



CHARDAN

Company Update

April 18, 2019

Industrial & Consumer Technology

Social Reality, Inc. (SRAX - \$4.87 - Buy)**COMPANY NOTE****JAMES McILREE, CFA**, Senior Research Analyst, +1-646-465-9034
jmcilree@chardan.com**Sales and trading** 7 a.m. to 7 p.m. ET, (646) 465-9090**Sales and trading** 7 p.m. to 7 a.m. ET, (646) 465-9063

Stock Data	04/18/19
Price	\$4.87
52 Week Range	(\$1.55 - \$5.95)
Price Target	\$10.00
Market Cap (mil)	\$56.98
Shares out (mil)	11.70
3-Mo Avg Vol	274,582
Cash (mil)	\$10.1
Total Debt (mil)	\$0.0

Revenues (\$ millions)					
Yr Dec	2018A	2019E		2020E	
	Actual	Curr	Prev	Curr	Prev
Mar	2.1	-	-	-	-
Jun	4.7	-	-	-	-
Sep	2.0	-	-	-	-
Dec	1.1	-	-	-	-
YEAR	9.9	18.4	-	34.9	-

EBITDA (\$ millions)					
Yr Dec	2018A	2019E		2020E	
	Actual	Curr	Prev	Curr	Prev
Mar	(2.5)	-	-	-	-
Jun	(0.8)	-	-	-	-
Sep	(2.9)	-	-	-	-
Dec	(2.9)	-	-	-	-
YEAR	(9.1)	(8.9)	(2.9)	(6.9)	-

One year price history SRAX**SRAX (Buy PT\$10) 15M BIGToken Users**

BIGToken user growth has accelerated sharply recently with the number of registered users increasing from 500,000 near the end of March to 600,000 at the beginning of April to 11 million by April 7th and earlier this week the company reported 15 million global users.

New features continue to be added including integration with widely-used loyalty/rewards programs including Marriott, Wyndham, American Express, Sony, Office Depot and Staples. In February BIGToken announced the integration of the BIGToken app with TD Ameritrade, Chase, Citibank, Bank of America and other financial institutions. The integration will enable BIGToken users to link their bank and BIGToken accounts, generating data on the user's transactions. This data will be combined with other revealed information about the user, and can be monetized, if the users chooses to do so, by selling that data to advertisers. Like the rest of the data a user generates, BIGToken aggregates and anonymizes the data, keeping the user's identity secure. We believe this is another important step in the development of BIGToken and adds a dataset on actual purchases by consumers that could be highly valued by advertisers.

The company has indicated it believes it can generate up to \$3 per month in revenue per user, which would likely be shared 50% with the user. The revenue contribution from BIGToken will be a function of when monetization of the service begins, how many of the 15+ million users are active users and the intensity of the advertising to the users. That is, how long it takes to get to \$3 per (active) user per month.

We've mapped out multiple scenarios for active user growth and revenue per user in 2020, assuming monetization begins next year. At 1 million active users (about 6.7% of current registered users) by year end, and average revenue per user of \$1.00/month, also by year-end, BIGToken can generate about \$6.1 million in gross revenue next year. About 1.5 million active users by the end of next year and \$1.50 per user/month at year-end results in BIGToken revenue of almost \$14 million next year. Capitalizing this revenue between 2x and 5x would yield a valuation, just for BIGToken, between \$12 and \$70 million, or at the midpoint, \$3.50 per share. And we think this could be conservative.

The company recently reiterated its revenue guidance for the year of \$20 to \$25 million, with no contribution from BIGToken. The gross margin guidance of 45% to 55% was also reiterated, although gross margin in Q4 was over 75% and margins in the 70%+ range continued in Q1.

Revenue growth is being driven by the revivification of the company's sales force and the introduction of multiple new market verticals including SRAXshopper, SRAXauto, and SRAXir.

The sales force for the company's core platform has grown from 5 at the end of 2017 to over 10 by the end of 2018 and about 18 at the end of Q1. In addition, sales headcount for the other verticals (IR, House, Social, Auto, BIG, and Shopper) has increased to about 12 from nil at the end of 2017. Initial results for the new verticals are promising. For example SRAXir is targeting 100 customers by year end at an ARPU of \$3,000 per month or a revenue run rate of close to \$1 million. SRAXauto is currently addressing \$5.7 million of opportunities and with a 33% close rate would generate \$1.9 million of revenue. Total pipeline for Q2 business was \$8 million (up from \$1.6 million in Q2 18) and for the year \$16.6 million. Over the year the pipeline will grow as the newly acquired sales force matures and becomes more productive.

Earlier this month the company raised \$6.2 million from the sale of 1.7 million shares and an additional \$1.1 million from a warrant exchange that reset the exercise price of 310 thousand warrants from \$7.50 to \$3.56. Pro forma for these raises the company has about \$10 million in cash.

The company estimates BIGToken could need \$5 million this year and \$15 million next for operations but intends to fund it separately. We have assumed gross BIGToken revenue of \$11 million in our 2020 estimate, which would be a gross profit contribution of about \$5.5 million assuming a 50/50 split with users. That would leave a funding need of about \$10 million in 2020 for BIGToken.

The other operations are assumed to generate \$18 million at a 55% gross margin this year and \$25 million at a similar margin in 2020. Current cash opex for the non-BIGToken business is about \$13 million which would put cash needs at about \$5 million this year and positive cash flow next.

Valuation:

Our \$10 price target is based on a sum of the parts analysis valuing the company's five verticals and BIGToken and its 31% ownership of SRAXmd.

Risks to achievement of target price:

Risks to achieving this target include increased competition, reduced spending on digital advertising, declining ad rates, product mix and ultimate realizable value of the company's discrete units.

Required Research Disclosures



Created by: BlueMatrix

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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Neutral: Returns expected to be in line with sector average over 12 months and indicates total return between negative 10% and 10% over the next 12 months.

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Social Reality, Inc. (SRAX - \$4.87 - Buy)

Price Target \$10.00

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RISKS TO ACHIEVEMENT OF TARGET PRICE:

Risks to achieving this target include increased competition, reduced spending on digital advertising, declining ad rates, product mix and ultimate realizable value of the company's discrete units.

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