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Initial Research Report

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

Creative Realities, Inc.

Rating: Speculative Buy

Howard Halpern

CREX $0.60 — (NASDAQ)

August 2, 2022

	2020 A	2021 A	*2022 E*	*2023 E*
Total Revenues (in millions)	$17.5	$18.4	***$43.4***	***$50.7***
Earnings (loss) per share	($1.65)*	$0.02**	***($0.05)****	***($0.02)***

52-Week range	$3.59 – $0.55	Fiscal year ends:	December
Shares outstanding a/o 05/16/22	21.7 million	Revenue/shares (ttm)	$1.92
Approximate float	15.9 million	Price/Sales (ttm)	0.3X
Market Capitalization	$13.0 million	Price/Sales (2023) E	0.3X
Tangible Book value/shr	($1.08)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2023) E	NMF

**Includes goodwill impairment charge of approximately ($1.04) per share **Includes an estimated net gain of $0.26 per share for certain items ***Includes an estimated net gain of $0.18 per share for certain items*

Creative Realities, Inc., headquartered in Louisville, KY, provides a complete suite of digital solutions that enhance communications within the digital signage market. The company deploys the hardware, designs and manages the content on its digital signage platforms, as well as providing media advertising services through the 1Q22 acquisition of Reflect Systems. CREX offerings are deployed to customers in the following markets, automotive, advertising networks, apparel & accessories, convenience stores, food and quick service restaurants, gaming, theater, and stadium venues. The company's recurring SaaS revenue is generated from subscription licensing of its content management software offerings that include its Reflect Systems media technology platform.

Key Investment Considerations:

Initiating Creative Realities, Inc. with a Speculative Buy rating and 12-month price target of $1.50 per share.

Creative Realities has substantial growth potential for its end-to-end digital signage technology offerings in the US and international markets. Analysts project the global digital signage market growing 9.5% annually to approximately $28.3 billion in 2026, up from an estimated $19.7 billion in 2021. In the US, the market is expected to grow 7.9% annually to $10.6 billion in 2027, up from $6.7 billion in 2021.

We anticipate the February 2022 acquisition of Reflect System should support the company's efforts to leverage its customer base through the addition of a technology suite of media advertising offerings that position CREX as a provider of complete end-to-end solution within the digital signage market.

For 2022, we project a net loss of $998,000 or ($0.05) per share on revenue growth of 135.2% to $43.4 million due primarily to the February 2022 acquisition of Reflect Systems, Inc., which should drive annualized recurring revenue to at least $15 million by 4Q22. Our forecast includes a gain of approximately $3.9 million or $0.26 per share for certain fair value changes, net of acquisition related transaction costs recorded in 1Q22.

For 2023, we project a net loss $415,000 or ($0.02) per share on revenue growth of 16.8% to $50.7 million, driven by annualized recurring revenue growth of $20 million in 4Q23. Our forecast reflects gross margin improving to 45.6% from an estimated 40.3% in 2022 due to a sales mix shift to higher margin recurring revenue. We anticipate operating expense margin improving to 43.5% from an estimated 47.1% in 2022.

Please view our Disclosures on pages 16 - 18

Appreciation Potential

Initiating Creative Realities, Inc. with a Speculative Buy rating and 12-month price target of $1.50 per share. Our rating and price target reflects the company's ability to leverage the more than 300,000 combined devices it manages within its network of digital signage customers. The February 2022 acquisition of Reflect Systems should support CREX's efforts to leverage its customer base through the addition of a technology suite of media advertising offerings enabling CREX to provide complete end-to-end solutions within the digital signage market.

Our 12-month price target of $1.50 per share implies shares could more than double over the next twelve months. According to finviz.com (as of 8/1/22), the average price-to-sales multiple for companies with similar to larger market capitalizations in the software application and infrastructure sectors is 1.5X, compared to Creative Realities trailing price-to-sales multiple of 0.3X. We anticipate investors are likely to accord CREX a multiple between the sector's multiple and its current trailing multiple due to projected sales growth of 16.8% in 2023. We applied a price-to-sales multiple of 0.9X to our 2023 sales per share forecast of $2.33, discounted for execution risks and potential dilution from the exercise of outstanding warrants, to obtain a year-ahead price target of approximately $1.50 per share.

Creative Realities' valuation should improve as it reports revenue growth, a narrowing of operating losses that turn to operating profits, and growing cash earnings. We forecast recurring revenue offerings could generate annualized sales of $20 million in 4Q23, which should nearly cover operating expenses on an annualized basis. We anticipate the company generating an operating profit of $1.1 million in 2023 compared to an estimated operating loss of $2.6 million (excluding an estimated $391,000 in acquisition related transaction costs) in 2022. In 2023, CREX should generate cash earnings of nearly $5 million, up from estimated cash earnings of $292,000 million in 2022.

We believe Creative Realities is most suitable for risk tolerant investors seeking exposure to a micro cap company providing digital signage and digital marketing solutions to its US and international customers.

Overview

Creative Realities, Inc., headquartered in Louisville, KY, provides a complete suite of digital solutions that enhances communications with in the digital signage market. Digital signage utilize systems that deliver and display visual content such as digital images, video, streaming media, and marketing information that are managed by a content management system. The company deploys the hardware, designs and manages the content on its digital signage platforms, as well as provides media advertising services through the 1Q22 acquisition of Reflect Systems. CREX offerings are deployed to customers in the following markets, automotive, advertising networks, apparel & accessories, convenience stores, food service and quick service restaurants, gaming, theater, and stadium venues. CREX's recurring SaaS revenue is generated from subscription licensing of its content management software offerings that include its Reflect Systems media technology platform.

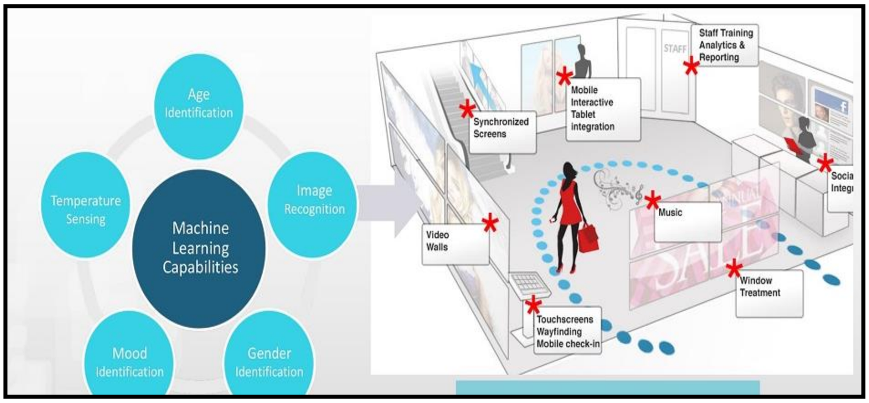
In February 2022, CREX acquired Reflect Systems, Inc., a Texas based provider of digital signage solutions, including software, and strategic and media services to a wide range of companies. Reflect's digital signage technology offerings power hundreds of thousands of active digital displays in the US, as well as assisting those customers with monetizing their digital media advertising networks.

History

In 2003, Creative Realities was originally incorporated and organized as a Minnesota corporation called Wireless Ronin Technologies, Inc. that was focused on providing digital media marketing solutions, including digital signage, interactive kiosks, mobile, social media and Web-based media solutions. In 2014, the company (through a reverse acquisition) acquired the interactive marketing technology business called Creative Realities, LLC. In September 2014, name was changed to Creative Realities, Inc. In October 2015, the company acquired the systems integration and marketing technology business of ConeXus World Global, LLC. In November 2018, an enterprise software development company called Allure was acquired. In November 2018, Creative Realities shares began trading on the Nasdaq Capital Market under the symbol CREX. In February 2022, CREX acquired Reflect Systems.

Operations

Creative Realities reports its revenue generating operations within two segments, hardware from the reselling of digital signage hardware from original equipment manufacturers such as Samsung and BrightSign, and services and other. Other revenue includes recurring subscription content management licensing and support revenue from its digital signage software technology platforms.



CREX's technology suite of digital signage solutions has the ability to deliver an integrated, omni-channel digital ecosystem that leverages data and analytics to drive consumer behavior. The picture on the right (source: March 2022 company presentation) illustrates the digital ecosystem for potential retail customers. The data analytics technology offered to customers is designed to be adaptive, meaning the technology learns, responds, and changes the digital content displayed in real time through CREX's content management system.

The company's operations are based upon the installation of third-party hardware such as digital screens, media players, and hardware mounts. CREX utilizes a range of media players including Windows, Android, and BrightSign in order to to provide clients the necceary flexibility to select the appropriate hardware for any application knowing the entire network can still be served by a single digital signage platform.

Creatives Realities technology platforms are built in the cloud and manage more than 300,000 combined devices within its cloud-based digital signage network. The company can deploy hardware through a nationwide network of field technicians and then have its technology platforms reside at its network operations center located in Louisville, KY, that operates 24 hours a day, 7 days a week. The company's team provides creative design and content management capabilities that enable the installed digital signage to effectively connect a customer's brand and products to consumers. CREX also provides its customers with technologies in the areas of data analytics and content optimization, and data integration and development. Creative Realities believes it has a unique approach to data-driven design and measurement that enables it to ensure its customers have a positive and expanding return on investment by leveraging neuromarketing (refers to the measurement of physiological and neural signals to gain insight into customers' motivations, preferences, etc.) principals for future content optimization.

The company's newest offerings should enable it to rapidly expand and provide its existing customers with a network monetization strategy. CREX acquired its AdTech technology platform through the February 2022 acquisition of Reflect Systems. This new recurring revenue technology is the platform by which digital media advertising on existing digital signage can be delivered, scheduled, and developed from a centralized location.

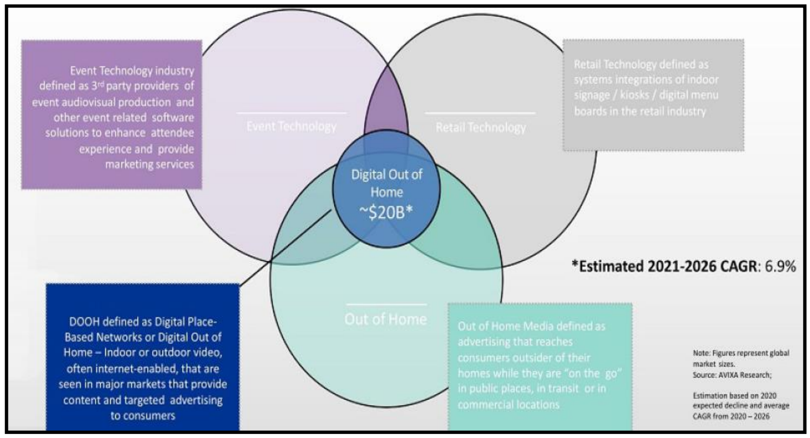
The February 2022 acquisition of Reflect Systems expanded the company's offering to include Reflectview, Reflect Xperience, Reflect AdLogic, Reflect Clarity, and Reflect Zero Touch.

ReflectView, is a digital signage platform that is scalable from 10 to 100,000+ managed devices. Reflect Xperience, a Web-based interface, allows customers to give content scheduling access to local users via the Web or mobile devices, while still maintaining centralized programming control. Reflect AdLogic, is an advertising management platform for digital signage networks, which delivered approximately 50 million ads daily at December 31, 2021.

Reflect Clarity, is a technology solution for a range of restaurant and convenience store applications targeted at their menu boards. Reflect Zero Touch, allows customers to turn any screen into an interactive experience by allowing guests to engage using their mobile device.

Growth Strategy

Creative Realities aims to leverage its end-to-end technology platform within the intersection of event, retail, and out of home digital advertising technology markets (see chart on the right – March 2022 company presentation), which could approximate $20 billion. CREX's new digital advertising offering should allow for leveraging of its existing customer base as it has already begun marketing to their existing customers the Reflect AdLogic recurring revenue advertising management offering. As customers adopt this offering they should be able to monetize their already established digital signage screens with targeted advertising consumers. Deployment of this technology offering is a priority for the company as it should be the primary driver of recurring revenue growth that we estimate could reach $20 million on an annualized basis by 4Q23, up from an estimate $15 million in 4Q22.



Creative Realities intends to market its content management technology platforms to Reflect Systems' customer base, but more importantly work toward becoming a single integrated unit to gain new customers. Working together, CREX and Reflect used an integrated approach to win a three-year renewal of an OEM automotive contract that should increase annual recurring revenue by 300% versus the prior contract. Creative Realities believes that it is likely that neither company would have won that contract on its own. The contract win likely resulted from the full service offerings of the combined company. The company aims to grow devices under management on its digital signage network toward 1 million, which if achieved could result in total revenue of approximately $150 million. This goal, if achieve, is beyond our forecast period.

Recurring revenue, service fees, and hardware sales growth should occur organically by cross selling its newly acquired technology platform and media advertising offerings to its existing customer base. We anticipate CREX should be able to obtain new customers by positioning itself as a provider of end-to-end digital signage technology solutions, as well as making strategic acquisitions to increase devices under management and/or provide unique technologies to sell to existing customers.

The company intends to make target acquisitions of smaller market participants that generate revenue of $3 million to $10 million and have upwards of 30 employees, as well as 1 or 2 large customers with approximately 20 smaller customers. After an acquisition is made, CREX will cross sell its offerings and services, expand the number of devices on its digital signage network, move those customers onto its unified content management offerings, eliminate overhead, and drive scale and operating income.

Projections

Basis of Forecast

Our forecast reflects the February 2022 acquisition of Reflect Systems. This acquisition should enable cross-selling Reflect Systems' digital signage platforms and media technology offerings to existing CREX customers and selling and deploying hardware to Reflects' customers. We expect to see organic growth within the company's existing customer base, and customer wins such as the February 2022 announcement to deploy digital experiences for a retail customer at hundreds of locations nationwide for an expected total contract value in excess of $10 million. We project annualized recurring subscription revenue of approximately $20 million by 4Q23, up from an estimate $15 million at the end of 4Q22. Entering 2Q22, CREX's annualized recurring revenue was approximately $13.5 million.

In 2023, we anticipate a significant shift to higher margin service and other revenue driven by recurring revenue growth compared to hardware sales. In 2023, we project services and other sales to comprise 54.9% of total revenue compared to 48.9% in 2022. In 1H22, CREX is experiencing large hardware deployment due primarily to its February 2022 new customer wins.

We anticipate 2022 and 2023 gross margins of 40.3% and 45.6%, respectively. The improvement should be driven by the sales mix shift to higher margin recurring revenue offerings.

We are not forecasting (only recording what CREX reports) income tax expense as the company has $10.7 million in federal and state net operating loss carryforwards at December 31, 2021.

Economy

In July 2022, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 3.2% for 2022 and 2.9% for 2023, down from its April 2022 projection calling for 3.6% growth in 2022 and 3.6% growth in 2023. The downward revisions reflect higher-than-expected inflation worldwide that have triggered tighter financial conditions (i.e. higher interest rates), a worse-than-anticipated slowdown in China that reflects COVID-19 outbreaks and lockdowns, as well as further negative spillovers effects from the war in Ukraine.

The IMF revised its economic growth estimate for the US to an increase of 2.3% for 2022 and 1% for 2023. In April 2022, the IMF projected US economic growth of 3.7% and 2.3% for 2022 and 2023, respectively.

The advance estimate of US GDP growth (released on July 28, 2022) showed the US economy decreased at an annual rate of 0.9% in 2Q22, an improvement from the 1.6% decrease in 1Q22, but still below the 6.9% increase reported in 4Q21. The 2Q22 US GDP estimate primarily reflects decreases in inventory investments, fixed investments, federal government spending, and state and local government spending, partly offset by increases in exports and personal consumption expenditures.

Operations 2022

We project 135.2% total revenue growth to $43.4 million from $18.4 million in 2021 reflecting the February 2022 acquisition of Reflect Systems, a large customer win from the combined efforts of CREX and Reflect Systems, as well as the cross-selling of Reflects' digital media technology platforms and advertising into CREX's existing customers.

We forecast gross profit more than doubling to nearly $17.5 million from $8.4 million in 2021 due primarily to revenue growth, partly offset by gross margin contraction to 40.3% from 45.3% last year. Gross margin contraction reflects a more than doubling in lower margin hardware sales stemming from the initial large scale deployment of a new large customer. We estimate hardware gross margin decreasing to 20% from 26.8% in 2021. We anticipate service and other gross margin of 61.4%, down from 64.8% as CREX integrates the Reflect Systems acquisition.

We expect operating expenses increasing 87.2% to $20.4 million from $10.9 million in 2021, with each period including deal and transaction costs of $391,000 and $518,000, respectively. Sales and marketing expense should triple to $3.4 million due to the integration of Reflect Systems' operations that will include certain tools, technology, and processes primarily with regard to lead generation and brand marketing, which were minimally invested in by CREX, as well as the company engaging an investor relations firm to commence certain activities, including conferences and presentations. We project G&A expense increasing 60.6% to $12.2 million from $7.6 million due to the inclusion of Reflect Systems. We forecast D&A expense of $3.2 million compared to $1.4 million in the year-ago period along with R&D expense of $1.1 million compared to $550,000 last year. We anticipate bad debt expense of $106,000 compared to debt recovery of $277,000 in 2021.

We project the operating loss increasing by $415,000 to nearly $3 million due primarily to lower gross margin, partly offset by revenue growth and operating expense margin improving 47.1% compared to 59.2% in 2021.

We anticipate non-operating income of nearly $2 million compared to $2.8 million in 2021. Non-operating income reflects a $5.5 million positive change in fair value of warrant liability and other income, partly offset by $295,000 negative change in fair value of a special loan, a $1.2 million debt waiver charge, and interest expense of $2 million (compared to $805,000 in 2021) as debt levels and interest rates rise. In 2021, CREX recorded a $3.4 million gain on settlement of obligations and a $166,000 gain on change in fair value of a special loan, partly offset by interest expense of $805,000 and other expense of $7,000.

We project a net loss of $998,000 or ($0.05) per share on 19.9 million average shares outstanding compared to net income of $232,000 or $0.02 per share on 11.8 million average shares outstanding in the year-ago period. Excluding deal and transaction costs and other items (except interest expense) the loss in 2022 should approximate $4.6 million compare to a loss of $3.9 million in 2021.

Finances
We forecast 2022 cash earnings of $292,000 and a decrease in working capital of $1.9 million resulting in cash from operations of $2.2 million. Cash from operations and nearly $20 million from the issuance of debt and common stock are likely to cover capital expenditures ($2 million) and the February 2022 acquisition of Reflect System ($17.2 million) increasing cash by $2.9 million to nearly $5.7 million at December 31, 2022.

Operations – 2023
We project 16.8% total revenue growth to $50.7 million from an estimated $43.4 million in 2022 reflecting service and other sales growth of 31.1% to $27.8 million from an estimated $21.2 million in 2022 due to recurring revenue sales approaching $20 million by 4Q23, up from an estimated $15 million in 4Q22. We anticipate hardware sales increasing 3.1% to $22.9 million from an estimated $22.2 million as CREX's customer base continues to expand.

We forecast gross profit increasing 32.5% to $23.1 million from an estimated $17.5 million in 2022 due primarily to revenue growth and gross margin expansion to 45.6% from an estimated 40.3% last year. Gross margin expansion reflects a revenue shift to higher margin recurring revenue sales. We anticipate service and other gross margin of 63.5%, up from an estimated 61.4%. We estimate hardware gross margin improving to 24% from an estimated 20% in 2022.

We expect operating expenses increasing 7.9% to $22 million from an estimated $20.4 million in 2022, with the year-ago period including deal and transaction costs of $391,000. We anticipate sales and marketing expense increasing 21.1% to $4.1 million from an estimated $3.4 million to support programs to expand the company's customer base and increase brand awareness. We project G&A expense increasing 9.8% to $13.4 million from an estimated $12.2 million in 2022 to support sales growth and a full year of the operations of Reflect Systems. We forecast D&A expense of $3.3 million compared to $3.2 million in the year-ago period along with R&D expense of $1.2 million from an estimated $1.1 million in 2022. We anticipate no bad debt expense in the current period compared to an estimated $106,000 last year.

We project a swing to operating income of nearly $1.1 million compared to an operating loss of nearly $3 million. The improvement reflects revenue growth, gross margin expansion, and operating expense margin improving to 43.5% compared to an estimated 47.1% in 2022.

We anticipate non-operating expense of $1.5 million compared to estimated income of $2 million in 2022. We project interest expense of $1.5 million compared to an estimated $2 million in 2022. The decrease in interest expense is due primarily to the anticipated repayment of the sellers note in February 2023. The year-ago period reflects an estimated $5.5 million positive change in fair value of warrant liability and other income, partly offset by a $295,000 negative change in fair value of special loan, and a $1.2 million debt waiver charge.

We project a net loss of $415,000 or ($0.02) per share on 21.7 million average shares outstanding compared to an estimated loss of $998,000 or ($0.05) per share on 19.9 million average shares outstanding.

Finances
We forecast 2023 cash earnings of nearly $5 million and an increase in working capital of $2.6 million resulting in cash from operations of $2.4 million. Cash from operations is unlikely to cover capital expenditures ($1.5 million) and a sellers' note ($2.4 million) repayment, reducing cash by $1.5 million to $4.2 million at December 31, 2023.

Digital Signage Market

Creative Realities end-to-end hardware and technology platforms are positioned to take advantage within the digital signage and digital advertising market. Digital signage systems deliver and display content such as digital images, video, streaming media, and information. The displayed content is filed, and the scheduled information is edited in a content management system (CMS). The data is then stored in the CMS and distributed to media players installed at various customer locations. It is believed that digital content is more likely to be noticed and remembered by consumers than static print-based signs due primarily to the fact that people are drawn to movement, color, and freshness.

US Digital Signage Market

In May 2022, Reportlinker.com published a report indicating that the US digital signage market is anticipated to reach in excess of $10.6 billion, up from $6.7 billion in 2021 for annualized growth of nearly 7.9%. A significant growth driver is expected to be digital outdoor signage which is being used in every industry, with applications in restaurants and hotels, retail places, transit facilities, and entertainment events. In 2021, according to screen fluency statistics, because of the signage, 76% of American consumers enter stores they had never visited before and 68% of US consumers paid for a product or service because its signage drew their attention.

Market research firm, Grand View Research issued a report stating that in 2021, the US digital signage market was valued at $5.3 billion and by 2030 should reach nearly $9.2 billion for annualized growth of 6.3%. Supporting US usage of digital signage is the growth of creative advertising content that attracts customers and viewers, engages viewers through impactful content management, and influences consumers' purchasing decisions. The industry growth is being enabled by the development of innovative displays, such as liquid crystal display and Super AMOLED display (one that has an integrated touch function) that has allowed advertisers to improve the clarity and quality of the content being presented. This is the segment Creative Realities entered with the acquisition of Reflect Systems.

Global Digital Signage Market

In May 2022, Reportlinker.com published a report indicating that the global digital signage market is expected to grow 13.6% to nearly $19.7 billion in 2022 from $17.3 billion in 2021 due primarily to companies resuming their operations and adapting to the new normal while recovering from the impact of the COVID-19 pandemic. The market is forecast to reach $28.3 billion in 2026, which would be an annualized growth rate of 9.5%. The growth drivers supporting their forecast include an increasing demand for the digitized promotion of products and services, rapid innovation that should produce a higher quality viewing experience, and demand for the development of holographic films.

1Q22 Financial Results

1Q22

Creative Realities reported total revenue more than doubled to $10.8 million from $5 million in 1Q21 due primarily to the February 2022 acquisition of Reflect Systems, Inc. Hardware revenue increased 129.4% to $6.5 million from $2.8 million due primarily to the initial delivery of equipment to a previously announced large customer contract. Services and other revenues increased 96.4% to $4.3 million from $2.2 million in the year-ago period due to the inclusion of 44 days of Reflect Systems operations along with a doubling of software-as-a-service and help desk technical subscription services combined to $2.7 million from $1.3 million in 1Q21.

Gross profit increased 74.2% to nearly $3.9 million from $2.2 million in the year-ago period due primarily revenue growth, partly offset by gross margin contraction to 36.2% from 44.6% in 1Q21. Gross margin contraction reflects lower hardware segment gross margin of 16.7% compared to 32% in the year-ago period stemming from the initial stages of a material customer rollout, partly offset by an improvement in services and other gross margin to 65.5% from 60.9% in 1Q21.

Operating expenses more than doubled to $4.9 million from $2.4 million last year due primarily to the inclusion of Reflect Systems operations acquired in February 2022. G&A expense increased $645,000 to nearly $2.8 million due to the inclusion of the operations of Reflect Systems. Sales and marketing expense more than doubled to $707,000 from $335,000 in 1Q21 due to Reflect Systems operation's beginning the integration process of certain tools, technology, and processes primarily with regard to lead generation and brand marketing, which were minimally invested in by CREX. Additionally, the company engaged an IR firm and has increased investor relations activities, including conferences and presentations. D&A expense was $707,000 compared to $344,000 in the year-ago period and R&D expense was $241,000 compared to $171,000 in 1Q21.

The current period included deal and transaction expense of $391,000 compared to none in the year-ago period, as well as bad debt expense of $106,000 compared to a recovery of bad debt of $512,000.

Operating loss increased to $1 million from a loss of $213,000 in 1Q21. Excluding transaction and bad debt expense and recovery, the operating loss was $517,000 compared to a loss of $725,000 in the year-ago period.

Non-operating income was $3.5 million compared to income of $1.5 million in the year-ago period. The increase reflects a positive change in fair value of warrant liability of $5.5 million compare to none recorded last year and other income of $6,000 compared to $4,000 in 1Q21. CREX recorded a $1.2 million loss on debt waiver consent compared to none last year. Interest expense increased to $449,000 compared to $249,000 in 1Q21 due to a higher average debt balance and included amortization of debt origination costs. The company recorded in the current period a $295,000 expense compared a gain of $166,000 in the year-ago period both related to change in fair value of special loan. In the year-ago period a gain of $1.6 million was recorded related to extinguishment/settlement of obligations, which did not occur in the current period.

Net income was $2.5 million or $0.17 per share on 14.6 million average shares compared to net income of $1.3 million or $0.11 per share on 11.3 million average shares in the year-ago period. Excluding deal and transaction costs and other items (except interest expense) the loss in the current period would have been approximately $1.1 million compared to $462,000 in the year-ago period.

Finances

In 1Q22, cash earnings of $111,000 and a decrease in working capital of $1.1 million resulted in cash from operations of $1.2 million. Cash from operations and issuances of debt and common stock covered capital expenditures and the February 2022 acquisition of Reflect System increasing cash by $3.1 million to nearly $6 million at March 31, 2022.

Capital Structure

At March 31, 2022, CREX had total debt on its balance sheet of $15.4 million, of which $2.4 million is a short-term seller note provided to the owners of Reflect Systems that was acquired in February 2022. The seller note is expected to be paid in twelve equal monthly installments and paid off in February 2023.

Creative Realities has nearly $8 million (net of $2 million debt-discount) outstanding on its 8% related party acquisition term loan, which matures in February 2025. The debt was issued with 2.5 million warrants that are exercisable (cash-only) at $1.63 per share.

The company has $5 million (net of $2.1 million debt-discount) outstanding on its 10% related party consolidation term loan that matures in February 2025 The debt was issued with nearly 2.7 million warrants that are exercisable (cash-only) at $1.63 per share.

Competitive Landscape

Creative Realities' digital marketing technology and solutions are an evolving business with a fragmented competitive environment. Since the company provides a comprehensive (end-to-end) package of technology and marketing end-solution, it believes there are no direct competitors, only a large number of individual competitors that offer parts of a digital signage solution. Digital signage software competitors include private companies such as Stratacache and Four Winds Interactive. Marketing services and systems integrator competitors include private companies such as Sapient Nitro and SageNet, respectively. Overall some of the individual competitors could have significantly greater financial, technical and marketing resources than CREX and may be able to respond more rapidly to the new or emerging technologies or changes in customer requirements.

Creative Realities believes it has built an integrated organization with significant capabilities (such as a sales, business development, network operations and field service management), that provides its growing customer base a comprehensive offering of digital signage technology and solutions. These capabilities along with growing brand awareness and proprietary processes should provide CREX with a competitive advantage within the digital signage market.

Within the digital signage market, the competitive landscape is marked by companies needing to gain and maintain broad market acceptance of their technologies, solutions, services, and platforms, and converting that acceptance into direct and indirect sources of revenue. Gaining and maintaining market acceptance is contingent upon the development of new technologies, solutions, services, and especially platform features, as well as increasing the functionality and features of existing technologies, which in the end should drive customer satisfaction and a high level of end-customer adoption.

Management

Richard Mills – Director and CEO. He was previously CEO of ConeXus World Global, a digital media services company, which he founded in 2010, and which was acquired by Creative Realities in 2015. Mr. Mills previously served as President and Director at Beacon Enterprise Solutions Group, Inc., a public telecom and technology infrastructure services provider and as COO of Pomeroy Computer Resources, Inc. Mr. Mills was also a founder of Strategic Communications LLC.

Will Logan – CFO joined the Company as VP of Finance in November 2017 and was promoted to CFO in May 2018. He previously worked at Ernst & Young in the assurance services group where he primarily served large public companies, including a two-year international rotation in London, UK in the asset management practice. He has ten years of experience in SEC reporting, technical accounting matters, and Sarbanes-Oxley compliance expertise as well as expertise in initial public offerings, acquisitions and integration. Earned BA degrees in Accounting and Economics from Bellarmine University and is a Certified Public Accountant.

Risks

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

<u>Operating Losses</u>
At March 31, 2022, the company's accumulated loss was $49.8 million, down from $52.3 million at December 31, 2021. While CREX reported net income in 2021, since 2019, it has yet to turn an annual operating profit. In 2021 the operating loss was $2.5 million compared to an operating loss of $5.4 million in 2020. While we anticipate operating losses narrowing in 2022 and CREX generating an operating provide in 2023, if our expectations are not achieved, it could result in the company's inability to execute its growth strategy during our forecast period.

<u>Dilution</u>
In February 2022, Creative Realities completed a debt and equity financing in order to complete the acquisition of Reflect Systems. The equity financing part of the acquisition which includes common stock and the exercise of some common stock warrants brought total shares outstanding to 21.7 million at May 16, 2022 from 10 million at December 31, 2021.

The company has an at-the-market offering agreement in place to sell shares of its common stock to investors in the market, which if executed would be dilutive to shareholders. If CREX were to raise additional capital through issuances of equity or convertible debt securities, it would likely be dilutive to existing shareholders.

At March 31, 2022, CREX had nearly 17.9 million common stock warrants outstanding. Holders must pay cash to exercise outstanding warrants. So while outstanding shares could increase if warrants are exercised the company's balance sheet would be strengthened as cash balances would increase.

Reliance on related party for financing operations

As of March 22, 2022, CREX's largest shareholder and investor, Slipstream Communications LLC owned 87% of its outstanding debt instruments, including two term loans, and has a beneficial ownership of nearly 47.6% of outstanding common stock (on an as-converted, fully diluted basis that includes conversion of outstanding warrants, and assuming no other convertible securities, options and warrants are converted or exercised by other parties). Slipstream has provided Creative Realties with a continued support letter through March 31, 2023. If the company is unable to extend the maturity or replace its existing financing agreements in the future, plans to operate operations may be adversely affected.

Delisting Risk

In April 2022, Creative Realities received a minimum bid price deficiency letter from The Nasdaq Stock Market LLC, which advised CREX that for 30 consecutive trading days preceding the receipt of the letter, the bid price of the company's common stock had closed below the $1.00 per share minimum required for continued listing on The Nasdaq Capital Market.

The company has until October 11, 2022 to regain compliance by having its common stock's bid price trade above $1.00 for 10 consecutive business days. If the minimum bid price does not regain compliance, CREX's shares could be delisted from the Nasdaq Capital Market. However, if the minimum bid price is not met by October 2022, it is more likely than not that the company can request and be granted additional time to meet this requirement.

Supply Chain

The company's operations include the sale of digital media players and digital displays supplied by third parties, each of which require semiconductors to complete the manufacturing process. Even when inventory is available, the company may experience delays in transportation of these goods from manufacturers.

Regulation

Creative Realties operations are subject to regulation by various federal and state governmental agencies due to its radio frequency emission activities that are regulated by the U.S. Federal Communications Commission, and consumer protection laws of the U.S. Federal Trade Commission, as well as product safety regulatory activities of the U.S. Consumer Product Safety Commission, and environmental regulations. One significant area of concern is that some of the hardware components that the company deploys to its customers may contain hazardous or regulated substances, such as lead. Many states have adopted or are considering takeback bills addressing the disposal of electronic waste, including old style and flat panel monitors, as well as computers. Electronic waste legislation is developing and while CREX will monitor passage of new laws and regulations, it does not believe any such legislation or proposed legislation will have a materially adverse impact on the company's operations.

Acquisition Risks

The company utilizes acquisitions as part of its growth strategy. Acquisitions that expand the company's operations in North America or in other parts of the world are likely to require management's time and effort in executing the acquisition and then consolidating it into existing operations. The diversion of management could diminish growth activities on existing operations.

Customer Concentration

In 1Q22 and 1Q21, three and two customers represented approximately 70% and 40.1% of sales, respectively. In 1Q22, the company's three largest customers represented 62.5% of accounts receivables compared to two customers accounting for 42% of accounts receivables in 1Q21. The loss of a significant customer could disrupt the company's operations. Also, the company had two vendors account for 57.9% of outstanding payables in 1Q22 compared to three vendors that accounted for 69.1% of outstanding payables in 1Q21.

Intellectual Property

Some of the company's operations involves ownership and licensing of software. The company is aware that this industry is characterized by frequent intellectual property claims and litigation. Any litigation to determine the validity claims, would likely be costly and time consuming and divert the efforts and attention of management and technical personnel, which would likely hamper current and future operations.

Cyber Security

The company could be adversely affected by malicious applications that make changes to its customers' computer systems and interfere with the operation of those systems. The ability to provide customers with a superior interactive marketing technology experience is critical to the company's success so if the efforts to combat these malicious applications fail, there may be claims based on such failure, as well of having CREX's reputation be harmed, which could potentially diminish its operations and financial condition.

Shareholder Control

Officers and directors collectively own or have a controlling interest in approximately 9.3% of the company's outstanding voting stock and additionally one shareholder owns approximately 27.4% of the company's outstanding voting stock as of June 17, 2022 (June 2022 SEC filing). Collectively this ownership could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

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.

Trading Volume

In 2021, average daily volume was nearly 1.1 million. Average daily volume decreased over the last three months (ending August 1, 2022) to 136,000. CREX has a float of approximately 15.9 million shares and outstanding shares of 21.7 million.

Creative Realities, Inc.
Consolidated Balance Sheets
FY2019 – FY2023E
(in thousands)

	FY19A	FY20A	FY21A	1Q22A	**FY22E**	**FY23E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ 2,534	$ 1,826	$ 2,883	$ 5,988	**$ 5,699**	**$ 4,150**
Accounts receivable, net	4,663	2,302	3,006	8,806	**10,237**	**11,256**
Unbilled receivables	86	41	369	-	**-**	**-**
Work-in-progress and inventories, net	379	2,351	1,880	2,024	**2,591**	**2,898**
Prepaid expense and other current assets - includes contracts	320	507	1,634	2,325	**2,601**	**2,786**
Total current assets	7,982	7,027	9,772	19,143	**21,128**	**21,090**
Operating lease right-of-use	1,728	931	654	1,073	**1,073**	**1,000**
Property and equipment, net	1,553	175	75	154	**160**	**165**
Intangible, net	4,407	4,955	4,850	26,445	**25,352**	**24,422**
Goodwill	18,171	7,525	7,525	16,012	**16,012**	**16,012**
Other assets	135	5	5	52	**55**	**55**
Total assets	$ 33,976	$ 20,618	$ 22,881	$ 62,879	**$ 63,780**	**$ 62,744**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Short-term seller note payable	1,637	1,637	-	2,396	**2,396**	**-**
Short-term related party convertible loans payable	2,000	-	-	-	**-**	**-**
Accounts payable	1,849	1,661	2,517	4,881	**5,037**	**5,353**
Accrued expenses	2,751	2,142	2,110	2,459	**2,591**	**2,340**
Deferred revenues	772	764	426	3,586	**4,000**	**5,000**
Customer deposits	755	770	1,525	2,973	**3,000**	**3,500**
Current maturities of operating leases	646	355	281	560	**550**	**535**
Current maturities of financing leases	21	4	-	-	**-**	**-**
Total current liabilities	10,431	7,333	6,859	16,855	**17,574**	**16,728**
Payroll protection program - note payable	-	1,552	-	-	**-**	**-**
Related party acquisition term loan, net	-	-	-	7,990	**7,990**	**7,990**
Related party loans payable, net	3,757	4,436	4,624	5,039	**5,039**	**5,039**
Related party convertible loans payable, at fair value	-	2,270	2,251	-	**-**	**-**
Warrant liability, at fair value	-	-	-	7,796	**7,726**	**6,351**
Contingent acquisition consideration, at fair value	-	-	-	5,600	**5,600**	**5,600**
Long-term obligations under operating leases	1,100	584	373	513	**513**	**513**
Long-term obligations under financing leases	5	-	-	-		
Accrued expenses	-	108	-	-	**-**	**-**
Other and deferred tax liabilities	175	-	45	26	**26**	**26**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 200,000 shares;	98	109	120	217	**217**	**217**
Additional paid-in capital*	54,052	56,712	60,863	68,626	**72,347**	**73,947**
Retained earnings (accumulated deficit)	(35,642)	(52,468)	(52,254)	(49,783)	**(53,252)**	**(53,667)**
Total stockholders' equity	18,508	4,353	8,729	19,060	**19,312**	**20,497**
Total liabilities and stockholders' equity	$ 33,976	$ 20,636	$ 22,881	$ 62,879	**$ 63,780**	**$ 62,744**
SHARES OUT	9,775	10,924	12,009	21,675	**21,700**	**21,750**

Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Annual Income Statement
FY2019 – FY2023E
(in thousands)

	FY19 A	FY20 A	FY21 A	**FY22 E**	**FY23 E**
Hardware	$ 8,229	$ 8,991	$ 9,450	**$ 22,159**	**$ 22,850**
Services and other	23,369	8,466	8,987	**21,198**	**27,800**
Total Revenues	$ 31,598	$ 17,457	$ 18,437	**$ 43,357**	**$ 50,650**
Cost of Sales per segement					
Hardware	6,245	6,251	6,914	**17,732**	**17,375**
Services and other	11,614	3,085	3,166	**8,173**	**10,155**
Total Cost of sales	17,859	9,336	10,080	**25,905**	**27,530**
Gross Profit	13,739	8,121	8,357	**17,452**	**23,120**
Operating Expenses:					
Sales and marketing	2,344	1,676	1,153	**3,407**	**4,125**
Research and development	1,413	1,083	550	**1,066**	**1,200**
General and administrative	9,092	9,293	7,598	**12,204**	**13,400**
Depreciation and amortization	1,250	1,474	1,364	**3,242**	**3,310**
Bad debt expense/(recovery)	-	-	(277)	**106**	-
Lease terminiation expense	-	18	-	-	-
Goodwill impairment	-	10,646	-	-	-
Loss on disposal of fixed assets	-	13	-	-	-
Gain an reversal of earnout liability	(250)	-	-	-	-
Deal and transaction costs	-	-	518	**391**	-
Total Operating Expenses	13,849	24,203	10,906	**20,416**	**22,035**
Operating Income (loss)	(110)	(16,082)	(2,549)	**(2,964)**	**1,085**
Other income (expense)					
Interest (expense) includes amortization of debt discount	(831)	(1,023)	(805)	**(1,999)**	**(1,500)**
Gain (loss) on extinguishment/settlement of obligations	-	-	3,449	-	-
Change in fair value of special loan	-	-	166	**(295)**	-
Change in fair value of warrant liability	21	-	-	**5,469**	-
Gain on settlement of obligations	2,046	209	-	-	-
Loss on fair value of debt and debt waiver consent	-	(93)	-	**(1,212)**	-
Other income (expense), net	5	(13)	(7)	**6**	-
Total Other Income (expense)	1,241	(920)	2,803	**1,969**	**(1,500)**
Pre-Tax Income (loss)	1,131	(17,002)	254	**(995)**	**(415)**
Income Tax Expense (Benefit)	93	(158)	22	**3**	-
Net income (loss)	1,038	(16,844)	232	**(998)**	**(415)**
Earning (loss) per share	$ 0.11	$ (1.65)	$ 0.02	**$ (0.05)**	**$ (0.02)**
Avg Shares Outstanding	9,759	10,195	11,761	**19,937**	**21,738**
Adjusted EBITDA	$ 1,368	$ (3,226)	$ 1,221	**$ 2,195**	**$ 6,195**
Margin Analysis					
Hardware	24.1%	30.5%	26.8%	**20.0%**	**24.0%**
Services and other	50.3%	63.6%	64.8%	**61.4%**	**63.5%**
Total gross margin	43.5%	46.5%	45.3%	**40.3%**	**45.6%**
Sales and marketing	7.4%	9.6%	6.3%	**7.9%**	**8.1%**
Research and development	4.5%	6.2%	3.0%	**2.5%**	**2.4%**
General and administrative	28.8%	53.2%	41.2%	**28.1%**	**26.5%**
Depreciation	4.0%	8.4%	7.4%	**7.5%**	**6.5%**
Operating margin	(0.3%)	(92.1%)	(13.8%)	**(6.8%)**	**2.1%**
Pre-tax margin	3.6%	(97.4%)	1.4%	**(2.3%)**	**(0.8%)**
Tax rate	8.2%	0.9%	8.7%	**(0.3%)**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues		(44.8%)	5.6%	**135.2%**	**16.8%**

Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Income Statement Model
Quarters FY2021A – 2023E
(in thousands)

	Q1 21 A	Q2 21 A	Q3 21 A	Q4 21 A	FY21 A	Q1 22 A	Q2 22 E	Q3 22 E	Q4 22 E	**FY22 E**	Q1 23 E	Q2 23 E	Q3 23 E	Q4 23 E	**FY23 E**
Hardware	$ 2,816	$ 1,296	$ 2,215	$ 3,123	$ 9,450	$ 6,459	$ 5,300	$ 5,100	$ 5,300	**$ 22,159**	$ 5,600	$ 5,700	$ 5,750	$ 5,800	**$ 22,850**
Services and other	2,188	1,981	2,538	2,280	8,987	4,298	5,500	5,800	5,600	**21,198**	6,200	6,800	7,200	7,600	**27,800**
Total Revenues	$ 5,004	$ 3,277	$ 4,753	$ 5,403	$ 18,437	$ 10,757	$ 10,800	$ 10,900	$ 10,900	**$ 43,357**	$ 11,800	$ 12,500	$ 12,950	$ 13,400	**$ 50,650**
Cost of Sales per segement															
Hardware	1,914	870	1,588	2,542	6,914	5,382	4,225	4,025	4,100	**17,732**	4,315	4,335	4,350	4,375	**17,375**
Services and other	856	532	818	960	3,166	1,483	2,200	2,275	2,215	**8,173**	2,355	2,500	2,600	2,700	**10,155**
Total Cost of sales	2,770	1,402	2,406	3,502	10,080	6,865	6,425	6,300	6,315	**25,905**	6,670	6,835	6,950	7,075	**27,530**
Gross Profit	2,234	1,875	2,347	1,901	8,357	3,892	4,375	4,600	4,585	**17,452**	5,130	5,665	6,000	6,325	**23,120**
Operating Expenses:															
Sales and marketing	335	169	330	319	1,153	707	850	900	950	**3,407**	975	1,000	1,050	1,100	**4,125**
Research and development	171	58	226	95	550	241	275	275	275	**1,066**	300	300	300	300	**1,200**
General and administrative	2,109	1,666	1,848	1,975	7,598	2,754	3,100	3,150	3,200	**12,204**	3,250	3,300	3,400	3,450	**13,400**
Depreciation and amortization	344	344	347	329	1,364	707	850	845	840	**3,242**	835	830	825	820	**3,310**
Bad debt expense/(recovery)	(512)	49	-	186	(277)	106	-	-	-	**106**	-	-	-	-	-
Deal and transaction costs	-	-	-	518	518	391	-	-	-	**391**	-	-	-	-	-
Total Operating Expenses	2,447	2,286	2,751	3,422	10,906	4,906	5,075	5,170	5,265	**20,416**	5,360	5,430	5,575	5,670	**22,035**
Operating Income (loss)	(213)	(411)	(404)	(1,521)	(2,549)	(1,014)	(700)	(570)	(680)	**(2,964)**	(230)	235	425	655	**1,085**
Other income (expense)															
Interest (expense) includes amortization of debt discount	(249)	(182)	(186)	(188)	(805)	(449)	(525)	(525)	(500)	**(1,999)**	(475)	(350)	(340)	(335)	**(1,500)**
Gain (loss) on extinguishment/settlement of obligations	1,565	1,628	256	-	3,449	-	-	-	-	-	-	-	-	-	-
Change in fair value of special loan	166	-	-	-	166	(295)	-	-	-	**(295)**	-	-	-	-	-
Change in fair value of warrant liability	-	-	-	-	-	5,469	-	-	-	**5,469**	-	-	-	-	-
Gain on settlement of obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on fair value of debt and debt waiver consent	-	-	-	-	-	(1,212)	-	-	-	**(1,212)**	-	-	-	-	-
Other income (expense), net	4	(3)	(8)	-	(7)	6	-	-	-	**6**	-	-	-	-	-
Total Other Income (expense)	1,486	1,443	62	(188)	2,803	3,519	(525)	(525)	(500)	**1,969**	(475)	(350)	(340)	(335)	**(1,500)**
Pre-Tax Income (loss)	1,273	1,032	(342)	(1,709)	254	2,505	(1,225)	(1,095)	(1,180)	**(995)**	(705)	(115)	85	320	**(415)**
Income Tax Expense (Benefit)	1	7	1	13	22	3	-	-	-	**3**	-	-	-	-	-
Net income (loss)	1,272	1,025	(343)	(1,722)	232	2,502	(1,225)	(1,095)	(1,180)	**(998)**	(705)	(115)	85	320	**(415)**
Earning (loss) per share	$ 0.11	$ 0.09	$ (0.03)	$ (0.14)	$ 0.02	$ 0.17	$ (0.06)	$ (0.05)	$ (0.05)	**$ (0.05)**	$ (0.03)	$ (0.01)	$ 0.00	$ 0.01	**$ (0.02)**
Avg Shares Outstanding	11,325	11,862	11,897	11,960	11,761	14,618	21,700	21,710	21,720	**19,937**	21,730	21,730	21,740	21,750	**21,738**
Adjusted EBITDA	$ 674	$ 286	$ 292	$ (31)	$ 1,221	$ 635	$ 475	$ 600	$ 485	**$ 2,195**	$ 1,055	$ 1,515	$ 1,700	$ 1,925	**$ 6,195**
Margin Analysis															
Hardware	32.0%	32.9%	28.3%	18.6%	26.8%	16.7%	20.3%	21.1%	22.6%	**20.0%**	22.9%	23.9%	24.3%	24.6%	**24.0%**
Services and other	60.9%	73.1%	67.8%	57.9%	64.8%	65.5%	60.0%	60.8%	60.4%	**61.4%**	62.0%	63.2%	63.9%	64.5%	**63.5%**
Total gross margin	44.6%	57.2%	49.4%	35.2%	45.3%	36.2%	40.5%	42.2%	42.1%	**40.3%**	43.5%	45.3%	46.3%	47.2%	**45.6%**
Sales and marketing	6.7%	5.2%	6.9%	5.9%	6.3%	6.6%	7.9%	8.3%	8.7%	**7.9%**	8.3%	8.0%	8.1%	8.2%	**8.1%**
Research and development	3.4%	1.8%	4.8%	1.8%	3.0%	2.2%	2.5%	2.5%	2.5%	**2.5%**	2.5%	2.4%	2.3%	2.2%	**2.4%**
General and administrative	42.1%	50.8%	38.9%	36.6%	41.2%	25.6%	28.7%	28.9%	29.4%	**28.1%**	27.5%	26.4%	26.3%	25.7%	**26.5%**
Depreciation	6.9%	10.5%	7.3%	6.1%	7.4%	6.6%	7.9%	7.8%	7.7%	**7.5%**	7.1%	6.6%	6.4%	6.1%	**6.5%**
Operating margin	(4.3%)	(12.5%)	(8.5%)	(28.2%)	(13.8%)	(9.4%)	(6.5%)	(5.2%)	(6.2%)	**(6.8%)**	(1.9%)	1.9%	3.3%	4.9%	**2.1%**
Pre-tax margin	25.4%	31.5%	(7.2%)	(31.6%)	1.4%	23.3%	(11.3%)	(10.0%)	(10.8%)	**(2.3%)**	(6.0%)	(0.9%)	0.7%	2.4%	**(0.8%)**
Tax rate	0.1%	0.7%	(0.3%)	(0.8%)	8.7%	0.1%	0.0%	0.0%	0.0%	**(0.3%)**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	35.1%	(10.4%)	(6.9%)	8.3%	5.6%	115.0%	229.6%	129.3%	101.7%	**135.2%**	9.7%	15.7%	18.8%	22.9%	**16.8%**

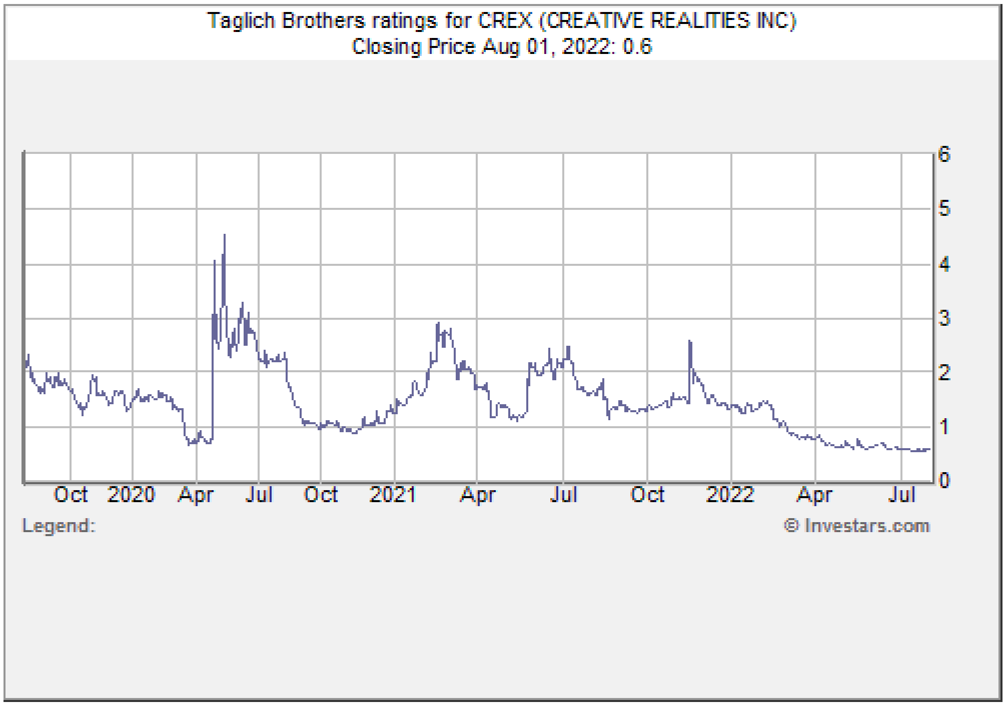
Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Cash Flow Statement
FY2019 – FY2023E
(in thousands)

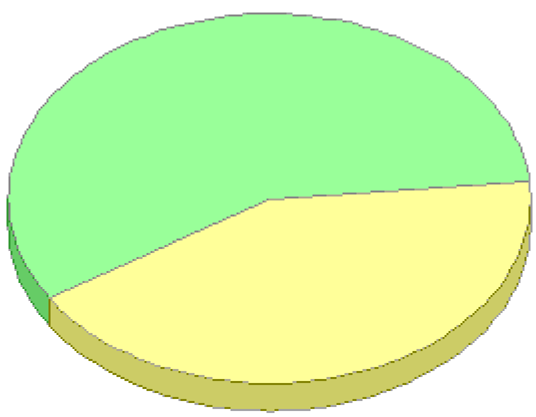
	FY2019A	FY2020A	FY2021A	1Q22A	**FY2022E**	**FY2023E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 1,038	$ (16,844)	$ 232	$ 2,502	**$ (998)**	**$ (415)**
Depreciation and amortization	1,217	1,474	1,364	707	**3,242**	**3,310**
Amortizaton of debt discount	524	339	159	181	**725**	**500**
Stock-based compensation	448	719	1,893	551	**1,375**	**1,600**
Shares issued for services	30	-	-	-	-	-
(Gain)/loss on chang in fair value of warrant liability	(21)	-	-	(5,469)	**(5,469)**	-
Allowance for doubful accounts	253	613	10	116	**(106)**	-
Loss on extinguishment of debt	-	-	-	295	**295**	-
Loss on debt waiver consent	-	-	-	1,212	**1,212**	-
Employee retention and other government credits	-	-	(785)	16	**16**	-
Non-cash interest expense on related party loans	-	517	467	-	-	-
Non-cash receivables from in-process projects	-	-	(369)	-	-	-
Non-cash application of customer deposits to completed projects	-	-	(506)	-	-	-
Stock compensation issued to vendors for services	-	-	130	-	-	-
Deferred tax (benefit)/expense	47	(175)	-	-	-	-
Gain on forgiveness of PPP loan	-	-	(1,552)	-	-	-
Gain on settlement of seller note	-	-	(1,538)	-	-	-
Gain on obligation settlement	(2,046)	(209)	(359)	-	-	-
Loss on disposal of assets	-	13	-	-	-	-
Loss on fair value of debt	-	93	(166)	-	-	-
Goodwill impairment	-	10,646	-	-	-	-
Gain on reversal of earnout liability	(250)	-	-	-	-	-
Cash earnings (burn)	1,240	(2,814)	(1,020)	111	**292**	**4,995**
Changes In:						
Accounts receivable and unbilled receivables	2,319	1,793	(673)	(3,724)	**(7,231)**	**(1,018)**
Inventories - work-in-progress	-	(1,972)	471	52	**(711)**	**(307)**
Prepaid expenses and other current assets	1,260	(71)	18	855	**(967)**	**(184)**
Vendor deposits	-	(116)	(360)	(78)	**(315)**	**(350)**
Other assets	44	130	-	(11)	**(50)**	-
Operating lease right of use asset, net	535	149	277	75	**(419)**	**73**
Accounts payable and other current payables	284	3	869	2,292	**2,520**	**(2,080)**
Deferred revenue	(5,682)	(8)	(338)	1,901	**3,574**	-
Accrued expenses, net	1,474	(502)	206	35	**481**	**(250)**
Customer deposits	(1,924)	15	1,261	(213)	**1,475**	**500**
Operating lease liabilities, net	(517)	(139)	(285)	(75)	**(70)**	-
Other, net	(3)	2	45	(19)	**3,574**	**1,000**
(Increase)/decrease in Working Capital	(2,210)	(716)	1,491	1,090	**1,861**	**(2,618)**
Net cash provided (used in) Operations	(970)	(3,530)	471	1,201	**2,153**	**2,377**
Cash Flows from Investing Activities						
Purchase of property and equipment	-	(92)	(19)	(10)	**(25)**	**(30)**
Acquisition of a business, net of cash acquired	-	-	-	(17,184)	**(17,184)**	-
Capitalization of internal and external labor for software development	-	(565)	(1,140)	(775)	**(2,000)**	**(1,500)**
Proceeds from net working capital settlement	210	-	-	-	-	-
Purchases/additions of property, equipment, and software development	(897)	-	-	-	-	-
Cash flow provided (used in) Investing Activities	(687)	(657)	(1,159)	(17,969)	**(19,209)**	**(1,530)**
Cash Flows from Financing Activities						
Proceeds from common stock issuance, net of issuance costs	-	1,831	1,849	-	-	-
Proceeds from sale of common stock in PIPE, net of offering expenses	-	-	-	1,814	**1,814**	-
Proceeds from sale and exercise of pre-funded warrants in PIPE, net	-	-	-	8,295	**8,295**	-
Proceeds from acquisition loan, net	-	-	-	9,868	**9,868**	-
Proceeds from related party loans	2,000	-	-	-	-	-
Proceeds from payroll protection program loan	-	1,552	-	-	-	-
Principal payments on finance leases	(31)	(24)	(4)	-	-	-
Repayment of seller note	(498)	-	(100)	(104)	**(104)**	**(2,396)**
Proceeds from warrant exercise into common stock	-	120	-	-	-	-
Other financing activities, net	2	-	-	-	-	-
Net cash provided (used) by Financing	1,473	3,479	1,745	19,873	**19,873**	**(2,396)**
Net change in Cash	(184)	(708)	1,057	3,105	**2,817**	**(1,549)**
Cash Beginning of Period	2,718	2,534	1,826	2,883	**2,883**	**5,699**
Cash End of Period	$ 2,534	$ 1,826	$ 2,883	$ 5,988	**$ 5,699**	**$ 4,150**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	5	26
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

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I, Howard Halpern, 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.