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## SRAX, Inc. (NASDAQ: SRAX)

January 4, 2023

### Buy: Q1 22 Results Shy of Expectations.

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SRAX released its Q1 2022 10Q and continues to work on becoming current on its filings. The company has until the end of February to show full compliance with NASDAQ's filing requirements or face delisting. When SRAX becomes current on its filings it will open up funding to bridge cash needs as it monetizes its investment portfolio. If the company is successful, we believe there is significant upside for SRAX shares.

SRAX is working to become current on its filings and released its 10Q for the period ending March 31, 2022 has until the end of February to show full compliance with NASDAQ's filing requirements or face delisting. This will open up sources of financing needed while the company monetizes its \$23 million investment portfolio.

Q1 revenue was \$7.5 million, shy of our \$8.7 million estimate and gross margin also was less than expected. Opex was \$6 million, less than our \$6.6 million forecast and the EBITDA loss of \$800 thousand fell short of our expectation of an almost \$900 thousand gain.

The challenge remains bridging the company's cash needs until it can liquidate its investment portfolio at a pace quick enough to fund operations. As of the end of Q1 22, the top six marketable security positions were 45% of the Company's holdings and had declined 39% since then. The total portfolio is currently valued at \$23 million but does not take into account resets or liquidity discounts.

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.

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	\$1.59		
Price Target	\$5.30		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 26,707	\$ 35,522 E	\$ 39,321
1Q March	\$ 5,442	\$ 7,499 A	\$ 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)	\$ 0.27 E	\$ 0.18
1Q March	\$ (0.57)	\$ 0.13 A	\$ 0.03
2Q June	\$ (0.24)	\$ 0.05 E	\$ 0.05
3Q September	\$ (0.15)	\$ 0.04 E	\$ 0.04
4Q December	\$ (0.20)	\$ 0.05 E	\$ 0.06
EBITDA (\$Ms)	\$ 1.8	\$ 5.2	\$ 8.0
EV/EBITDA (x)	23.2x	8.2x	5.4x
Stock Data			
52-Week Range	\$1.15	-	\$5.50
Shares Outstanding (mil.)	26.3		
Market Capitalization (mil.)	\$42		
Enterprise Value (mil.)	\$43		
Debt to Capital	5%		
Cash (mil.)	\$0.4		
Cash/Share	\$0.01		
Average Three Months Trading Volume (K)	176		
Insider Ownership	13.4%		



## 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	FTM Sales	EV/	EBITDA	EV/	EBITDA
			(\$ in M)	(\$ in M)	Sales		EBITDA	Margin
BR-US	Broadridge Financial Solutions, Inc.	\$ 134.56	\$ 20,006.3	\$6,276.6	3.2x	\$ 1,411.2	14.2x	22.5%
CSGP-US	CoStar Group, Inc.	77.65	26,952.4	2,500.7	10.8x	770.9	35.0	30.8%
DNB-US	Dun & Bradstreet Holdings Inc	12.53	8,769.1	2,290.4	3.8x	920.1	9.5	40.2%
EFX-US	Equifax Inc.	198.31	29,621.6	5,240.1	5.7x	1,821.2	16.3	34.8%
GPN-US	Global Payments Inc.	100.20	39,330.9	8,550.9	4.6x	4,173.6	9.4	48.8%
MCO-US	Moody's Corporation	276.47	57,637.2	5,812.0	9.9x	2,610.2	22.1	44.9%
MSCI-US	MSCI Inc. Class A	461.16	41,425.4	2,446.2	16.9x	1,456.8	28.4	59.6%
SPGI-US	S&P Global, Inc.	335.17	124,170.6	12,475.3	10.0x	5,847.5	21.2	46.9%
TRU-US	TransUnion	59.01	16,499.9	3,835.8	4.3x	1,429.1	11.5	37.3%
VRSK-US	Verisk Analytics Inc	177.34	31,263.3	2,618.7	11.9x	1,388.7	22.5	53.0%
	Median				7.8x		18.7	41.9%
SRAX-US	SRAX, Inc. Class A	\$ 1.59	\$ 21.8	\$ 39.4	0.6x	\$ 8.0	2.7x	20.3%

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 A	Q2 22 E	Q3 22 E	Q4 22 E	2022 E	2023 E
Revenues	\$ 6,479	\$ 26,707	\$ 7,499	\$ 9,360	\$ 9,110	\$ 9,553	\$ 35,522	\$ 39,321
Cost of Revenues	1,789	6,521	2,798	1,864	1,814	1,903	8,379	7,832
Gross Profit	4,690	20,186	4,701	7,496	7,296	7,650	27,143	31,489
Operating Expenses	7,706	20,271	6,029	6,049	6,053	6,057	24,188	25,748
Operating Income	\$ (3,016)	\$ (85)	\$ (1,328)	\$ 1,447	\$ 1,243	\$ 1,593	\$ 2,956	\$ 5,741
Total Financial Expenses	(12,150)	(10,253)	(303)	(192)	(192)	(192)	(879)	(768)
Other	9,068	(5,956)	5,359	0	0	0	5,359	0
Pretax Income	(6,098)	(16,294)	3,728	1,255	1,051	1,401	7,436	4,973
Taxes (Benefit)	0	(127)	0	0	0	0	0	0
<b>Net Income (loss) continuing operations</b>	<b>\$ (6,098)</b>	<b>\$ (16,167)</b>	<b>\$ 3,728</b>	<b>\$ 1,255</b>	<b>\$ 1,051</b>	<b>\$ 1,401</b>	<b>\$ 7,436</b>	<b>\$ 4,973</b>
Loss from noncontrolling interest	0	0	0	0	0	0	0	0
<b>Net to SRAX, continuing operations</b>	<b>\$ (6,098)</b>	<b>\$ (16,167)</b>	<b>\$ 3,728</b>	<b>\$ 1,255</b>	<b>\$ 1,051</b>	<b>\$ 1,401</b>	<b>\$ 7,436</b>	<b>\$ 4,973</b>
Loss from discontinued operations	0	(18,595)	0	0	0	0	0	0
<b>Net Income (Loss)</b>	<b>\$ (6,098)</b>	<b>\$ (34,762)</b>	<b>\$ 3,728</b>	<b>\$ 1,255</b>	<b>\$ 1,051</b>	<b>\$ 1,401</b>	<b>\$ 7,436</b>	<b>\$ 4,973</b>
Diluted EPS continuing operations	\$ (0.42)	\$ (1.48)	\$ 0.13	\$ 0.05	\$ 0.04	\$ 0.05	\$ 0.27	\$ 0.18
Diluted Shares	14,650	23,551	28,194	26,737	26,837	26,901	27,167	27,115
Operating Income	(3,016)	(85)	(1,328)	1,447	1,243	1,593	2,956	5,741
Equity based compensation	1,852	1,006	358	358	358	358	1,432	1,432
Depreciation & Amort.	1,303	919	203	203	203	203	812	812
Adj. EBITDA	\$ 139	\$ 1,840	\$ (767)	\$ 2,008	\$ 1,804	\$ 2,154	\$ 5,200	\$ 7,985

Source: SRAX, Inc. and Dawson James Securities estimates

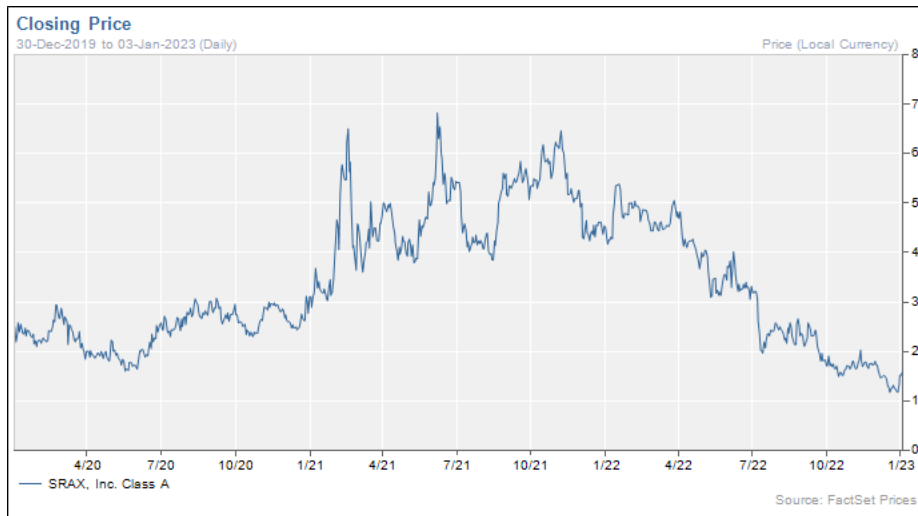
**Exhibit 2. Balance Sheet and Cash Flow Statement**

\$ in 000's	Restated 2020 A	2021 A	2022 E	2023 E
<b>Current Assets</b>				
Cash and Cash Equivalents	450	1,348	11,504	19,914
Accounts Receivables	1,409	821	1,256	1,359
Contracts Receivable		844	1,460	1,460
Marketable Securities	8,447	15,617	24,699	24,699
Designated assets for return of capital	0	3,925	0	0
Prepaid Expenses	361	430	969	1,049
Other Current Assets	0	0	0	0
Discontinued operations	1,206	0	0	0
<b>Total Current Assets</b>	<b>\$ 11,873</b>	<b>\$ 22,985</b>	<b>\$ 39,888</b>	<b>\$ 48,481</b>
<b>Non Current Assets</b>				
Notes Receivable	893	935	944	0
Property and Equipment, net	117	114	133	161
Intangible Assets	1,492	1,443	1,546	1,466
Right-of-Use Asset	366	257	227	227
Investment in FPVD	0	0	0	0
Other Assets	2	36	43	43
Goodwill	17,906	17,906	17,906	17,906
<b>Total Assets</b>	<b>\$ 39,013</b>	<b>\$ 43,676</b>	<b>\$ 60,687</b>	<b>\$ 68,284</b>
<b>Current Liabilities</b>				
AP and Accrued Expenses	2,708	4,095	8,315	8,997
Deferred Revenue	4,842	12,859	11,572	10,947
Other Current Liabilities	3,417	763	4,996	5,406
Payroll protection loan	747	10	10	10
OID convertible debentures	6,016	1,164	1,240	1,240
Series A Preferred	0	3,925	0	0
Liabilities for disposal	1,305	0	0	0
Revolving line of credit	0	0	5,580	5,580
<b>Total Current Liabilities</b>	<b>\$ 19,035</b>	<b>\$ 22,816</b>	<b>\$ 31,713</b>	<b>\$ 32,180</b>
<b>Non Current Liabilities</b>				
Lease Obligation	243	114	77	77
Payroll protection loan	379	0	0	0
Deferred tax liability	131	0	0	0
<b>Total Stockholders' Equity</b>	<b>19,225</b>	<b>20,746</b>	<b>28,898</b>	<b>36,028</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>\$ 39,013</b>	<b>\$ 43,676</b>	<b>\$ 60,687</b>	<b>\$ 68,284</b>
	<b>2020 A</b>	<b>2021 A</b>	<b>2022 E</b>	<b>2023 E</b>
<b>Operating Activities</b>				
Net Income	(14,705)	(41,227)	7,436	4,973
Loss from discontinued operations	(4,641)	(25,060)	0	0
Income (loss) from continuing operations	(10,064)	(16,167)	7,436	4,973
Depreciation and Amortization	712	919	812	812
Stock based Compensation	1,615	1,006	1,432	1,432
Other	1,259	15,237	(16,222)	0
Working Capital	(2,676)	(16,312)	7,967	1,853
Cash used in continuing operations	(9,154)	(15,317)	1,425	9,070
Cash used in discontinued operations	(4,335)	(8,118)	0	0
<b>Operating Cash Flow</b>	<b>\$ (13,489)</b>	<b>\$ (23,435)</b>	<b>\$ 1,425</b>	<b>\$ 9,070</b>
<b>Investing Activities</b>				
CapEx	0	(69)	(91)	(100)
Digital Currency Asssets/Other	32	(33)	(7)	0
Development of Software	(633)	(798)	(600)	(660)
Sale of marketable securities	519	7,902	1,545	0
Acquisition/Disposal	6,303	(3,004)	(243)	0
Cash from Continuing operations	6,221	3,998		
Cash from discontinued operations	(175)	841		
<b>Cash from Investing Activities</b>	<b>\$ 6,046</b>	<b>\$ 4,839</b>	<b>\$ 604</b>	<b>\$ (760)</b>
<b>Financing Activities</b>				
Debt	7,862	0	8,153	0
Equity	0	15,443	(26)	100
Other	0	0	0	0
Cash from continuing operations	7,862	15,443	8,127	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>\$ 8,127</b>	<b>\$ 100</b>
<b>Change in Cash</b>	<b>\$ 419</b>	<b>\$ 1,583</b>	<b>\$ 10,156</b>	<b>\$ 8,410</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  
 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  
 Update – Buy – January 4, 2023 – Price Target \$5.30

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- 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.

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Current as of 3-Jan-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	70%	1	5%
Market Perform (Neutral)	8	27%	1	13%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	2	7%

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