Trickle Research

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

Research Notes

08/01/18

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 Upgrade (Close 06/07/17): $1.44

Closing Stock Price @ 07/31/18: $4.35

Social Reality, Inc.

SRAX

(Stock Symbol – Nasdaq: SRAX)

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While we recognize SRAX will report 2Q results over the next several days so we will likely have to address those as well, we wanted to provide a short view of the Company's recent transaction involving the sale of SRAXmd. As most of you are probably aware, this is a transaction we have been anticipating and we have essentially pegged much of our valuation thesis around this asset. Here is a brief summary from the Company's release regarding the metrics:

On July 29, 2018 management signed an asset purchase agreement to sell all of the assets of the SRAXmd product line to an affiliate of private equity firm Halyard Capital for total consideration of up to $52.5 million. SRAX will receive $33.5 million in cash, $10 million in Class A membership units of Halyard MD, LLC, the parent of the entity acquiring the assets, and an earn-out of up to $9 million upon the buyer achieving certain gross profit thresholds by December 31, 2018. The transaction is expected to close on or about August 7, 2018, subject to customary closing conditions.

We think the transaction validates something we have been saying for some time now which is/was that SRAXmd was/is likely worth more than the entire market cap of SRAX at those given points of reference. Granted, the $52.5 million purchase price has some caveats, one of which is that they essentially retained a portion of the deal by receiving shares of the buyer's parent (we actually like that nuance) and, $9 million of it is contingent upon the performance of SRAXmd through the balance of 2018. We don't know what those thresholds are so we don't know if they are likely or unlikely, although we suspect they are within the realm of doable or they wouldn't be part of the deal. That said, we submit, this could certainly end up being a $43.5 million deal rather than a $52.5 million deal, but in either case, we think it leads to the same question which is, what is *the rest* of SRAX worth? Clearly, with the market cap at about $45 million (as we write this), the market seems to be answering that question with "not much".

While we don't agree with that assessment, we don't necessarily think it is an unreasonable position either. The reality is that since late 2016 when the Company entered into what we think we can now say was a relatively stark restructuring of the business that amounted to shedding a great deal of unprofitable revenue and by extension, "downsizing" the business, it has been difficult for us (and we assume others) to get a good handle on the remainder of the business, and subsequent earnings data has not been particularly helpful in delineating that. Moreover, the one piece of the business that I think most followers of the Company felt they could hang their hat on (SRAXmd) is no longer part of the equation. As we said, we will address more of this following what we hope to be some clarity on the remainder of the business in the 2Q conference call, but again, the question is, where does the business go from here?

We have said in the past that we do not feel like we have a good enough understanding of BigToken to try to affix valuations to it. However, we do know that the Company has proven adept at building specific verticals around their core business and then monetizing the vertical both via profits and ultimately a sale. To put that another way, Company naysayers (we think there is a measurable short in the stock) may very well be able to reasonably argue that BigToken, cryptocurrencies, blockchain etc. are a dry hole, however, they cannot reasonably argue that SRAX management doesn't know how to build a vertical. That argument was rendered false on the face by the announcement of the sale of SRAXmd.

Our hope is that with SRAXmd behind them and a strong working capital base underneath them, the Company will now be able to turn a significant focus towards some of the new verticals they (and we) have mentioned in the past. We have no problem with them continuing to focus some resources on BigToken, but we hope the preponderance of the story going forward becomes those new verticals.

Lastly, we have no particular explanation for the recent volatility in the stock. It traded up into the news of the md sale and sold off thereafter. We don't try to understand why investors do what they do over short periods of time. We have a hard enough time trying to keep track of whether or not our research companies are performing within reasonable proximity to our expectations. With that said, the news of the SRAXmd sale is a highly positive fundamental piece of news for SRAX investors, and its difficult to conclude anything other than that. Perhaps some people thought the sale price would be higher, but again, on the face this may be the biggest (and most validating) piece of news they have ever provided. Again, now we need to begin to focus on what they do for an encore.

General Disclaimer:

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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.