

Trickle Research

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



Research Note

09/28/2017

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 @ 09/27/17: \$2.19

Social Reality, Inc.

SRAX

(Stock Symbol – Nasdaq: SRAX)

www.srax.com

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We just finished a microcap conference here in Denver on Monday (September 25, 2017) and SRAX was one of our presenters. Much to our surprise, their presentation was solely focused on the content of an 8k filing they made the same day as the conference (September 25, 2017). That presentation covered a new business “line” the company is adding which they refer to as “Blockchain Identification Graph” or “BIG”. We will briefly attempt to describe the business here, but their presentation regarding the business is available on Edgar at and certainly addresses the opportunity better than we can at this point:

https://www.sec.gov/Archives/edgar/data/1538217/000155335017001050/srax_ex99z1.htm

In short, they are creating an open source platform that will allow consumers to better control the data that is typically collected about them through their own search, social media interactions and commerce related activities (using a credit card for example). For those familiar with our original research, this is the type of data that SRAX generally collects, sells etc. through its buy-side and sell-side businesses. The premise for BIG is that (perhaps counter-intuitive to at least portions of their legacy business) consumers should have:

- 1) more say over what data (about themselves) they want shared with others
- 2) an ability to monitor and control the accuracy of the data that is being gathered about them
- 3) a conduit to be compensated when data about them is used by others (to push them advertisements based on their own search for example)

In short, BIG will involve the creation of a crypto currency (think Bitcoin) called “BIGtokens”, which consumers can “earn” by allowing for access to larger amounts of their personal data. That new currency, again like other crypto currencies, will trade in a marketplace where its value may rise and fall each day. Regardless, the BIG platform will provide individuals with the ability to control access to their own data, maintain its accuracy and earn BIGtokens for allowing others access to it.

We must admit, when we first started covering SRAX five months ago, we didn’t anticipate the story evolving into blockchains and crypto currencies. Moreover, if the Company’s new platform works as planned (and as we understand it) it may prove disruptive to the entire digital advertising space they currently operate in. Again, that may seem counterintuitive to some of SRAX’s initiatives, however, the industry has been dealing with challenges *of this nature* (ad blockers and legislation for example) for some time now, so this direction for SRAX may be more proactive than it is counterintuitive.

We need to spend more time with the Company before we can weigh in on the particulars of this new piece of the business. Frankly, since this announcement, outside of their presentation at our conference, management has been difficult to pin down for some added clarity. We understand that, as we suspect they have been addressing the new initiative with a number of constituencies. With that said, we are going to go back and reiterate a few things that *we do know*.

We submit, we have no idea how big BIG can get. We know that the crypto currency industry appears to be just getting started, and it will take some time for winners and losers to be sorted out. In the meantime, it will almost certainly continue to attract attention (and scrutiny) and most likely some valuations that may defy logic. To that point, we have no qualms about SRAX or any other stock we cover trading ahead of itself, but we try to keep our analysis focused on valuations we can get our arms around. From *that* perspective, SRAX’s new initiative has not changed our views on particular parts of the business. While the stock has certainly responded nicely to the news, we continue to view the stock as undervalued, and that view has very little to do with BIG.

The current price of SRAX shares reflects a market capitalization of about \$17 million. Just to reiterate a view we have been pounding the table about since we started the coverage, we believe SRAX has particular (vertical) portions of the business that by themselves are worth several million dollars more than the current market

capitalization of SRAX shares, *even after the recent run-up related to BIG*. Further, we have also opined that we believe the valuation of SRAX should include consideration for the large amount of data the Company has accumulated along the way. Recall, the Company has suggested and we have reiterated that SRAX has developed portions of the business that are deployed almost solely to “collect data” as opposed to creating revenues. They have developed portions of the business to collect data *because the data has marked value*. In fact, we would argue, that one of the reasons SRAX may be a good fit to launch a business like BIG, is because they already control a large amount of consumer data and are entrenched in businesses that continue to collect it, which may be necessary to launch the business in the first place. Translation: in addition to the value of particular verticals addressed above, we do not believe the current SRAX market capitalization properly reflects the value of the Company’s accumulated data. We would augment that argument by suggesting; the value of accumulated consumer data is likely a good portion of the reason why two of SRAX’s competitors (both were mentioned in our initiating coverage) have been acquired over the past 60 days or so, even though neither has come close to operating profitably over the past three (or longer) fiscal years. Again, we think SRAX is worth considerably more than the current value of the stock, and that assessment has nothing to do with whether BIG will ever be successful. Put another way, for those looking for a public play in the crypto currency fray, an investment in SRAX may be an entrée into the space *for free...or as we are arguing, maybe less than free...*

Clearly, at this point, we don’t pretend to know what BIG means for SRAX. The initial response in the stock suggests that the street thinks it will be positive. We should learn more before we can come to that conclusion, however, in the meantime, we will continue to argue that SRAX’s pieces are worth considerably more than the market’s current reflection of the whole, and the addition of BIG may have made that disparity even larger.

We may revisit our allocations and our price targets as we gather more visibility on the company’s new initiative.

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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.