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SRAX, Inc. (NASDAQ: SRAX)

January 18, 2023

Buy: Expects to be Current on Filings End of February.

SRAX expects to be current on its filings by the end of February, which is required by NASDAQ to prevent 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.

In an update call, SRAX stated it expected to become current on its filings by the end of February, with the release of Q2 and Q3 2022 10Q's. It also indicated an extension to April 15 to file the 2022 10K is very likely. Becoming current on its filings will open up sources of financing needed while the company monetizes its \$23 million investment portfolio.

The challenge for SRAX over the past 12 months has been cash management. Payment for services has been overwhelmingly in, often restricted, and often illiquid securities. When the company was current on its filings it had access to capital to bridge the gap when payments received could be turned into cash. The decline in the market and trading volume exacerbated the situation. All of these factors could be changing in the company's favor beginning with becoming current on its filings.

The company has now required customers to put up more cash and/or shares with fewer restrictions as a response to its cash needs. The company's goal is to collect 50-60% of revenue in cash, up from 15% to 25% in recent quarters. This will alleviate the company's cash needs, but lower revenue growth, which is reflected in our model.

As of yesterday's close, the company's security portfolio had a stated value (before discounts for liquidity) of \$23 million. The value of resets of \$14 million brings the total portfolio to \$37 million. Almost all of the portfolio is in restricted securities.

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.

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Current Price	\$2.14		
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)	31.1x	11.0x	7.2x
Stock Data			
52-Week Range	\$1.15	-	\$5.42
Shares Outstanding (mil.)	26.3		
Market Capitalization (mil.)	\$56		



Valuation

SaaS/Database providers' shares commonly trade between 3x and ~18x 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.	\$ 145.14	\$ 21,315.3	\$ 6,295.0	3.4x	\$ 1,415.1	15.1x	22.5%
CSGP-US	CoStar Group, Inc.	79.62	27,879.5	2,514.8	11.1x	777.7	35.8	30.9%
DNB-US	Dun & Bradstreet Holdings Inc	13.62	9,353.1	2,299.1	4.1x	925.2	10.1	40.2%
EFX-US	Equifax Inc.	216.08	32,299.7	5,269.0	6.1x	1,828.7	17.7	34.7%
GPN-US	Global Payments Inc.	111.46	42,674.7	8,563.6	5.0x	4,181.6	10.2	48.8%
MCO-US	Moody's Corporation	313.58	64,066.4	5,829.3	11.0x	2,625.7	24.4	45.0%
MSCI-US	MSCI Inc. Class A	510.28	45,073.7	2,463.0	18.3x	1,467.0	30.7	59.6%
SPGI-US	S&P Global, Inc.	367.41	134,915.0	12,500.5	10.8x	5,835.4	23.1	46.7%
TRU-US	TransUnion	69.17	18,899.4	3,840.3	4.9x	1,419.2	13.3	37.0%
VRSK-US	Verisk Analytics Inc	181.57	32,076.9	2,582.3	12.4x	1,385.3	23.2	53.6%
	Median				8.5x		20.4	41.9%
SRAX-US	SRAX, Inc. Class A	\$ 2.14	\$ 36.3	\$ 39.5	0.9x	\$ 8.1	4.5x	20.6%

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 8.5x.

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
Net Income (loss) continuing operations	\$ (6,098)	\$ (16,167)	\$ 3,728	\$ 1,255	\$ 1,051	\$ 1,401	\$ 7,436	\$ 4,973
Loss from noncontrolling interest	0	0	0	0	0	0	0	0
Net to SRAX, continuing operations	\$ (6,098)	\$ (16,167)	\$ 3,728	\$ 1,255	\$ 1,051	\$ 1,401	\$ 7,436	\$ 4,973
Loss from discontinued operations	0	(18,595)	0	0	0	0	0	0
Net Income (Loss)	\$ (6,098)	\$ (34,762)	\$ 3,728	\$ 1,255	\$ 1,051	\$ 1,401	\$ 7,436	\$ 4,973
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

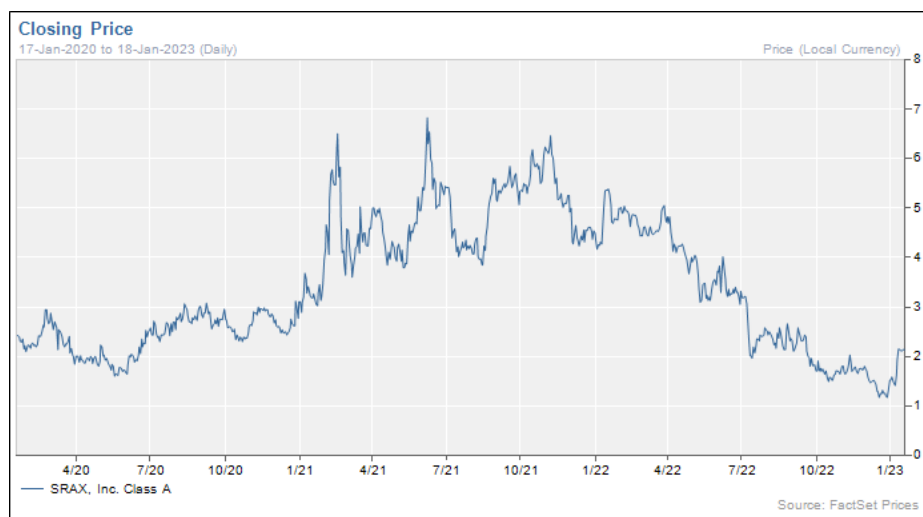
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	Restated 2020 A	2021 A	2022 E	2023 E
Current Assets				
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
Total Current Assets	\$ 11,873	\$ 22,985	\$ 39,888	\$ 48,481
Non Current Assets				
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
Total Assets	\$ 39,013	\$ 43,676	\$ 60,687	\$ 68,284
Current Liabilities				
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
Total Current Liabilities	\$ 19,035	\$ 22,816	\$ 31,713	\$ 32,180
Non Current Liabilities				
Lease Obligation	243	114	77	77
Payroll protection loan	379	0	0	0
Deferred tax liability	131	0	0	0
Total Stockholders' Equity	19,225	20,746	28,898	36,028
Total Liabilities & Stockholders' Equity	\$ 39,013	\$ 43,676	\$ 60,687	\$ 68,284
	2020 A	2021 A	2022 E	2023 E
Operating Activities				
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
Operating Cash Flow	\$ (13,489)	\$ (23,435)	\$ 1,425	\$ 9,070
Investing Activities				
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		
Cash from Investing Activities	\$ 6,046	\$ 4,839	\$ 604	\$ (760)
Financing Activities				
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
Cash from Financing Activities	\$ 7,862	\$ 20,179	\$ 8,127	\$ 100
Change in Cash	\$ 419	\$ 1,583	\$ 10,156	\$ 8,410

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
 Update – Buy – January 18, 2023 – Price Target \$5.30

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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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- 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 17-Jan-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	71%	1	5%
Market Perform (Neutral)	8	26%	2	25%
Market Underperform (Sell)	1	3%	0	0%
Total	31	100%	3	10%

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