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SRAX, Inc. (NASDAQ: SRAX)

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Buy: Delisting Averted. Reiterate Buy.

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SRAX has until the end of February to show full compliance with NASDAQ's filing requirements or face delisting. The company has a plan to become current on its filings, which will open up funding to bridge cash needs as if monetizes its investment portfolio. If the company is successful, we believe there is significant upside for SRAX shares.

The Nasdaq Hearings Panel granted SRAX's request for continued listing on the NASDAQ exchange. The company must be in full compliance with Nasdaq's filing requirement by February 28, 2023, and also must be in compliance with certain undisclosed interim milestones. The absence of timely filings has created uncertainty over the company's cash position, cash flow and growth and is also an obstacle to the company tapping funding needs that we believe are exigent.

The company's rapid revenue growth in 2021 was fueled by acceptance of common stock, convertible, and warrants of its publicly-traded customers as payment for services. About 75% of Sequire-related revenue was accepted in securities of its customers. When the market was rising and volume was high, SRAX was able to turn these shares into cash easier than it can in the current environment. To bridge its cash needs SRAX entered into a debt facility, but drawing on it requires the company to be current on its filings. This has impacted the company's liquidity meaningfully.

The company has now required customers to put up more cash and/or shares with fewer restrictions as a response to the market downturn. We expect this will reduce revenue growth and our model reflects this expectation.

The value of the portfolio is currently estimated at about \$25 million. This is before any discounts for liquidity and restrictions. It also does not include a substantial amount from resets that are due. In total, this upwards of \$40 million in value is about greater than the current market cap of the company. We believe becoming current on its filings will be a major catalyst for the shares and could result in a sharp increase in value.

Valuation: Our price target of \$5.30 is based on an EV/Sales multiple of 3x our 2023 revenue estimate of \$39.3 million. The EV/Sales multiple is at discount to the group median of 4.9x (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	\$1.25		
Price Target	\$5.30		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 26,707	\$ 36,681 E	\$ 39,321
1Q March	\$ 5,442	\$ 8,658 E	\$ 9,395
2Q June	\$ 7,677	\$ 9,360 E	\$ 9,838
3Q September	\$ 8,313	\$ 9,110 E	\$ 9,752
4Q December	\$ 7,744	\$ 9,553 E	\$ 10,337
	F2021A	F2022E	F2023E
EPS (diluted)	\$ (1.48)	\$ (0.19)E	\$ 0.10
1Q March	\$ (0.57)	\$ (0.19)E	\$ 0.01
2Q June	\$ (0.24)	\$ (0.07)E	\$ 0.03
3Q September	\$ (0.15)	\$ 0.02 E	\$ 0.02
4Q December	\$ (0.20)	\$ 0.03 E	\$ 0.04
EBITDA (\$Ms)	\$ 1.8	\$ 5.1	\$ 5.4
EV/EBITDA (x)	17.6x	6.4x	6.0x
Stock Data			
52-Week Range	\$1.16	-	\$5.50
Shares Outstanding (mil.)	26.0		
Market Capitalization (mil.)	\$32		
Enterprise Value (mil.)	\$32		
Debt to Capital	6%		
Cash (mil.)	\$1.3		
Cash/Share	\$0.05		
Average Three Months Trading Volume (K)	34		
Insider Ownership	12.6%		



Valuation

SaaS/Database providers' shares commonly trade between 3x and ~17x 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-US	Broadridge Financial Solutions, Inc.	\$ 133.41	\$ 19,920.6	\$ 6,265.5	3.2x	\$ 1,407.9	14.1x	22.5%
CSGP-US	CoStar Group, Inc.	76.70	26,722.6	2,488.8	10.7x	766.8	34.9	30.8%
DNB-US	Dun & Bradstreet Holdings Inc	12.28	8,777.7	2,287.8	3.8x	918.3	9.6	40.1%
EFX-US	Equifax Inc.	190.20	29,108.7	5,232.1	5.6x	1,816.4	16.0	34.7%
GPN-US	Global Payments Inc.	94.00	37,865.6	8,500.6	4.5x	4,155.2	9.1	48.9%
MCO-US	Moody's Corporation	274.88	56,949.4	5,805.6	9.8x	2,607.2	21.8	44.9%
MSCI-US	MSCI Inc. Class A	458.00	40,845.6	2,436.6	16.8x	1,450.7	28.2	59.5%
SPGI-US	S&P Global, Inc.	332.11	123,234.2	12,446.1	9.9x	5,841.0	21.1	46.9%
TRU-US	TransUnion	56.42	16,436.1	3,829.8	4.3x	1,425.6	11.5	37.2%
VRSK-US	Verisk Analytics Inc	172.19	30,595.0	2,625.4	11.7x	1,389.5	22.0	52.9%
	Median				7.7x		18.6	41.9%
SRAX-US	SRAX, Inc. Class A	\$ 1.25	\$ 12.4	\$ 39.2	0.3x	\$ 5.4	2.3x	13.8%

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

Price Target

Our price target of \$5.30 is based on an EV/Sales multiple of 3x our 2023 revenue estimate of \$39.3 million. The EV/Sales multiple is a discount to the group median of 7.7x.

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	\$ 26,707	\$ 8,658	\$ 9,360	\$ 9,110	\$ 9,553	\$ 36,681	\$ 39,321
Cost of Revenues	1,789	6,521	1,724	1,864	1,814	1,903	7,304	7,832
Gross Profit	4,690	20,186	6,934	7,496	7,296	7,650	29,377	31,489
Operating Expenses	7,706	20,271	6,555	6,561	6,566	6,572	26,254	28,051
Operating Income	\$ (3,016)	\$ (85)	\$ 379	\$ 936	\$ 730	\$ 1,078	\$ 3,123	\$ 3,438
Total Financial Expenses	(12,150)	(10,253)	(192)	(192)	(192)	(192)	(768)	(768)
Other	9,068	(5,956)	(5,000)	(2,500)	0	0	(7,500)	0
Pretax Income	(6,098)	(16,294)	(4,813)	(1,757)	538	886	(5,145)	2,670
Taxes (Benefit)	0	(127)	0	0	0	0	0	0
Net Income (loss) continuing operations	\$ (6,098)	\$ (16,167)	\$ (4,813)	\$ (1,757)	\$ 538	\$ 886	\$ (5,145)	\$ 2,670
Loss from noncontrolling interest	0	0	0	0	0	0	0	0
Net to SRAX, continuing operations	\$ (6,098)	\$ (16,167)	\$ (4,813)	\$ (1,757)	\$ 538	\$ 886	\$ (5,145)	\$ 2,670
Loss from discontinued operations	0	(18,595)	0	0	0	0	0	0
Net Income (Loss)	\$ (6,098)	\$ (34,762)	\$ (4,813)	\$ (1,757)	\$ 538	\$ 886	\$ (5,145)	\$ 2,670
Diluted EPS continuing operations	\$ (0.42)	\$ (1.48)	\$ (0.19)	\$ (0.07)	\$ 0.02	\$ 0.03	\$ (0.19)	\$ 0.10
Diluted Shares	14,650	23,551	25,995	26,045	26,745	26,855	26,410	27,115
Operating Income	(3,016)	(85)	379	936	730	1,078	3,123	3,438
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	\$ 1,840	\$ 874	\$ 1,431	\$ 1,225	\$ 1,573	\$ 5,103	\$ 5,418
	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%	24.4%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%
Gross Profit	72.4%	75.6%	80.1%	80.1%	80.1%	80.1%	80.1%	80.1%
Operating Expenses	118.9%	75.9%	75.7%	70.1%	72.1%	68.8%	71.6%	71.3%
Operating Income	-46.6%	-0.3%	4.4%	10.0%	8.0%	11.3%	8.5%	8.7%
Total Financial Expense	-187.5%	-38.4%	-2.2%	-2.1%	-2.1%	-2.0%	-2.1%	-2.0%
Other	140.0%	-22.3%	-57.8%	-26.7%	0.0%	0.0%	-20.4%	0.0%
Net Income (Loss)	-94.1%	-130.2%	-55.6%	-18.8%	5.9%	9.3%	-14.0%	6.8%
EBITDA	2.1%	6.9%	10.1%	15.3%	13.4%	16.5%	13.9%	13.8%

Source: SRAX, Inc. and Dawson James Securities estimates

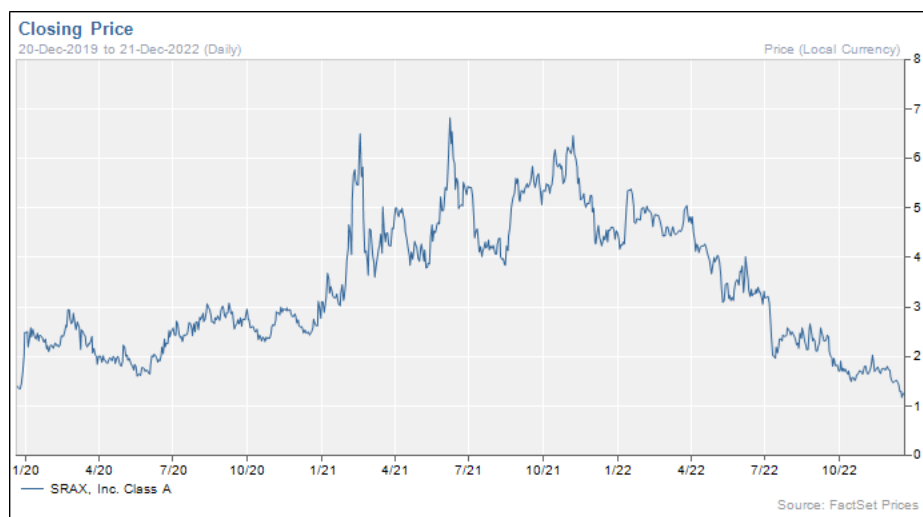
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	Restated 2020 A	2021 A	2022 E	2023 E
Current Assets				
Cash and Cash Equivalents	450	1,348	5,883	6,008
Accounts Receivables	1,409	821	1,047	1,699
Contracts Receivable		844	844	844
Marketable Securities	8,447	15,617	23,776	23,776
Designated assets for return of capital	0	3,925	0	0
Prepaid Expenses	361	430	530	574
Other Current Assets	0	0	0	0
Discontinued operations	1,206	0	0	0
Total Current Assets	\$ 11,873	\$ 22,985	\$ 32,080	\$ 32,902
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	\$ 43,676	\$ 53,691	\$ 53,578
Current Liabilities				
AP and Accrued Expenses	2,708	4,095	5,051	5,466
Deferred Revenue	4,842	12,859	14,659	10,284
Other Current Liabilities	3,417	763	941	1,018
Payroll protection loan	747	10	0	0
OID convertible debentures	6,016	1,164	1,222	1,222
Series A Preferred	0	3,925	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	\$ 22,816	\$ 33,324	\$ 29,441
Non Current Liabilities				
Lease Obligation	243	114	114	114
Payroll protection loan	379	0	0	0
Deferred tax liability	131	0	0	0
Total Stockholders' Equity	19,225	20,746	20,253	24,023
Total Liabilities & Stockholders' Equity	\$ 39,013	\$ 43,676	\$ 53,691	\$ 53,578
Operating Activities	2020 A	2021 A	2022 E	2023 E
Net Income	(14,705)	(41,227)	(5,145)	2,670
Loss from discontinued operations	(4,641)	(25,060)	0	0
Income (loss) from continuing operations	(10,064)	(16,167)	(5,145)	2,670
Depreciation and Amortization	712	919	980	980
Stock based Compensation	1,615	1,006	1,000	1,000
Other	1,259	15,237	(8,159)	0
Working Capital	(2,676)	(16,312)	10,669	(3,644)
Cash used in continuing operations	(9,154)	(15,317)	(655)	1,005
Cash used in discontinued operations	(4,335)	(8,118)	0	0
Operating Cash Flow	\$ (13,489)	\$ (23,435)	\$ (655)	\$ 1,005
Investing Activities				
CapEx	0	(69)	(100)	(100)
Digital Currency Assets/Other	32	(33)	0	0
Development of Software	(633)	(798)	(800)	(880)
Sale of marketable securities	519	7,902	0	0
Acquisition/Disposal	6,303	(3,004)	(1,000)	0
Cash from Continuing operations	6,221	3,998		
Cash from discontinued operations	(175)	841		
Cash from Investing Activities	\$ 6,046	\$ 4,839	\$ (1,900)	\$ (980)
Financing Activities				
Debt	7,862	0	6,990	0
Equity	0	15,443	100	100
Other	0	0	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	\$ 419	\$ 1,583	\$ 4,535	\$ 125

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
 Price Target Change – Buy – October 19, 2022 – Price Target changed from \$6.00 to \$5.30
 Update – Buy – October 21, 2022 – Price Target \$5.30
 Update – Buy – October 25, 2022 – Price Target \$5.30
 Update – Buy – December 21, 2022 – Price Target \$5.30

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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 19-Dec-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	73%	1	5%
Market Perform (Neutral)	7	23%	1	14%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	2	7%

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