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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

C-Bond Systems, Inc.

Speculative Buy

John Nobile
May 21, 2021

CBNT $0.03 — (OTC)

	2019A	2020A	***2021E***	***2022E***
Revenues (thousand)	$603	$658	***$2,000***	***$4,000***
Earnings (loss) per share	$(0.08)	$(0.03)	***$(0.03)****	***$(0.02)***

52-Week range	$0.25 – $0.01	Fiscal year ends:	December
Common shares out as of 5/17/21	237.0 million	Revenue per share (TTM)	$0.00
Approximate float	134.7 million	Price/Sales (TTM)	NMF
Market capitalization	$7 million	Price/Sales (FY2022)E	1.5X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2022)E	NMF

** Excludes $2.9 million or $(0.01) per share of deemed dividends.*

C-Bond Systems, Inc., headquartered in Houston, Texas, is engaged in the implementation of proprietary nanotechnology applications and processes to enhance the strength, functionality and sustainability of brittle material systems. The company's primary focus is on the multi-billion-dollar glass and window film industry with target markets in the US and internationally.

Key investment considerations:

We are maintaining coverage of C-Bond Systems, Inc. with a Speculative Buy rating.

Some of the company's recent highlights include entering into an exclusive, nationwide distribution agreement with Quip Laboratories and a distribution agreement with Duraent Life Sciences, a distributor of critical-to-life products in India for use of MB-10 Tablets. C-Bond's MB-10 tablets received a usage designation from the EPA for transportation applications.

CBNT entered into a supply agreement with a large overseas conglomerate to sell NanoShield. The company also expanded its distribution network for NanoShield through a distribution agreement with a leading distributor of preventative maintenance chemicals and equipment to the professional installer channel in the automotive dealer and aftermarket segments.

In May 2021, C-Bond and Professor Andrew R. Barron filed a provisional patent for "Composition and Method for Glass Healing" to develop a Nano-liquid chemical solution that repairs chips and cracks in windshield glass.

For 2021, we project revenue to more than double to $2 million as sales of the company's NanoShield, BRS, and disinfection products continue to gain market acceptance. We project a loss of $(0.03) per share (excludes $(0.01) per share of deemed dividends) compared to a loss of $(0.03) per share in 2020.

For 2022, we project revenue doubling to $4 million driven primarily by strong NanoShield sales growth. We project the net loss narrowing to $(0.02) per share from our projected loss of $(0.03) per share (excludes $(0.01) per share of deemed dividends) in 2021.

C-Bond reported (5/17/21) 1Q21 revenues increased 155.2% to $156,000 from $61,000. C-Bond reported a loss of $(0.03) per share. We projected 1Q21 revenue of $175,000 and a loss of $(0.02) per share.

****Please view our disclosures on pages 15 - 17.***

Recommendation

We are maintaining coverage of C-Bond Systems, Inc. with a Speculative Buy rating.

Since the start of the COVID-19 pandemic in the US, C-Bond has taken meaningful steps to adapt to the changing business environment and grow its business. These steps have resulted in sales of the company's disinfection products contributing 38% to total sales in 2020. Despite the adverse effect of the pandemic, CBNT's sales of NanoShield increased over 80% in 2020 and prospects for future sales of the product look promising.

Some of the company's recent highlights include entering into an exclusive, nationwide distribution agreement with Quip Laboratories and a distribution agreement with Duraent Life Sciences, a distributor of critical-to-life products in India for use of MB-10 Tablets. C-Bond's MB-10 tablets received a usage designation from the EPA for transportation applications.

CBNT entered into a supply agreement with a large overseas conglomerate to sell its NanoShield product. The company also expanded its distribution network for NanoShield through a distribution agreement with a leading distributor of preventative maintenance chemicals and equipment to the professional installer channel in the automotive dealer and aftermarket segments.

The market potential for C-Bond's NanoShield product is significant with windshields being the number one vehicle insurance claim and the US having over 272 million registered vehicles.

The outlook for C-Bond's BRS system is promising given its ability to increase glass and flexural strength by up to 250%.

Since the company's launch of disinfection products, C-Bond's stock has traded as high of $0.18, but has since fallen to current levels. We believe the stock should appreciate in value with continued significant increases in quarterly sales.

Significant Developments

C-Bond Files US Provisional Patent for "Self-Healing Glass" for the Automotive Sector – On May 19, 2021, C-Bond announced that the company and Professor Andrew R. Barron filed a provisional patent with the US Patent and Trademark Office for "Composition and Method for Glass Healing" to develop a Nano-liquid chemical solution that repairs visible chips and cracks in windshield glass after being exposed to a heat source.

C-Bond and Professor Andrew R. Barron, the founder of the Energy Safety Institute at Swansea University in the United Kingdom, are in the process of developing a new liquid that can be applied to a windshield that flows into cracks at the Nano-scale and provides an active bond after exposure to a specified heat source, thus reforming the glass rather than filling it with a resin, which is how windshields are currently repaired.

Business

C-Bond Systems, Inc., headquartered in Houston, Texas, is engaged in the implementation of proprietary nanotechnology applications and processes to enhance the strength, functionality and sustainability of brittle material systems. The company's primary focus is on the multi-billion-dollar glass and window film industry with target markets in the US and internationally.

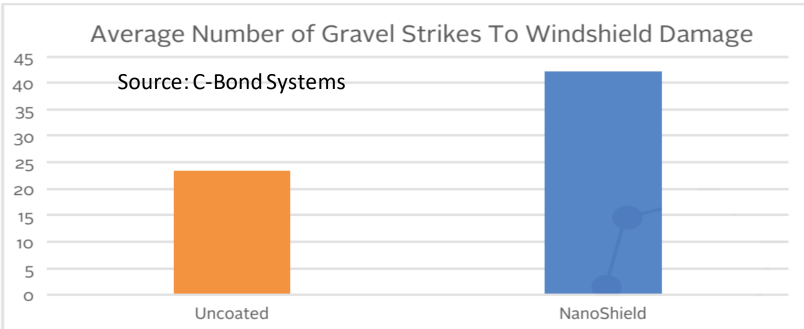
The company operates in two divisions: C-Bond Transportation Solutions, which sells a windshield strengthening water repellant solution as well as a disinfection product, and C-Bond Safety Solutions, which sells multi-purpose glass strengthening primer and window film mounting solutions, ballistic resistant film systems and disinfection products. As a result of the COVID-19 pandemic, the company created partnerships to distribute disinfection related products which it began to sell in 2Q20.

The company's nanotechnology product, C-Bond™, is designed to significantly increase the strength of glass, enhance glass flexibility, and improve its structural integrity. Although the product is scalable across various target segments and industry verticals, the company is focused on automotive glass, including windshields, and architectural glass. Other glass segments such as electronics, including display glass, and glass packaging, including bottles, may be targeted in the future.

The company's C-Bond technology enables ordinary glass to dissipate energy by permeating the glass surface and detecting microscopic flaws and defects that are randomly distributed over the glass surface. C-Bond works by locating and repairing surface imperfections that weaken the glass composite structure. C-Bond is engineered to maintain the original glass design integrity while increasing its mechanical performance.

C-Bond Transportation Solutions

C-Bond NanoShield™ - is a patented nanotechnology vehicle windshield glass strengthening and hydrophobic (water repellent) system. NanoShield is a spray on, squeegee off solution that is designed to improve windshield safety and performance by increasing windshield chip and crack resistance and improving windshield visibility in wet weather conditions providing extended driver reaction time. Certified test labs have shown NanoShield to decrease windshield damage from chips and cracks by up to 80% (see chart above). A pilot study with a global car rental firm across several thousand vehicles showed an 84% reduction in glass costs. C-Bond intends to create new markets and channels in the automotive windshield aftermarket segment, including fleets, automotive dealers, and service providers.



80% Improvement in Chip and Crack Resistance

The company also markets a suite of products that protect, clean and disinfect both the interior and exterior of vehicles and other forms of transportation including aircraft and trains. C-Bond's MB-10 tablets offer a safe, easy and effective way to disinfect a vehicle's interior using an EPA registered disinfectant for use against human coronavirus SARS-CoV-2.

C-Bond Safety Solutions

C-Bond BRS – is a patented nanotechnology that increases the structural integrity of glass and provides ballistic resistant protection that conforms to third-party laboratory standards such as the National Institute of Justice (research, development and evaluation agency of the US Department of Justice) Level I, Level II, and Level IIA, and Underwriter Laboratories (UL) 752 ballistic standards. The C-Bond BRS system includes a proprietary security film product and C-Bond's carbon nanotube technology film mounting solution. Carbon nanotubes are the strongest material on the planet, 100 times stronger than steel, and 10,000 times smaller than the diameter of one human hair.

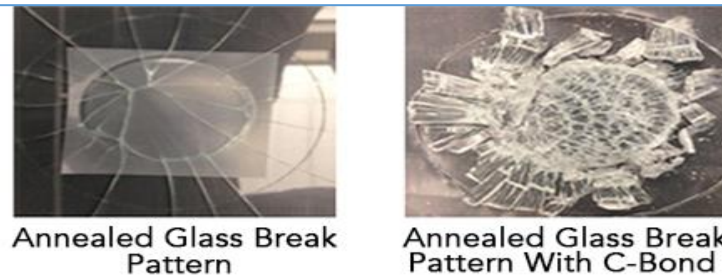
The C-Bond BRS system increases glass and flexural strength by up to 250%. The product is targeted to police, fire, emergency services, schools, airports, and mass transit government buildings due to the utility of ballistic resistant glass protection in their respective fields. The C-Bond BRS system seeks to combine simplicity and affordability with a one-way capability (the ability to shoot-out but prevent shooting in) ballistic protection as compared to other costlier ballistic resistant material (polycarbonate and glass laminate) products.

The company also markets FN Nano, a photocatalytic coating that reduces the spread of pathogens in public and healthcare facilities.

C-Bond Secure (formerly known as C-Bond I) – is a patented, non-toxic, water-based nanotechnology solution designed to significantly increase the strength of glass and improve the performance properties of window film-to-glass products. C-Bond Secure includes a glass strengthening primer and window film mounting solution. The product is designed to improve the performance of window film-to-glass products by reducing glass breakage from impact and stress environments and fill voids on the glass surface preventing the trapping of moisture and impurities that impede cure time and adhesion between the glass and any succeeding window film product.

C-Bond Secure, which is formulated to provide an enhanced slip agent and reduced fogging to its core glass strengthening product, is intended to replace C-Bond I as the industry standard for the installation of window film.

The glass strengthening primer increases glass strength and flexibility by up to 100% while the window film mounting solution increases film-to-glass adhesion by up to 100% and reduces film-to-glass cure time by up to 75%. This nanotechnology improves the chances that no large shards/pieces will escape the immediate area of broken glass which can result in serious laceration or personal injury (see picture at right).



Source: C-Bond Systems

C-Bond Systems, Inc. has an 8,300+ square foot manufacturing facility located in Houston, Texas, that is dedicated to the commercialization and development of its products. The company primarily relies on Madico, Inc., for its window film product, and Gelest, Inc., for its chemical products.

Intellectual Property

C-Bond's intellectual property (IP) portfolio is what drew the company's current CEO, Scott Silverman, to the company approximately two years ago. An October 2019 assessment of C-Bond's IP portfolio by an independent IP valuation firm placed a $33.7 million value on C-Bond's nanotechnologies and included an assessment of the company's developed technology for future applications including solar panels, bottling, and consumer electronics.

To date, the company has filed, licensed and/or acquired a total of 23 individual patents and patent applications spanning core and strategic nanotechnology applications and processes. C-Bond intends to continue to expand its patent portfolio.

The company owns five provisional US patents and licenses, five US patents, and 12 foreign patents on a non-exclusive basis from William Marsh Rice University (Rice University). Pursuant to an agreement in 2016 between C-Bond and Rice University, Rice University has granted a non-exclusive license to C-Bond in nanotube-based surface treatment for strengthening glass and related materials under Rice's intellectual property rights, to use, make, distribute, offer and sell the licensed products specified in the agreement. In consideration, the company paid a one-time non-refundable license fee of $10,000 and royalty payments of 5% of net sales of the licensed products during the term of the agreement.

Industry Overview

C-Bond operates in the glass and window film industries. The overall glass product manufacturing industry in the US was expected to have generated sales of approximately $25.7 billion in 2020 and is projected to grow to approximately $28.4 billion by 2025 according to IBISWorld. The largest portion of sales in this market comes from the construction industry (IBISWorld estimates 31.1% of industry sales). The automotive assembly and auto replacement market generates an estimated 4.3% of demand for glass and glass products in the US, principally for windshields, lights, and mirrors. Assuming this percentage of overall sales remains constant, the construction industry should generate approximately $8.8 billion in glass sales by 2025 and the automotive glass market in the US should generate approximately $1.2 billion.

In 2019, the global window film market was valued at $9.8 billion and is projected to reach $14.2 billion by 2027, growing at a compound annual growth rate (CAGR) of 4.8% from 2020 to 2027 according to the research firm Grandview Research. Increasing demand for films in residential and commercial applications is expected to spur market growth over the forecast period. Grandview Research observed that the aerospace industry utilizes window film to enhance the strength and rigidity of windows. Safety and security films (like C-Bond BRS) are increasingly gaining importance because of their ability to protect windows in case of unexpected natural calamities, break-ins, and vandalism while maintaining the external appearance. Data Bridge Market Research projects a bullet resistant glass market of $19.8 billion by 2027 for a CAGR of 16.1%.

End Markets

The company is targeting the large automotive windshield market with its NanoShield product. The global automotive glass market generated sales of approximately $9.2 billion in 2019 and is projected to grow at a CAGR of approximately 8.4% to $11.4 billion by 2026 according to the research and consulting firm Global Market Insights.

Vehicle windshields are the number one insurance claim in the US representing 30% of all automotive claims. There are over 272 million registered vehicles in the US making the market potential for C-Bond's NanoShield product significant.

Helping to drive the use of windshield strengthening products should be the added time and expense required to replace some of the high-tech windshields being produced today. Advanced driver assistance systems (ADAS) offer features such as lane-keeping assistance, automatic emergency braking, and collision avoidance which are integrated into windshields.

According to an article in The New York Times,[1] ADAS windshields can cost more than $1,600 and take several hours to replace. A windshield without ADAS features can typically be replaced in about one hour at a cost of approximately $300. The economic viability of C-Bond's NanoShield product is illustrated in the chart at right.

Solution	C-Bond Systems	Replacement Windshield Market	OEM Windshield Market
Technology Solution	C-Bond	After Market Windshield	New Windshield
Application	Spray and wipe; aftermarket or OEM	Remove & Install	Design Manufacturing
Cost	$5.00 - $40 (individual applications)	$300-$1600	$500-$1200
Added Strength Improvement	Reduces repair/replacement as much as 80%	None	None
Optical Improvement	Improves Visibility	None	None
Longevity	12 months	Lifetime	Lifetime

Source: Company Presentation, October 2019

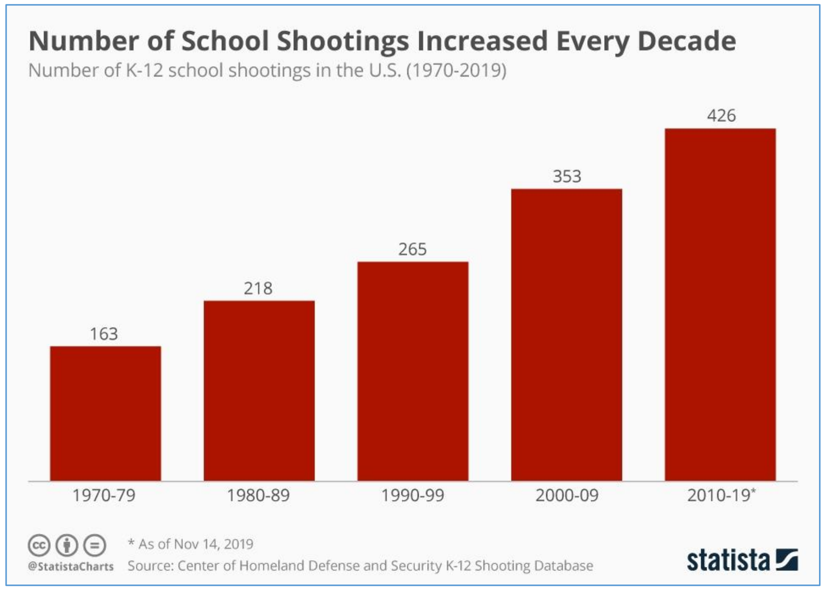
The New York Times article reported that approximately 10% of windshield repairs at the auto glass replacement company Safelite, were for windshields with ADAS and that percentage should go up in the future given that all the top automakers have voluntarily committed to making automatic emergency braking systems standard equipment in all vehicles by 2022.

C-Bond is targeting applications for its BRS product to the police, fire, and emergency service organizations, and schools, airports, and mass transit government buildings due to the need for ballistic resistant glass protection in these respective fields.

1. Quain, John R. (February 7, 2019). "When the Windshield Helps Drive the Car, a Repair Isn't So Simple". The New York Times

Of particular importance is the need for greater safety in the public and private school systems. There are almost 100,000 public schools and 35,000 private schools in the US according to the US Department of Education.

While the number of school shootings fluctuates every year, Statista cited numbers by the Center of Homeland Defense and Security by decade showing a clear upward trend (see chart at right). In the 1970s, 163 shootings were counted. That number had increased to more than 400 over the past decade.



Competition / Competitive Advantages

The company believes it faces no direct competition in the windshield glass strengthening space. C-Bond's NanoShield faces competitors in the hydrophobic or water repellent space including Rain-X, AquaPel, and Diamond Fusion. The company believes these products do not provide chip or crack resistance and have hydrophobic properties that degrade sooner than C-Bond's NanoShield.

C-Bond BRS faces competition from alternative bullet proof or bullet resistant glass products in the market. Alternative bullet proof solutions use materials that are expensive, thick and heavy, often require reframing and retrofit of the existing structure, and yellow and discolor over time. The company claims its C-Bond BRS system allows for increased safety and security at affordable costs.

C-Bond I and its replacement C-Bond Secure face competition from alternative window film mounting products in the market; however, all these products have ingredients similar to a soap and water mix which provides no structural benefit. The industry standard solution most commonly used to apply window film products to glass is a mixture containing commonly available baby shampoo or dishwashing soap and water. C-Bond I offers the same slip properties while also strengthening the glass and improving film adhesion.

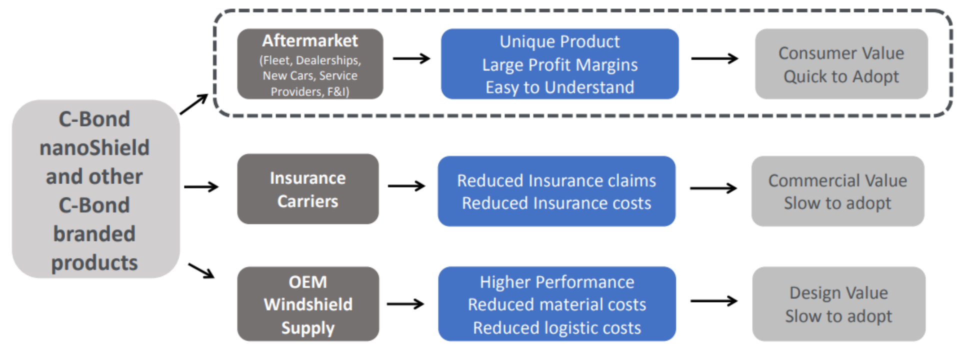
Commercial Market Strategy

The company aims to provide its product offerings on a global basis at a lower cost and be adaptive to changing market conditions.

C-Bond utilizes a distributor model to reach potential customers. C-Bond's 56 distributors sell the company's products in the US and internationally in Brazil, Columbia, the United Kingdom, the Netherlands, Australia, Canada, and the UAE. The company's industry partners help in generating growth, supporting commercialization activities, providing more developed business networks, and access to supply and demand channels, as well as supplementing CBNT's limited financial resources.

The company's initial focus is on the transportation glass industry with its NanoShield product. C-Bond launched its NanoShield product in January 2018 through distributors, warranty companies and F&I (finance and insurance) companies. A pilot study with a global car rental firm across several thousand vehicles showed an 84% reduction in glass costs.

The commercialization process the company is taking for its NanoShield and other C-Bond branded products is illustrated in the diagram on the right.



Source: Company Presentation (January 2021)

The company's C-Bond BRS product is targeted to police, fire, emergency services, schools, corporate security, airports, mass transit and government buildings while its C-Bond I or C-Bond Secure product is usable with any window film manufacturer's product. Future markets for these products are anticipated through international expansion (Australia, EU Middle East, and Mexico), packaging and bottling, solar, greenhouses, electronics and displays, and the light-weighting of glass for vehicles.

Economic Outlook

In April 2021, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 6% for 2021 and 4.4% for 2022. In January 2021, the IMF predicted GDP growth of 5.5% for 2021 and 4.2% for 2022. The 2021 upward revision primarily reflects additional fiscal policy support in a few large economies and an anticipated vaccine-powered recovery in 2H21.

The IMF revised its economic growth estimate for the US to an increase of 6.4% for 2021 and 3.5% for 2022. In January 2021, the IMF projected US economic growth of 5.1% for 2021 and 2.5% for 2022.

The advance estimate of US GDP growth (released on April 29, 2021) showed the US economy increased at an annual rate of 6.4% in 1Q21, up from the 4.3% increase reported in 4Q20. The 1Q21 US GDP estimate primarily reflects increases in consumer spending, business investment, government spending and housing investment, partially offset by decreases in inventory investment and exports.

Projections

2021 Forecast - We project revenue to more than double to $2 million as sales of the company's NanoShield, BRS and disinfection products continue to gain market acceptance. We project a net loss of $7.7 million or $(0.03) per share (excludes $2.9 million or $(0.01) per share of deemed dividends) compared to a loss of $4.4 million or $(0.03) per share in 2020. While our revenue projection is unchanged, our net loss projection widened to $7.7 million or $(0.04) per share from our previous forecast of $6.8 million or $(0.03) per share due primarily to higher compensation costs.

We project gross margins of 72.9% compared to 63.2% in 2020. Compensation and related benefits should increase to $7.6 million from $3.7 million. R&D, professional fees, and general and administrative expenses should increase to $31,000, $675,000, and $794,000, respectively, as the company grows it business.

We project an operating loss of $7.6 million and the company paying no taxes due to its net operating loss carryforwards (approximately $6.4 million at December 31, 2020).

In 2021, we project $899,000 cash used in operations from a cash loss of $1.3 million and a $408,000 decrease in working capital. Cash used in operations should be offset by proceeds from the sale of common and preferred stock and an increase in debt. We project cash of $324,000 at the end of 2021.

2022 Forecast - We project revenue doubling to $4 million driven primarily by strong NanoShield sales growth. We project the net loss narrowing to $3.9 million or $(0.02) per share from our projected loss of $7.7 million or $(0.03) per share (excludes $2.9 million or $(0.01) per share of deemed dividends) in 2021. While our revenue projection is unchanged, our net loss projection widened to $3.9 million or $(0.02) per share from our previous forecast of $2.9 million or $(0.01) per share due primarily to higher compensation costs.

We project gross margins expanding to 76.9% from an estimated 72.9% in 2021. Compensation and related benefits should decrease to $5 million from $7.6 million. We project R&D, professional fees, and general and administrative expenses of $80,000, $800,000, and $1.1 million, respectively, to support sales growth.

We project an operating loss of $3.9 million and the company paying no taxes due to its net operating loss carryforwards.

In 2022, we project $497,000 cash provided by operations from a $580,000 decrease in working capital, partly offset by a cash loss of $84,000. We anticipate cash of $321,000 at the end of 2022.

1Q21 Financial Results

Total revenues increased 155.9% to $156,000 from $61,000. C-Bond reported a net loss of $7.7 million or $(0.03) per share versus a net loss of $1.5 million or $(0.01) per share. Results for 1Q21 included $2.9 million or $(0.01) per share of preferred stock and deemed dividends. Excluding this item, the 1Q21 net loss would have been $4.9 million or $(0.02) per share. We projected 1Q21 revenue of $175,000 and a net loss of $7.2 million or $(0.02) per share.

The increase in revenue was primarily attributable to an increase in NanoShield sales of $47,000, and an increase in sales of ballistic resistant glass protection systems, and Secure window film application solutions of $41,000 as a result of the gradual reopening of economies from COVID-19 restrictions.

Gross profit increased 174.1% to $124,000 from $45,000 while gross margins increased to 79.8% from 73.8%.

Compensation and related benefits increased to $4.6 million from $689,000 due primarily to increased stock-based compensation. Research and development expenses decreased to $1,000 from $2,000. Professional fees increased to $225,000 from $137,000 due primarily to an increase in legal fees, consulting fees, and investor relations fees. General and administrative fees increased to $169,000 from $105,000 due primarily to increased bad debt expense and increased travel, advertising and marketing expenses. The increase in revenue was more than offset by higher operational expenses resulting in an operating loss of $4.9 million versus $888,000 in 1Q20.

Interest expense decreased to $18,000 from $241,000 due to a decrease in the amortization of debt discount and a decrease in interest bearing debt.

Liquidity – As of March 31, 2021, C-Bond had $161,000 cash, a current ratio of 0.2X, and $556,000 of total debt ($547,000 short-term).

In 1Q21, the company had a cash loss of $834,000 and a $421,000 decrease in working capital that resulted in $413,000 cash used in operations. The decrease in working capital was primary the result of an increase in accrued compensation. Partly offsetting cash used in operations was $250,000 cash provided by financing activities (from preferred stock proceeds). Cash decreased by $163,000 to $161,000 as of March 31, 2021.

On November 14, 2018, the company entered into a Revolving Credit Facility Loan and Security Agreement and a Secured Promissory Note with BOCO Investments, LLC. Subject to and in accordance with the terms and conditions of the loan agreement and the note, the lender agreed to lend to C-Bond $400,000 (the maximum loan amount). C-Bond should have repaid all principal, interest and other amounts outstanding on or before November 14, 2020. The outstanding principal advanced to company pursuant to the loan agreement bears interest at the rate of 12% per annum.

As of December 31, 2020 and 2019, the company did not meet the minimum asset amount covenant as defined in the loan agreement, failed to timely pay interest payments due, and has violated other default provisions. Accordingly, the note balance due of $400,000 has been reflected as a current liability on the balance sheet.

In April 2020, the company entered into a Paycheck Protection Program Promissory Note (PPP note) with respect to a loan of $156,000. The PPP loan matures on April 28, 2022 and bears interest at a rate of 1% per annum. The PPP Loan is payable in 18 equal monthly payments of approximately $9,000 commencing November 1, 2020 and may be prepaid at any time prior to maturity with no prepayment penalties. The company may apply to have the loan forgiven pursuant to the terms of the PPP note if certain criteria are met.

As of March 31, 2021, the company's Series A preferred stock was fully redeemed, the Series B preferred stock had a balance of $728,000, and the Series C preferred stock had a balance of $1.6 million.

Subsequent to March 31, 2021, CBNT issued 2.5 million shares of its common stock for investor relations services.

In May 2021, CBNT entered into a loan agreement and a secured promissory note in the amount of $500,000 with a lender, who is a beneficial owner of the company. The note shall accrue interest at 8% per annum and all outstanding principal and accrued interest is due and payable May 10, 2023. The loan agreement and note are secured by a second priority security interest in substantially all of the company's assets.

Risks

In our view, these are the principal risks underlying the stock.

Going concern – As of March 31, 2021, C-Bond had a net loss of $4.9 million in 1Q21, an accumulated deficit, shareholders' deficit, and working capital deficit of $53.7 million, $4 million and $1.7 million, respectively. These factors raise substantial doubt about the company's ability to continue as a going concern.

There can be no assurance that the company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. C-Bond is seeking to raise capital through additional debt and/or equity financings to fund its operations in the future. If the company is unable to raise additional capital or secure additional lending in the near future, management expects that it will need to curtail operations.

Global pandemic - A potential disruption of US economic conditions lies in the global spread of COVID-19 that is likely to cause supply chain and demand issues that could adversely impact corporate operating results.

The company has seen a material decrease in sales from its international customers as a result of the COVID-19 pandemic. As a result, the company's international customers have delayed orders and payments of balances due.

Product obsolescence – C-Bond's ability or failure to develop new products based on innovation can affect its competitive position and requires significant investments in time and resources. If the company is unable to create sustainable product differentiation, its growth may be adversely affected.

Heavy reliance on a limited number of significant customers - For the year ended December 31, 2020, three customers accounted for approximately 49.4% of total sales (18.1%, 15.6%, and 15.7%, respectively). A reduction in sales from, or the loss of such customers, would have a material adverse effect on the company's consolidated results of operations and financial condition.

Heavy reliance on collaborative partners – The company relies heavily on collaborative partners such as distributors, manufacturers, and vendors which allows it greater access to funds, research, development and testing resources, and manufacturing, sales and distribution resources. Some of the risks and uncertainties related to the reliance on such collaborations and joint ventures could restrict or limit the company's business operations.

The company's partners may terminate a collaborative technology relationship and such termination may require C-Bond to seek other partners or expend substantial resources to pursue these activities independently.

Competition – C-Bond faces competition from companies that have substantially greater capital resources, research and development, manufacturing and marketing resources. While the company believes it has significant competitive benefits offered by its proprietary products, there are competitors that have much longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources. Such competition could materially adversely affect the company's business, operating results or financial condition.

Material weaknesses in internal controls – The company has identified material weaknesses in its internal control over financial reporting.

As of March 31, 2021, C-Bond had a lack of multiple levels of management review on complex business, accounting and financial issues, a lack of adequate segregation of duties, a lack of review on the recording of revenue transactions and accounts receivable collectability, and a lack of management review of employee expense reports. While management has undertaken steps to address and remediate the material weaknesses, there can be no assurance that it will be able to successfully remediate the identified material weaknesses.

Liquidity risk - Shares of C-Bond Systems have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 134.7 million shares in the float and the average daily volume is approximately 936,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	2018A	2019A	2020A	3/21A	**2021E**	**2022E**
Cash	129	77	323	161	**324**	**321**
Receivables	91	152	80	67	**110**	**167**
Inventory	9	15	77	77	**90**	**154**
Due from related party	-	-	5	12	**12**	**12**
Prepaid expenses and other	31	19	51	76	**76**	**76**
Total current assets	260	263	536	393	**612**	**730**
Property, plant and equipment, net	57	32	19	16	**10**	**10**
Right of use asset, net	-	70	22	9	**9**	**9**
Security deposit	9	7	7	7	**7**	**7**
Total assets	**326**	**372**	**584**	**425**	**638**	**756**
Notes payable-related party	400	400	-	-	**-**	**-**
Convertible notes payable	-	136	-	-	**-**	**-**
Note payable	-	-	521	548	**198**	**108**
Accounts payable	507	747	795	922	**970**	**1,539**
Accrued expenses	46	127	187	204	**257**	**400**
Derivative liability	-	890	-	-	**-**	**-**
Lease liability	-	47	22	9	**9**	**9**
Accrued compensation	188	352	426	392	**392**	**392**
Total current liabilities	1,142	2,699	1,951	2,075	**1,826**	**2,448**
Note payable	-	-	35	9	**509**	**99**
Lease liability	-	22	-	-	**-**	**-**
Mandatorily redeemable convertible pfd stock	-	160	-	-	**-**	**-**
Convertible note payable	-	-	-	-	**-**	**-**
Total liabilities	**1,142**	**2,881**	**1,986**	**2,084**	**2,335**	**2,547**
Series B conv prf stock	**-**	**108**	**429**	**728**	**728**	**728**
Series C conv prf stock	**-**	**-**	**1,336**	**1,593**	**1,593**	**1,593**
Total stockholders' equity (deficit)	**(815)**	**(2,617)**	**(3,167)**	**(3,980)**	**(4,018)**	**(4,112)**
Total liabilities & stockholders' equity	**326**	**372**	**584**	**425**	**638**	**756**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	2018A	2019A	2020A	**2021E**	**2022E**
Sales	382	603	658	**1,981**	**4,000**
Cost of sales	83	122	242	**537**	**924**
Gross profit	299	481	416	**1,444**	**3,077**
Compensation and related benefits	7,824	5,360	3,741	**7,575**	**5,000**
Research and development	258	31	17	**31**	**80**
Professional fees	1,007	986	547	**675**	**800**
General and administrative	479	462	588	**794**	**1,100**
Operating income (loss)	(9,268)	(6,358)	(4,477)	**(7,631)**	**(3,904)**
Gain (loss) on extinguishment of debt	(383)	31	878	**-**	**-**
Other income	-	-	7	**-**	**-**
Derivative income (expense)	-	(570)	(91)	**-**	**-**
Settlement expense	(200)	-	-	**-**	**-**
Interest expense	(53)	(343)	(751)	**(70)**	**(40)**
Income before taxes	(9,905)	(7,240)	(4,434)	**(7,701)**	**(3,944)**
Income tax (benefit)	-	-	-	**-**	**-**
Net income (loss)	(9,905)	(7,240)	(4,434)	**(7,701)**	**(3,944)**
Preferred stock dividend	-	-	(1,534)	**(2,856)**	**-**
Net income (loss) to common	(9,905)	(7,240)	(5,968)	**(10,557)**	**(3,944)**
EPS	(0.14)	(0.08)	(0.03)	**(0.04)**	**(0.02)**
Shares Outstanding	68,521	94,236	172,978	**238,477**	**257,000**
Margin Analysis					
Gross margin	78.2%	79.7%	63.2%	**72.9%**	**76.9%**
Compensation and related benefits	2050.3%	888.7%	568.5%	**382.5%**	**125.0%**
Research and development	67.6%	5.1%	2.6%	**1.6%**	**2.0%**
Professional fees	263.8%	163.5%	83.1%	**34.1%**	**20.0%**
General and administrative	125.4%	76.6%	89.4%	**40.1%**	**27.5%**
Operating margin	(2428.9)%	(1054.1)%	(680.4)%	**(385.3)%**	**(97.6)%**
Year / Year Growth					
Sales	(5.9)%	58.1%	9.1%	**201.0%**	**102.0%**

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2020A - 2022E
(in thousands $)

	3/20A	6/20A	9/20A	12/20A	2020A	3/21A	6/21E	9/21E	12/21E	2021E	3/22E	6/22E	9/22E	12/22E	2022E
Sales	61	43	253	301	658	156	375	650	800	1,981	550	850	1,150	1,450	4,000
Cost of sales	16	25	66	135	242	31	124	182	200	537	165	204	265	290	924
Gross profit	45	18	187	166	416	124	251	468	600	1,444	385	646	886	1,160	3,077
Compensation and related benefits	689	917	629	1,506	3,741	4,575	1,000	1,000	1,000	7,575	1,250	1,250	1,250	1,250	5,000
Research and development	2	2	10	3	17	1	10	10	10	31	20	20	20	20	80
Professional fees	137	151	117	142	547	225	150	150	150	675	200	200	200	200	800
General and administrative	105	77	97	309	588	169	175	225	225	794	250	250	300	300	1,100
Operating income (loss)	(888)	(1,129)	(665)	(1,794)	(4,477)	(4,846)	(1,084)	(917)	(785)	(7,631)	(1,335)	(1,074)	(885)	(610)	(3,904)
Gain (loss) on extinguishment of debt	-	110	767	1	878	-	-	-	-	-	-	-	-	-	-
Other income	-	8	-	(1)	7	-	-	-	-	-	-	-	-	-	-
Derivative income (expense)	(379)	(365)	653	-	(91)	-	-	-	-	-	-	-	-	-	-
Settlement expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(241)	(216)	(275)	(19)	(751)	(18)	(25)	(17)	(10)	(70)	(10)	(10)	(10)	(10)	(40)
Income before taxes	(1,508)	(1,592)	480	(1,813)	(4,434)	(4,864)	(1,109)	(934)	(795)	(7,701)	(1,345)	(1,084)	(895)	(620)	(3,944)
Income tax (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(1,508)	(1,592)	480	(1,813)	(4,434)	(4,864)	(1,109)	(934)	(795)	(7,701)	(1,345)	(1,084)	(895)	(620)	(3,944)
Preferred stock dividend	-	-	(3)	(1,531)	(1,534)	(2,856)	-	-	-	(2,856)	-	-	-	-	-
Net income (loss) to common	(1,508)	(1,592)	477	(3,344)	(5,968)	(7,720)	(1,109)	(934)	(795)	(10,557)	(1,345)	(1,084)	(895)	(620)	(3,944)
EPS	(0.01)	(0.01)	0.00	(0.01)	(0.03)	(0.03)	(0.00)	(0.00)	(0.00)	(0.04)	(0.01)	(0.00)	(0.00)	(0.00)	(0.02)
Shares Outstanding	117,855	143,010	201,625	229,420	172,978	230,906	234,000	240,000	249,000	238,477	257,000	257,000	257,000	257,000	257,000
Margin Analysis															
Gross margin	73.8%	41.9%	73.9%	55.1%	63.2%	79.8%	67.0%	72.0%	75.0%	72.9%	70.0%	76.0%	77.0%	80.0%	76.9%
Compensation and related benefits	1129.5%	2132.6%	248.6%	500.3%	568.5%	2939.3%	266.7%	153.8%	125.0%	382.5%	227.3%	147.1%	108.7%	86.2%	125.0%
Research and development	3.3%	4.7%	4.0%	1.0%	2.6%	0.6%	2.7%	1.5%	1.3%	1.6%	3.6%	2.4%	1.7%	1.4%	2.0%
Professional fees	224.6%	351.2%	46.2%	47.2%	83.1%	144.6%	40.0%	23.1%	18.8%	34.1%	36.4%	23.5%	17.4%	13.8%	20.0%
General and administrative	172.1%	179.1%	38.3%	102.7%	89.4%	108.6%	46.7%	34.6%	28.1%	40.1%	45.5%	29.4%	26.1%	20.7%	27.5%
Operating margin	(1455.7)%	(2625.6)%	(262.8)%	(596.0)%	(680.4)%	(3113.2)%	(289.0)%	(141.1)%	(98.1)%	(385.3)%	(242.7)%	(126.4)%	(76.9)%	(42.1)%	(97.6)%
Year / Year Growth															
Sales	(30.0)%	(72.7)%	47.6%	61.0%	9.1%	155.2%	772.1%	156.9%	165.8%	201.0%	253.4%	126.7%	76.9%	81.3%	102.0%

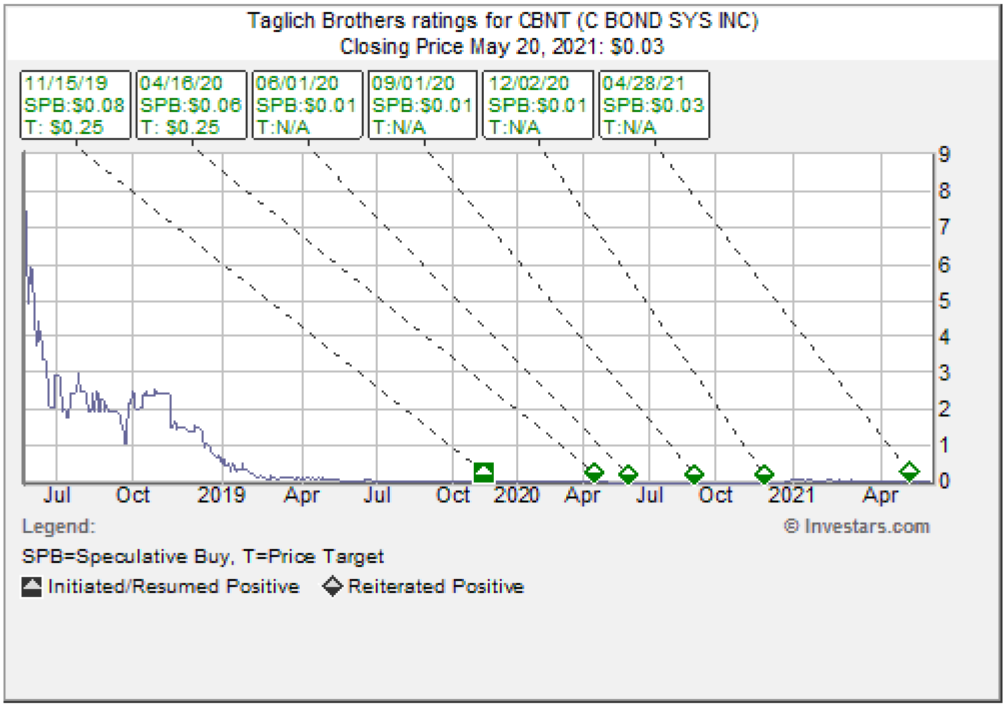
Source: Company filings and Taglich Brothers' estimates

Statement of Cash Flows for the Periods Ended
(in thousands $)

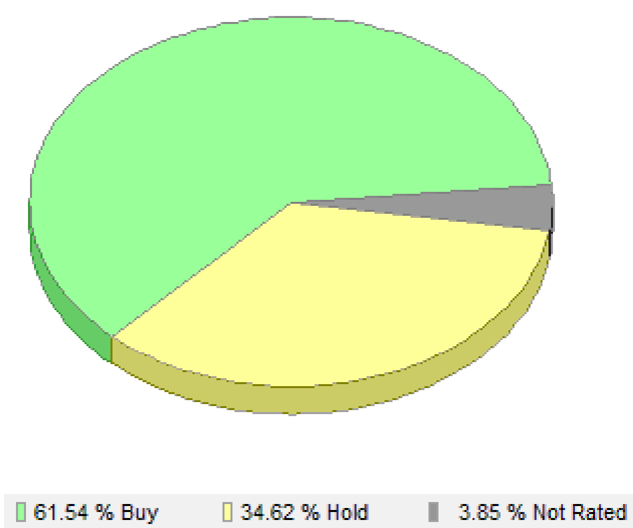
	2018A	2019A	2020A	3M21A	**2021E**	**2022E**
Net income (loss)	(9,905)	(7,241)	(4,434)	(4,864)	**(7,701)**	**(3,944)**
Depreciation	34	25	14	3	**10**	**10**
Bad debt expense	(1)	1	202	35	**35**	**-**
Amortization of debt discount	41	161	424	-	**-**	**-**
Accretion of preferred shares	-	-	52	-	**-**	**-**
Stock-based compensation	6,735	3,859	2,108	3,902	**6,000**	**3,500**
Stock-based professional fees	119	355	133	90	**350**	**350**
Settlement expense	200	-	-	-	**-**	**-**
(Gain) loss on debt extinguishment	380	(31)	(878)	-	**-**	**-**
Derivative expense	-	570	91	-	**-**	**-**
Non-cash fees upon conversion	-	-	3	-	**-**	**-**
Lease costs	-	-	1	-	**-**	**-**
Interest expense related to put premium on conv. debt	-	89	47	-	**-**	**-**
Cash earnings (loss)	(2,397)	(2,212)	(2,237)	(834)	**(1,306)**	**(84)**
Changes in assets and liabilities						
Receivables	(56)	(62)	(130)	(22)	**(30)**	**(57)**
Inventory	2	(6)	(62)	-	**(13)**	**(64)**
Prepaid expenses and other	(11)	2	(1)	4	**4**	**-**
Due from related party	-	-	(5)	(7)	**-**	**-**
Accounts payable	382	240	139	127	**175**	**308**
Accrued expenses	23	89	96	17	**70**	**143**
Accrued compensation	90	635	417	302	**201**	**251**
(Increase) decrease in working capital	429	898	454	421	**408**	**580**
Net cash provided by (used in) operations	**(1,968)**	**(1,314)**	**(1,783)**	**(413)**	**(899)**	**497**
Cash acquired in recapitalization	187	-	-	-	**-**	**-**
Net cash provided by (used in) investing	**187**	**-**	**-**	**-**	**-**	**-**
Proceeds from sale of stock	1,268	780	821	-	**500**	**-**
Proceeds from sale of pfd stock	-	127	1,450	250	**250**	**-**
Redemption of pfd stock	-	-	(105)	-	**-**	**-**
Proceeds from exercise of stock options	195	19	-	-	**-**	**-**
Proceeds from notes payable	400	25	156	-	**500**	**-**
Repayment of notes payable	-	(25)	-	-	**-**	**-**
Repayment of convertible note payable	(260)	(238)	(393)	-	**(350)**	**(500)**
Proceeds from convertible note payable	260	574	100	-	**-**	**-**
Net cash provided by (used in) financing	**1,863**	**1,262**	**2,029**	**250**	**900**	**(500)**
Net change in cash	**82**	**(51)**	**246**	**(162)**	**1**	**(3)**
Cash - beginning of period	**46**	**128**	**77**	**323**	**323**	**324**
Cash - end of period	**128**	**77**	**323**	**161**	**324**	**321**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	**3**	**16**
Hold		
Sell		
Not Rated		

Important Disclosures

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.