

# Trickle Research

Every raging river, every great lake, every  
deep blue sea starts ... with a trickle



## Research Note

10/25/2017

**12 - 24 month Price Target: \$7.50**

**Allocation: 5**

**Closing Stock Price at Initiation (Close 04/24/17): \$1.90**

**Date of Allocation Upgrade from 4 to 5: 06/07/17**

**Closing Stock Price at Update (Close 06/07/17): \$1.44**

**Closing Stock Price @ 10/24/17: \$4.19**

**Social Reality, Inc.**

**SRAX**

(Stock Symbol – Nasdaq: SRAX)

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We just returned from a site visit to SRAX's Mexicali, Mexico technology center. The visit included an extensive overview of all aspects of the business including a lengthy discussion of the Company's new BIGtoken cryptocurrency initiatives. Here are some of our takeaways from that visit.

Of course, the question on the minds of most familiar with SRAX story is "how do we evaluate their new entre into the cryptocurrency space?" We will get that out of the way first.

Just to recap, in the prior set of SRAX research notes, we suggested that we believed the legacy digital advertising business was worth considerably more than was being reflected in the stock price at the time. Recognize, while we assume much of the stock's recent advance is predicated on the new cryptocurrency piece of the business, we continue to believe there is considerable value in the legacy business, and we also believe that value will continue to grow going forward. We will circle back to that thought.

SRAX management spent considerable time taking us through the cryptocurrency piece. We do not intend to try to explain the minutia of BIGtoken, blockchain or even cryptocurrencies in general. We will however weigh in on a few major points they covered regarding the new enterprise.

First, we think the SRAX team, understands the technical challenges involved in creating the BIGtoken platform. Moreover, we are confident that they have the personnel to both develop and deliver the technology necessary to execute it. Succinctly, we are not sure the street views SRAX as a "technology" company, but SRAX has developed (and continues to develop) a considerable amount of proprietary technology to support the legacy business. For those who may have concerns about their entre into the space being some sort of leap of faith into the "next big thing", we will just say that we believe they have rationalized the business acutely and they have the aptitudes to make it work.

In conjunction with the above, the Company has attracted the assistance of people/enterprises entrenched in the cryptocurrency and ICO space(s). We had the opportunity to speak with some of those people and they provided a good backdrop of some of the broader issues surrounding cryptocurrencies and ICOs, as well as some insights regarding SRAX's participation with BIGtoken. We would note, while they are optimistic about SRAX's plan, they were also quite realistic with respect to the challenges. In their view those challenges include the risks of the general volatility surrounding the nascent ICO market (getting a deal done will be harder if/when the market cools) as well as risks associated with SRAX's ability to build a robust community around their consumer opt-in digital marketing platform. Clearly, the value of BIGtoken will be driven by the size and the interaction of that community, which will be predicated on SRAX's ability to build and maintain it. Again, we believe SRAX has attracted the necessary help to structure and execute a successful ICO or related transaction, market conditions notwithstanding.

To summarize the BIGtoken portion of this discussion, we have no idea if SRAX can build a successful BIGtoken ecosystem that will support a liquid and viable currency. As with many enterprises, that success will depend on their ability to develop and communicate a value proposition that attracts users, advertisers and other relevant participants. In that regard, we think the Company is well positioned to build that sort of community because its success in part will be predicated on inputs (consumers, advertisers, data, technology etc.) that SRAX has spent years developing, understanding, collecting and perfecting. That is, we tend to believe that SRAX is better positioned to build a viable cryptocurrency ecosystem than many of the other enterprises looking to execute ICOs. That doesn't mean BIGtoken will work, but it may mean that (in our view) it has a better chance than many of its peers.

Moving on, the site visit was eye-opening for us in terms of the footing the legacy business appears to be on. To reiterate, the Company covered all of the major components of the business (technology, sales, marketing, finance

etc.) as well as product/service offerings and upcoming verticals including SRAXmd, SRAX Social, SRAX auto and SRAX fan. In our view, the SRAX narrative over much of the past year has largely been dominated by the cascade of issues created by the underperformance of the Steel Media acquisition and the financial “yoke” that transaction created. After seeing/understanding the progress of many of these portions of the business, we are of the view that the negative narrative drowned out the positive contributions from the new initiatives. However, we think that negative narrative is largely behind them, and now, for the first time in several months, we are optimistic that the narrative focus may shift to *the progress they are making* in the digital advertising space with these new vertical specific offerings.

To that point, SRAX recently announced that they have “*engaged financial advisors to explore strategic alternatives for the SRAXmd business to maximize shareholder value. The range of alternatives that may be considered could include spinning off the business into its own public company, strategic acquisitions or a variety of other possible transactions*”. Recall, we have been beating the drum for some time now that SRAXmd alone was worth considerably more than the prevailing market capitalization of the entire company. Given the recent advances in the stock, that statement is not as true today as it was a short time ago, but it underscores the point that SRAX is building pieces of the business that have the capability to add marked value to the whole. Following the site visit and presentations, we are more convinced of that notion today than perhaps at any time since our initiation.

Frankly, one of our concerns when we were first introduced to the Company’s BIGtoken concept, was that they might be pivoting away from the legacy business because they were concerned about its collective viability. We saw some elements of that as they shed unprofitable business in Q2. However, we knew that *did not* include SRAXmd, and we still recognize SRAXmd as a major component of the valuation. But again, the site visit has provided us with a new appreciation for the legacy business, and especially some of the new verticals they have been fostering. That view also includes what we now view as a much more robust technology platform than we had previously envisioned. Moreover, as the site visit also revealed, they are planning for marked expansion at the Mexicali, Mexico plant (presumably nearly doubling the existing developer/coder headcount), which again, we think signals expansion plans in the legacy business and associated new verticals. We no longer view the BIGtoken addition as a pivot, but rather, an extension of and/or an adjunct to the legacy business.

Lastly, we have noted in prior writings that while we continued to believe in the underlying value of SRAX, the cascade of refinancing and working capital problems brought on by their non-compliance with prior covenants presented some notable liquidity risks to the Company. The recent improvement in the stock price has created some liquidity opportunities that we believe should mitigate some of those risks.

To summarize, the analyst day presentations were insightful on a variety of levels, including improving our understanding of both legacy and BIGtoken opportunities. We recognize that much of the stock’s recent advances are likely predicated on expectations for its cryptocurrency initiatives which in general have garnered considerable investment interest as of late (a rising tide raises all boats). While we certainly won’t complain about the *rising* stock price for whatever reason, we continue to believe in the underlying value of SRAX beyond even current levels, regardless of the ultimate success of BIGtoken. That said, while at this point still highly speculative, the prospects of BIGtoken provide a *marked leg up* in *potential* future values of SRAX shares. We will look to Q3 and Q4 results to perhaps further validate some of our assessments of the legacy business as well as progress on BIGtoken as a potential catalyst for higher price target assessments going forward.

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## Rating System Overview

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for our performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that we favor the stock (at respective/current levels) more than a stock with a rating of 1.

As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20 stock coverage list we suggested and leaving some room to perhaps add another 5 of the names from our profiles). We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ( $\$250 * 4$ ). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

**For those hung up on the tradition of more typical rating systems (Buy, Sell, Hold) we would submit the following guidelines. A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.**

**A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.**

**A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.**