

# Trickle Research

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



## Price Target Increase 02/05/19

**12 - 24 month Price Target: \*\$9.25**

**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 Allocation Upgrade (Close 06/07/17): \$1.44**

**Date of Target Upgrade: 08/16/18**

**Closing Stock Price at Target Upgrade (Close 08/16/18): \$4.11**

**Closing Stock Price @ 02/04/19: \$3.33**

**Social Reality, Inc.**

**SRAX**

(Stock Symbol – Nasdaq: SRAX)

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Last week SRAX announced a new vertical called SRAX IR. We have to admit, we didn't see this coming but we think it is intriguing. Moreover, as a vertical aimed at investors and investor relations, we certainly have some insights about this particular new business.

As we understand it, SRAX IR has two parts, the first of which is functional today, and the second which should be functional shortly. The first portion of the service provides public company's a means to identify and keep track of their shareholder base. The approach involves gathering what are known in the industry as "NOBO" lists. NOBO stands for "non-objecting beneficial owners", and the lists consist of shareholders who hold their shares with a broker (in "street name") and are willing to allow the broker to share their names and addresses with those issuing companies so that they can communicate company developments with those same shareholders. Industry estimates suggest that about 75% of shareholders are "non-objecting" so the NOBO list generally provides a considerable portion of the shareholder base. Moreover, most retail investors tend to be non-objecting, and many smaller companies tend to have larger concentrations of retail investors, so in those instances the NOBO lists are generally more complete. So then, the system allows the issuer to see which shareholders are buying or selling their shares in addition to other pieces of information. Other functionality includes identifying and tagging contacts acquired through conferences and/or other IR efforts to help ascertain the effectiveness of those mediums in creating bona fide investors leads (and ultimately new shareholders).

To reiterate, we consider ourselves to be well-versed in investor relations issues so this product resonates with us. We recognize the challenges many small emerging companies have trying to attract investors to their stories. However, one of the things that has always perplexed us in that regard, is that while many small public companies spend considerable time and resources in that pursuit of *new* shareholders, they often do a poor job of communicating with (and holding on to) the ones they already have. SRAX IR could provide many of these companies with a solution to help them better manage that. Moreover, we think the \$3000 per month price tag is likely less than what most of these companies would spend trying to hire in-house employees to gather and manage the same. Frankly, we don't know if that is the proper price point or not, but they certainly have enough margin in the product to find the right price point.

Beyond the shareholder management tool, SRAX IR is also developing a marketplace, wherein issuers on the system could allow others to essentially market to their shareholders, in which case the issuers could be paid for that access. We believe that investors typically represent one of the more desirable demographics for many advertisers. SRAX believes (and we think they are likely right) that much like the targeted database created in SRAX MD, SRAX IR could provide a high value database of investors that could likely drive triple digit CPMs.

In our view SRAX IR could be a valuable tool for many small public companies. Further, the marketplace concept could provide them with opportunities to either monetize access to their own shareholder database, or perhaps purchase/utilize access to other issuers' databases through the marketplace. Moreover, and again much like SRAX MD, we think they can operate the vertical at considerable margins especially if marketplace CPM comes in where we think it could.

Recognize, the first leg of the vertical is available, but as we understand it, the marketplace will require a bit more time and effort to get launched. We suspect that probably means within the next 90-180 days. That said it is certainly too early to try to ascertain what sort of contribution this might make. However, doing some quick math, hypothetically, if they could get 100 public companies on the system, they could generate \$3.5 million of attractive margin revenue contribution before any activity in the marketplace. To be clear, that type of contribution would for example approximately double our 2021 earnings projection. We believe SRAX IR could be meaningful and we don't think it will take three years for it to get there. As such we are bumping our price target a bit to reflect a small portion of that expectation. We reiterate our allocation of 5 and we are replacing our prior target of \$8.50 with a new 12-24 month target of \$9.25.

## Projected Operating Model

<b>Social Reality Inc. ("SRAX")</b>						
<b>Projected Operating Model</b>						
<b>By: Trickle Research LLC</b>						
	(Actual)	(Actual)	(Actual)	(estimate)	(estimate)	(estimate)
	<u>03/31/18</u>	<u>06/30/18</u>	<u>09/30/18</u>	<u>12/31/18</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u>
<b>Revenues</b>	<b>\$ 2,110,850</b>	<b>\$ 4,697,351</b>	<b>\$ 2,015,391</b>	<b>\$ 1,555,000</b>	<b>\$ 10,378,592</b>	<b>\$ 15,061,300</b>
Cost of revenue	\$ 818,105	\$ 1,320,464	\$ 763,610	\$ 796,590	\$ 3,698,769	\$ 7,494,350
<b>Gross profit</b>	<b>\$ 1,292,745</b>	<b>\$ 3,376,887</b>	<b>\$ 1,251,781</b>	<b>\$ 758,410</b>	<b>\$ 6,679,823</b>	<b>\$ 7,566,950</b>
Operating expense:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General, selling and administrative expense	\$ 4,130,258	\$ 5,414,791	\$ 4,869,232	\$ 2,569,950	\$ 16,984,231	\$ 10,675,517
Impairment of goodwill	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restructuring and Other Operating expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Income (loss) from operations</b>	<b>\$ (2,837,513)</b>	<b>\$ (2,037,904)</b>	<b>\$ (3,617,451)</b>	<b>\$ (1,811,540)</b>	<b>\$ (10,304,408)</b>	<b>\$ (3,108,567)</b>
Other income (expense):	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Write off of contingent consideration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income (expense)	\$ (434,785)	\$ (486,758)	\$ (318,942)	\$ (90,000)	\$ (1,330,485)	\$ (367,875)
Amortization of Debt Issuance Costs	\$ (332,658)	\$ (472,589)	\$ (726,716)	\$ -	\$ (1,531,963)	\$ -
Accretion of Put Warrants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income (expense)	\$ (4,664)	\$ (596)	\$ 23,988,147	\$ -	\$ 23,982,887	\$ -
<b>Total Other income (expense)</b>	<b>\$ (772,107)</b>	<b>\$ (959,943)</b>	<b>\$ 22,942,489</b>	<b>\$ (90,000)</b>	<b>\$ 21,120,439</b>	<b>\$ (367,875)</b>
<b>Income (loss) before provision for income taxes</b>	<b>\$ (3,609,620)</b>	<b>\$ (2,997,847)</b>	<b>\$ 19,325,038</b>	<b>\$ (1,901,540)</b>	<b>\$ 10,816,031</b>	<b>\$ (3,476,442)</b>
<b>Provision for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>				
<b>Net income (loss)</b>	<b>\$ (3,609,620)</b>	<b>\$ (2,997,847)</b>	<b>\$ 19,325,038</b>	<b>\$ (1,901,540)</b>	<b>\$ 10,816,031</b>	<b>\$ (3,476,442)</b>
<b>Net loss per share, basic</b>	<b>\$ (0.36)</b>	<b>\$ (0.29)</b>	<b>\$ 1.91</b>	<b>\$ (0.19)</b>	<b>\$ 1.07</b>	<b>\$ (0.34)</b>
<b>Net loss per share, basic and diluted</b>	<b>\$ (0.29)</b>	<b>\$ (0.30)</b>	<b>\$ 1.91</b>	<b>\$ (0.19)</b>	<b>\$ 1.01</b>	<b>\$ (0.34)</b>
<b>Weighted average shares outstanding, basic</b>	<b>10,037,905</b>	<b>10,213,618</b>	<b>10,112,804</b>	<b>10,112,804</b>	<b>10,119,283</b>	<b>10,112,804</b>
<b>Weighted average shares outstanding, basic and diluted</b>	<b>12,522,905</b>	<b>10,112,804</b>	<b>10,112,804</b>	<b>10,112,804</b>	<b>10,715,329</b>	<b>10,112,804</b>

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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.**