lease Obligation	243	114	114	114
Payroll protection loan	379	0	0	0
Deferred tax liability	131	131	131	131
Total Stockholders' Equity	19,225	20,993	30,279	40,074
Total Liabilities & Stockholders' Equity	\$ 39,013	\$ 48,577	\$ 64,933	\$ 72,617
	2020 A	2021 A	2022 E	2023 E
Operating Activities				
Net Income	(14,705)	(39,728)	(2,102)	8,695
Loss from discontinued operations	(4,641)	(23,808)	0	0
Income (loss) from continuing operations	(10,064)	(15,920)	(2,102)	8,695
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)	14,255	(2,675)
Cash used in continuing operations	(9,154)	(15,794)	(1,362)	4,000
Cash used in discontinued operations	(4,335)	(8,118)	0	0
Operating Cash Flow	\$ (13,489)	\$ (23,912)	\$ (1,362)	\$ 4,000
Investing Activities				
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
Cash from Investing Activities	\$ 6,221	\$ 3,789	\$ (1,900)	\$ (980)
Financing Activities				
Debt	7,862	0	6,990	0
Equity	0	16,236	100	100
Other	0	(793)	0	0
Cash from continuing operations	7,862	15,443	7,090	100
Cash from discontinued operations	0	4,736	0	0
Cash from Financing Activities	\$ 7,862	\$ 20,179	\$ 7,090	\$ 100
Change in Cash	\$ 594	\$ 56	\$ 3,828	\$ 3,120

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
 Price Target Change – Buy – September 26, 2022 – Price Target changed from \$10.00 to \$6.00

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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 20-Sep-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	83%	3	12%
Market Perform (Neutral)	4	13%	1	25%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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