Research Report – Update

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

Creative Realities, Inc.

Rating: Speculative Buy

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CREX $2.45 — (NASDAQ)

May 17, 2023

	2021 A	2022 A	*2023 E*	*2024 E*
Total Revenues (in millions)	$18.4	$43.4	***$60.0***	***$72.0***
Earnings (loss) per share	$0.06*	$0.28**	***$0.10***	***$0.75***

52-Week range	$2.79 – $1.65	Fiscal year ends:	December
Shares outstanding a/o 5/15/23	7.4 million	Revenue/shares (ttm)	$5.84
Approximate float	5.2 million	Price/Sales (ttm)	0.4X
Market Capitalization	$18.1 million	Price/Sales (2024) E	0.3X
Tangible Book value/shr	($3.39)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2024) E	3.3X

All per share figures reflect a 1 for 3 reverse stock split effective March 27, 2023

**Includes an estimated net gain of $0.99 per share for certain items* ***Includes an estimated net gain of $1.78 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 in the following markets: automotive, advertising networks, apparel & accessories, convenience stores, food and quick service restaurants, gaming, theater, and stadium venues. Recurring revenue is derived from subscription licensing of its content management software offerings.

Key Investment Considerations:

Maintaining Speculative Buy rating and our twelve-month price target of $7.00 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 7.9% annually to $10.6 billion in 2027, up from $6.7 billion in 2021.

Supporting our forecasts through 2024 is the February 2022 acquisition of Reflect System that added a technology suite of media advertising offerings. Also, CREX entering 2Q23 had a record high backlog of approximately $110 million and an annual recurring revenue run rate of $14.8 million. We forecast an annual recurring revenue run rate of at least $17 million entering 2024.

CREX reported (on 5-15-23) a 1Q23 loss per share of ($0.14) on revenue of $9.9 million. In 1Q22, after excluding one-time gains and charges the loss per share was ($0.20) on revenue of $10.8 million. We projected a loss per share of ($0.14) on revenue of $10.5 million.

For 2023, we project EPS of $0.10 on 38.5% revenue growth to $60 million. We previously forecast EPS of $0.09 per share on revenue of $60 million. Our forecasts reflect the anticipated ramp of ongoing customer deployments that should occur in 2H23 and improved gross margins.

For 2024, we reiterate our EPS forecast of $0.75 on 19.9% revenue growth to $72 million (unchanged). Our revenue forecast should be supported by customer deployment from the company's $110 million backlog and increasing annual recurring revenue customer base. Our EPS forecast reflects gross margin improving to 44.3% from an estimated 43.6% in 2023 and operating expense margin of 32.6% from an estimated 36.7% in 2023.

Please view our Disclosures on pages 14 - 16

Appreciation Potential

Maintaining Speculative Buy rating and our twelve-month price target of $7.00 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. Entering 2Q23, the company had a record high backlog of approximately $110 million and an annual recurring revenue run rate of $14.8 million. We project entering 2024, CREX should generate an annual recurring revenue run rate of at least $17 million.

Our 12-month price target of $7.00 per share implies shares could nearly triple over the next twelve months. According to finviz.com, the average price-to-sales multiple for companies with similar to larger market capitalizations in the software application and infrastructure sectors is 1.8X (unchanged), compared to Creative Realities trailing price-to-sales multiple of 0.3X (unchanged). 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 19.9% in 2024. We applied a price-to-sales multiple of 1.1X (unchanged) to our 2024 sales per share forecast of $9.18, discounted for execution risks and potential dilution from the exercise of outstanding warrants, to obtain a year-ahead price target of approximately $7.00 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 anticipate the company generating an operating profit of $8.4 million in 2024, up from nearly $4 million in 2023 compared to an operating loss of $1.9 million (excluding $592,000 in acquisition related transaction costs) in 2022. In 2024, CREX should generate cash earnings of $11.8 million, up from estimated cash earnings of $6.8 million in 2023. Cash earning in 2022 was $2.6 million.

We believe Creative Realities is most suitable for risk tolerant investors seeking exposure to an emerging growth company providing digital signage and digital marketing solutions to its 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.

Recent Developments

On May 1, 2023, Creative Realities, received a subsequent unsolicited proposal from Pegasus to acquire all of the outstanding shares of common stock of the company that are not owned by Pegasus for a purchase price of $2.85 per share in cash. The company's special committee, in consultation with its financial and legal advisors, is carefully reviewing and considering the updated proposal to pursue the course of action that it believes is in the best interests of the CREX's shareholders. There can be no assurance that any revised proposal or definitive offer will be made or accepted, that any agreement will be executed, or that any transaction will be consummated.

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 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.

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.

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, which could approximate over $20 billion globally. 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. This growth should occur organically by cross selling its newly acquired technology platform and media advertising offerings to its existing customer base, as well as obtaining new customers by positioning itself as a provider of end-to-end digital signage technology solutions.

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.

CREX is in a position to grow its record backlog of approximately $110 million. The company announced an additional agreement with Starlite Media to supply and deploy up to 5,000 displays in conjunction with the expansion of their network at an initial deployment commitment valued at $2 million to CREX and approximately $50 million of additional backlog at full deployment. The company is actively engaged in discussion with potential customer in its pipeline. If secured the opportunities could result in hardware installation and service and SaaS revenues for up to a combined 2,000 locations that would likely add up to $32 million to the backlog.

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

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 approach $22 million on an annualized basis by 4Q24, up from $14.8 million entering 2Q22.

<u>*Basis of Forecast*</u>

Our forecast reflects the February 2022 acquisition of Reflect Systems that enables cross-selling Reflect Systems' digital signage platforms and media technology offerings to existing CREX customers, and selling and deploying hardware to Reflects' customers. Also, CREX entering 2023 had a record high backlog of approximately $110 million and an annual recurring revenue run rate of $14.8 million. We forecast an annual recurring revenue run rate of at least $17 million entering 2024. The backlog includes the marketing partnership with the Bowling Proprietors Association of America and Strike Ten Entertainment to become their official digital signage and digital menu board provider.

We are not forecasting (only recording what CREX reports) income tax expense as the company had approximately $10.7 million in federal and state net operating loss carryforwards at December 31, 2022.

<u>Economy</u>

In April 2023, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 2.8% for 2023 and 3% for 2024. In January 2023, the IMF's prior projections called for growth of 2.9% in 2023 and 3.1% growth in 2024. The forecast reflects a rise global interest rates to fight inflation, particularly in advanced economies, as well as negative effects from the war in Ukraine.

The IMF revised its economic growth estimate for the US to an increase of 1.6% for 2023 and 1.1% for 2024. In January 2023, the IMF projected US economic growth of 1.2% and 1.4% for 2023 and 2024, respectively.

<u>*Operations 2023*</u>

We project 38.4% total revenue growth to $60 million (unchanged) reflecting service and other sales growth of 29.3% to $30.3 million from $23.5 million in 2022 due to increases in recurring revenue. We anticipate hardware sales increasing 49.4% to $29.7 million from $19.9 million base on company guidance that deployments from customer within its $110 million backlog should commence in 2H23.

We forecast gross profit increasing 47.5% to $26.2 million from $17.7 million in 2022 due primarily to revenue growth and gross margin expansion to 43.6% from 40.9% last year. We anticipate service and other gross margin of 67.1%, up from a 61.6% in 2022. We estimate hardware gross margin improving to 19.6% from 16.5% in 2022.

We expect operating expenses increasing 9.7% to $22.2 million from $20.2 million in 2022, with the year-ago period including deal and transaction costs of $592,000. We project G&A expense increasing 9.1% to nearly $12.8 million from $11.7 million in 2022 to support revenue growth. We anticipate sales and marketing expense increasing 32.5% to $4.8 million from $3.7 million last year in order to facilitate continue growth in the company's backlog. We forecast D&A expense of $3.1 million compared to $2.8 million in the year-ago period along with R&D expense increasing by $210,000 to $1.5 million.

We project a swing to operating income of nearly $4 million compared to an operating loss of $2.5 million (includes $592,000 in deal and transaction costs). The improvement reflects revenue growth, gross margin expansion, and operating expense margin improving to 36.9% compared to 46.6% in 2022.

We anticipate non-operating expense of $3.2 million (of which $3.1 million is interest expense) compared to income of $4.4 million in 2022. In the year-ago period interest expense was $2.7 million. Non-operating income last year reflects $7.9 million positive change in fair value of warrant liability and other income and a positive change of $1.1 million related to equity guaranty, partly offset by a $237,000 negative change in fair value of settlement of obligations, and a $1.2 million debt waiver charge along with a $345,000 charge related to a warrant amendment.

We project net income of $775,000 or $0.10 per share. We previously projected net income of $685,000 or $0.09 per share.

Finances

We forecast 2023 cash earnings of $6.8 million and a decrease in working capital of $2.7 million resulting in cash from operations of $9.5 million. Cash from operations is should cover capital expenditures, capitalized software development, and repayment of debt obligations increasing cash by $2.1 million to $3.7 million at December 31, 2023.

Operations – 2024

We project 19.9% total revenue growth to $72 million (unchanged) reflecting service and other sales growth of 19.1% to $36.1 million from an estimated $30.3 million in 2023 due to increases in recurring revenue stemming from deployment in 2H23. We anticipate hardware sales increasing 20.8% to $35.9 million from an estimated $29.7 million in 2023 as CREX's customer base continues to expand and new customer deployments occur.

We forecast gross profit increasing 21.9% to $31.9 million from an estimated $26.2 million in 2023 due primarily to revenue growth and gross margin expansion to 44.3% from an estimated 43.6% in 2023. We anticipate service and other gross margin of 70%, up from an estimated 67.1% in 2023. We estimate hardware gross margin decreasing to 18.5% from an estimated 19.6% in 2023.

We expect operating expenses to increase by 5.8% to $23.5 million from an estimated $22.2 million in 2023. We project G&A expense increasing 8% to $13.8 million from an estimated $12.8 million in 2023 to support revenue growth. We anticipate sales and marketing expense increasing 6.8% to $5.2 million from an estimated $4.8 million in 2023 to support the effort to continue building its customer backlog. We forecast D&A expense decreasing by $79,000 of $3 million along with R&D expense remaining at $1.5 million.

We project operating income more than doubling to $8.4 million from an estimated $4 million in 2023. The improvement reflects revenue growth, gross margin expansion, and operating expense margin improving to 32.6% compared to an estimated 36.9% in 2023.

We anticipate non-operating expense of $2.6 million compared to estimated expense of $3.2 million in 2023. The decrease reflects lower average debt balances.

Reiterating our forecast for net income of $5.8 million or $0.75 per share.

Finances

We forecast 2024 cash earnings of $11.8 million and an increase in working capital of $2.6 million resulting in cash from operations of $9.2 million. Cash from operations is should cover capital expenditures, capitalized software, and repayment of some debt obligations, increasing cash by $145,000 to nearly $3.9 million at December 31, 2024.

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 stored data is distributed to media players installed at various customer locations.

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%. In 2021, according to screen fluency statistics, because of digital 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.

Global Digital Signage Market

In May 2022, Reportlinker.com published a report indicating that the global digital signage market is expected to grow 9.5% annually to $28.3 billion in 2026 from an estimated $19.7 billion in 2022. The growth drivers supporting their forecast include an increasing demand for the digitized promotion of products and services and rapid innovation that should produce a higher quality viewing experience.

1Q22 Results

1Q23

CREX reported total revenue decrease 7.6% to $9.9 million from nearly $10.8 million due primarily to a $2.1 million reduction in hardware revenues to $4.3 million stemming from a hardware refresh for two significant customers in the prior year that did not recur in 1Q23. Partly offsetting the decrease was a $1.3 million increase in services and other revenues to $5.6 million driven primarily by growth in managed services revenue. Managed services revenue, which includes software-as-a-service and help desk technical subscription services increased to nearly $4.1 million compared to $2.7 million due primarily to the inclusion of Reflect Systems revenue.

Gross profit increased 20.8% to $5.1 million from $2.9 million in the year-ago period due to gross margin expansion to 51.2% from 36.2% last year. Gross margin improvement reflects higher hardware segment gross margin of 25.8% compared to 16.7% in 1Q22. Also, services and other gross margin increased to 70.7% compared to 65.5% in 1Q22. Overall gross margin improvement reflects a favorable revenue mix skewed to higher margin recurring SaaS revenues.

Operating expenses increased to $5.1 million from $4.4 million (excluding $497,000 in deal/transaction and bad debt expenses) last year. G&A expense increased $144,000 to $2.9 million and sales and marketing expense increased $429,000 to $1.1 million due to the inclusion of a full quarter of the operations of Reflect Systems. D&A expense was $779,000 compared to $707,000 in the year-ago period and R&D expense was $366,000 compared to $241,000 in 1Q22.

The company's operating loss narrowed to $90,000 compared to a loss of $517,000 (excluding $497,000 in one-time charges) last year. The improvement stems primarily from gross margin improvement.

Non-operating expense was $867,000 compared to income of $3.6 million in 1Q23. The current period includes interest expense of $803,000 and a negative change in fair value of equity guarantee of $76,000, partly offset by a $12,000 gain in other. The year-ago period reflects interest expense of $449,000, a loss on debt waiver consent of $1.2 million, and settlement obligations charge of $245,000, which was more than offset by positive changes of nearly $5.5 million change in fair value of warrant liability.

Net loss was $1 million or ($0.14) per share on nearly 7.4 million average shares compared to a net income of $2.6 million or $0.52 per share on 4.9 million average shares in the year-ago period. Excluding deal and transaction costs and other items (except interest expense), the loss per share in the year-ago period would have been approximately ($0.20) per share. We projected a loss per share of ($0.14) on revenue of $10.5 million.

Finances
In 1Q23, cash earnings of $770,000 and a decrease in working capital of $3.1 million resulted in cash from operations of nearly $3.9 million. Cash from operations covered capital expenditures and repayment of debt obligations. Cash increased by nearly $2.3 million to $3.9 million at March 31, 2023.

Capital Structure
At March 31, 2023, CREX had total debt on its balance sheet of $17.4 million, of which $4.9 million is short-term consisting of a seller note ($1.1 million) 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 2024. Also, the company recorded $2 million as short-term on a portion of related party consolidation term loan.

Creative Realities has $8.7 million (net of $1.3 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. The company has $5.5 million (net of $654,000 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.

On June 30, 2022, the company amended the terms of its warrants to remove the holder's option to exercise such warrants on a cashless basis utilizing the volume weighted average price. The amendments to the warrants also extend the term for an additional one year. The amendments to the warrants caused them to be accounted for as equity instruments in CREX's financial statements.

On October 31, 2022, company borrowed $2 million from its existing lender at a 12.5% interest rate. This is a short-term term loan that matures on September 1, 2023.

During February 2023, CREX and the stockholders' representative executed an amendment to its secured promissory note that had required Creative Realities to pay to the stockholders' representative a balloon payment of nearly $1.3 million plus accrued and unpaid interest, on February 17, 2023. The amendment eliminated the balloon payment and extended the maturity date to February 17, 2024. During the extended period, Creative Realities will continue to make monthly principal payments of $104,000 and the annual interest rate on the outstanding principal increased from 0.59% to 4.60%, which will accrue and is payable in full on the new maturity date.

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.

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.

Risks

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

Operating Losses
At March 31, 2023, the company's accumulated deficit was $51.4 million, up from $50.4 million at December 31, 2022. While CREX reported net income in 2021 and 2022, since 2019, it has yet to generate an annual operating profit. In 2022 the operating loss was slightly less than $2.5 million compared to an operating loss of slightly more

than $2.5 million in 2021. While we anticipate the company generating operating income through our forecast period, if our expectations are not achieved, it could result in the company's inability to execute its growth strategy during our forecast period.

Dilution

In February 2022, Creative Realities completed 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 increased total shares outstanding. There are approximately 5.8 million common stock warrants outstanding (reflects the March 27, 2023 1 for 3 reverse stock split). Holders must pay cash to exercise outstanding warrants. So while outstanding shares could increase the company's cash balances would also increase.

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.

Reliance on related party for financing operations

As of March 29, 2023, CREX's largest shareholder and investor, Slipstream Communications LLC owned 93% of its outstanding debt instruments, including two term loans, and has a beneficial ownership of 38% of outstanding common stock (on an as-converted, fully diluted basis). Slipstream has provided CREX with a continued support letter through May 31, 2024. 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.

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.

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.

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 16.9% of the company's outstanding voting stock and additionally one shareholder owns approximately 43% of the company's outstanding voting stock as of a May 2023 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 2022, average daily volume was nearly 181,00. Average daily volume decreased over the last three months (ending May 16, 2023) to 38,300. CREX has a float of approximately 5.2 million shares and outstanding shares of 7.4 million.

Creative Realities, Inc.
Consolidated Balance Sheets
FY2020 – FY2024E
(in thousands)

	FY2020A	FY2021A	FY2022A	1Q23A	**FY2023E**	**FY2024E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ 1,826	$ 2,883	$ 1,633	$ 3,905	**$ 3,745**	**$ 3,890**
Accounts receivable, net	2,302	3,006	8,263	6,849	**8,339**	**10,400**
Unbilled receivables	41	369	-	-	**-**	**-**
Inventories, net	2,351	1,880	2,267	1,479	**2,946**	**4,455**
Prepaid expense and other current assets - includes contracts	507	1,634	1,819	804	**1,201**	**2,700**
Total current assets	7,027	9,772	13,982	13,037	**16,231**	**21,445**
Operating lease right-of-use	931	654	1,584	1,504	**1,504**	**1,846**
Property and equipment, net	175	75	201	245	**240**	**235**
Intangible, net	4,955	4,850	23,752	23,819	**22,000**	**20,467**
Goodwill	7,525	7,525	26,453	26,453	**26,453**	**26,453**
Other assets	5	5	43	44	**44**	**44**
Total assets	$ 20,618	$ 22,881	$ 66,015	$ 65,102	**$ 66,472**	**$ 70,490**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Short-term seller note payable	1,637	-	1,248	1,146	**-**	**-**
Short-term related party convertible loans payable	-	-	1,251	2,048	**-**	**-**
Short-term term loan	-	-	2,000	1,750	**-**	**-**
Accounts payable	1,661	2,517	3,757	3,087	**4,141**	**5,012**
Accrued expenses	2,142	2,110	3,828	3,726	**5,760**	**6,014**
Deferred revenues	764	426	1,223	3,605	**4,000**	**5,000**
Customer deposits	770	1,525	2,478	785	**3,000**	**4,000**
Current maturities of operating leases	355	281	711	712	**700**	**675**
Current maturities of financing leases	4	-	-	-	**-**	**-**
Total current liabilities	7,333	6,859	16,496	16,859	**17,600**	**20,701**
Payroll protection program - note payable	1,552	-	-	-	**-**	**-**
Secured promissory note	-	-	208	-	**-**	**-**
Related party acquisition term loan, net	-	-	8,516	8,688	**8,688**	**6,250**
Related party loans payable, net	4,436	4,624	4,349	3,736	**3,736**	**3,000**
Related party convertible loans payable, at fair value	2,270	2,251	-	-	**-**	**-**
Warrant liability, at fair value	-	-	-	-	**-**	**-**
Contingent acquisition consideration, at fair value	-	-	9,789	9,865	**7,876**	**5,000**
Long-term obligations under operating leases	584	373	873	792	**792**	**500**
Accrued expenses	108	-	-	-	**-**	**-**
Other and deferred tax liabilities	-	45	205	80	**80**	**50**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 200,000 shares;	109	120	72	74	**74**	**74**
Additional paid-in capital	56,712	60,863	75,916	76,417	**77,260**	**78,704**
Retained earnings (accumulated deficit)	(52,468)	(52,254)	(50,409)	(51,409)	**(49,634)**	**(43,789)**
Total stockholders' equity	4,353	8,729	25,579	25,082	**27,700**	**34,989**
Total liabilities and stockholders' equity	$ 20,636	$ 22,881	$ 66,015	$ 65,102	**$ 66,472**	**$ 70,490**
SHARES OUT	3,641	4,003	7,266	7,394	**7,400**	**7,450**

Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Annual Income Statement
FY2020 – FY2024E
(in thousands)

	FY20 A	FY21 A	FY22 A	**FY23 E**	**FY24 E**
Hardware	$ 8,991	$ 9,450	$ 19,895	**$ 29,722**	**$ 35,900**
Services and other	8,466	8,987	23,455	**30,322**	**36,100**
Total Revenues	$ 17,457	$ 18,437	$ 43,350	**$ 60,044**	**$ 72,000**
Cost of Sales per segement					
Hardware	6,251	6,914	16,613	**23,906**	**29,265**
Services and other	3,085	3,166	8,998	**9,974**	**10,830**
Total Cost of sales	9,336	10,080	25,611	**33,880**	**40,095**
Gross Profit	8,121	8,357	17,739	**26,164**	**31,905**
Operating Expenses:					
Sales and marketing	1,676	1,153	3,651	**4,836**	**5,165**
Research and development	1,083	550	1,251	**1,461**	**1,460**
General and administrative	9,293	7,598	11,728	**12,798**	**13,825**
Depreciation and amortization	1,474	1,364	2,833	**3,089**	**3,010**
Bad debt expense/(recovery)	-	(277)	164	-	-
Deal and transaction costs	-	518	592	-	-
Total Operating Expenses	24,203	10,906	20,219	**22,184**	**23,460**
Operating Income (loss)	(16,082)	(2,549)	(2,480)	**3,980**	**8,445**
Other income (expense)					
Interest (expense) includes amortization of debt discount	(1,023)	(805)	(2,743)	**(3,098)**	**(2,600)**
Gain (loss) on extinguishment/settlement of obligations	-	3,449	(237)	-	-
Change in fair value of special loan	-	166	-	-	-
Change in fair value of equity guarantee	-	-	1,074	**(76)**	-
Warrant amendment	-	-	(345)	-	-
Change in fair value of warrant liability	-	-	7,902	-	-
Loss on fair value of debt and debt waiver consent	(93)	-	(1,212)	-	-
Other income (expense), net	(13)	(7)	(4)	**12**	-
Total Other Income (expense)	(920)	2,803	4,435	**(3,162)**	**(2,600)**
Pre-Tax Income (loss)	(17,002)	254	1,955	**818**	**5,845**
Income Tax Expense (Benefit)	(158)	22	79	**43**	-
Net income (loss)	(16,844)	232	1,876	**775**	**5,845**
Earning (loss) per share	$ (4.96)	$ 0.06	$ 0.28	**$ 0.10**	**$ 0.75**
Avg Shares Outstanding	3,398	3,920	6,664	7,452	**7,844**
Adjusted EBITDA	$ (3,226)	$ 1,221	$ 3,845	**$ 8,087**	**$ 12,355**
Margin Analysis					
Hardware	30.5%	26.8%	16.5%	**19.6%**	**18.5%**
Services and other	63.6%	64.8%	61.6%	**67.1%**	**70.0%**
Total gross margin	46.5%	45.3%	40.9%	**43.6%**	**44.3%**
Sales and marketing	9.6%	6.3%	8.4%	**8.1%**	**7.2%**
Research and development	6.2%	3.0%	2.9%	**2.4%**	**2.0%**
General and administrative	53.2%	41.2%	27.1%	**21.3%**	**19.2%**
Depreciation	8.4%	7.4%	6.5%	**5.1%**	**4.2%**
Operating margin	(92.1%)	(13.8%)	(5.7%)	**6.6%**	**11.7%**
Pre-tax margin	(97.4%)	1.4%	4.5%	**1.4%**	**8.1%**
Tax rate	0.9%	8.7%	4.0%	**5.3%**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues	(44.8%)	5.6%	135.1%	**38.5%**	**19.9%**

Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Income Statement Model
Quarters FY2022A – 2024E
(in thousands)

	Q1 22 A	Q2 22 A	Q3 22 A	Q4 22 A	FY22 A	Q1 23 A	Q2 23 E	Q3 23 E	Q4 23 E	**FY23 E**	Q1 24 E	Q2 24 E	Q3 24 E	Q4 24 E	**FY24 E**
Hardware	$ 6,459	$ 5,667	$ 5,015	$ 2,754	$ 19,895	$ 4,322	$ 3,800	$ 11,100	$ 10,500	**$ 29,722**	$ 7,500	$ 6,800	$ 12,100	$ 9,500	**$ 35,900**
Services and other	4,298	5,256	6,165	7,736	23,455	5,622	6,200	8,500	10,000	**30,322**	7,000	7,500	10,600	11,000	**36,100**
Total Revenues	$ 10,757	$ 10,923	$ 11,180	$ 10,490	$ 43,350	$ 9,944	$ 10,000	$ 19,600	$ 20,500	**$ 60,044**	$ 14,500	$ 14,300	$ 22,700	$ 20,500	**$ 72,000**
Cost of Sales per segement															
Hardware	5,382	4,610	3,811	2,810	16,613	3,206	2,895	8,880	8,925	**23,906**	6,000	5,440	9,985	7,840	**29,265**
Services and other	1,483	1,651	2,855	3,009	8,998	1,649	1,850	2,975	3,500	**9,974**	2,100	2,250	3,180	3,300	**10,830**
Total Cost of sales	6,865	6,261	6,666	5,819	25,611	4,855	4,745	11,855	12,425	**33,880**	8,100	7,690	13,165	11,140	**40,095**
Gross Profit	3,892	4,662	4,514	4,671	17,739	5,089	5,255	7,745	8,075	**26,164**	6,400	6,610	9,535	9,360	**31,905**
Operating Expenses:															
Sales and marketing	707	1,147	718	1,079	3,651	1,136	1,150	1,250	1,300	**4,836**	1,215	1,250	1,325	1,375	**5,165**
Research and development	241	418	238	354	1,251	366	365	365	365	**1,461**	350	350	380	380	**1,460**
General and administrative	2,754	2,562	2,789	3,623	11,728	2,898	3,050	3,350	3,500	**12,798**	3,325	3,400	3,500	3,600	**13,825**
Depreciation and amortization	707	468	885	773	2,833	779	775	770	765	**3,089**	760	755	750	745	**3,010**
Bad debt expense/(recovery)	106	-	58	-	164	-	-	-	-	-	-	-	-	-	-
Deal and transaction costs	391	37	110	54	592	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	4,906	4,632	4,798	5,883	20,219	5,179	5,340	5,735	5,930	**22,184**	5,650	5,755	5,955	6,100	**23,460**
Operating Income (loss)	(1,014)	30	(284)	(1,212)	(2,480)	(90)	(85)	2,010	2,145	**3,980**	750	855	3,580	3,260	**8,445**
Other income (expense)															
Interest (expense) includes amortization of debt discount	(449)	(750)	(757)	(787)	(2,743)	(803)	(790)	(765)	(740)	**(3,098)**	(700)	(650)	(635)	(615)	**(2,600)**
Gain (loss) on extinguishment/settlement of obligations	(245)	21	37	(50)	(237)	-	-	-	-	-	-	-	-	-	-
Change in fair value of special loan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of equity guarantee	-	(73)	442	705	1,074	(76)	-	-	-	**(76)**	-	-	-	-	-
Warrant amendment	-	(345)	-	-	(345)	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liability	5,469	2,433	-	-	7,902	-	-	-	-	-	-	-	-	-	-
Loss on fair value of debt and debt waiver consent	(1,212)	-	-	-	(1,212)	-	-	-	-	-	-	-	-	-	-
Other income (expense), net	6	(1)	(2)	(7)	(4)	12	-	-	-	**12**	-	-	-	-	-
Total Other Income (expense)	3,569	1,285	(280)	(139)	4,435	(867)	(790)	(765)	(740)	**(3,162)**	(700)	(650)	(635)	(615)	**(2,600)**
Pre-Tax Income (loss)	2,555	1,315	(564)	(1,351)	1,955	(957)	(875)	1,245	1,405	**818**	50	205	2,945	2,645	**5,845**
Income Tax Expense (Benefit)	3	53	(10)	33	79	43	-	-	-	**43**	-	-	-	-	-
Net income (loss)	2,552	1,262	(554)	(1,384)	1,876	(1,000)	(875)	1,245	1,405	**775**	50	205	2,945	2,645	**5,845**
Earning (loss) per share	$ 0.52	$ 0.17	$ (0.08)	$ (0.19)	$ 0.28	$ (0.14)	$ (0.12)	$ 0.17	$ 0.19	**$ 0.10**	$ 0.01	$ 0.03	$ 0.37	$ 0.34	**$ 0.75**
Avg Shares Outstanding	4,873	7,234	7,250	7,300	6,664	7,351	7,355	7,525	7,575	7,452	7,800	7,835	7,865	7,875	**7,844**
Adjusted EBITDA	$ 635	$ 933	$ 1,249	$ 1,028	$ 3,845	$ 957	$ 940	$ 3,030	$ 3,160	**$ 8,087**	$ 1,735	$ 1,835	$ 4,555	$ 4,230	**$ 12,355**
Margin Analysis															
Hardware	16.7%	18.7%	24.0%	(2.0%)	16.5%	25.8%	23.8%	20.0%	15.0%	**19.6%**	20.0%	20.0%	17.5%	17.5%	**18.5%**
Services and other	65.5%	68.6%	53.7%	61.1%	61.6%	70.7%	70.2%	65.0%	65.0%	**67.1%**	70.0%	70.0%	70.0%	70.0%	**70.0%**
Total gross margin	36.2%	42.7%	40.4%	44.5%	40.9%	51.2%	52.5%	39.5%	39.4%	**43.6%**	44.1%	46.2%	42.0%	45.7%	**44.3%**
Sales and marketing	6.6%	10.5%	6.4%	10.3%	8.4%	11.4%	11.5%	6.4%	6.3%	**8.1%**	8.4%	8.7%	5.8%	6.7%	**7.2%**
Research and development	2.2%	3.8%	2.1%	3.4%	2.9%	3.7%	3.7%	1.9%	1.8%	**2.4%**	2.4%	2.4%	1.7%	1.9%	**2.0%**
General and administrative	25.6%	23.5%	24.9%	34.5%	27.1%	29.1%	30.5%	17.1%	17.1%	**21.3%**	22.9%	23.8%	15.4%	17.6%	**19.2%**
Depreciation	6.6%	4.3%	7.9%	7.4%	6.5%	7.8%	7.8%	3.9%	3.7%	**5.1%**	5.2%	5.3%	3.3%	3.6%	**4.2%**
Operating margin	(9.4%)	0.3%	(2.5%)	(11.6%)	(5.7%)	(0.9%)	(0.9%)	10.3%	10.5%	**6.6%**	5.2%	6.0%	15.8%	15.9%	**11.7%**
Pre-tax margin	23.8%	12.0%	(5.0%)	(12.9%)	4.5%	(9.6%)	(8.8%)	6.4%	6.9%	**1.4%**	0.3%	1.4%	13.0%	12.9%	**8.1%**
Tax rate	0.1%	4.0%	1.8%	(2.4%)	4.0%	(4.5%)	0.0%	0.0%	0.0%	**5.3%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	115.0%	233.3%	135.2%	94.2%	135.1%	(7.6%)	(8.5%)	75.3%	95.4%	**38.5%**	45.8%	43.0%	15.8%	(0.0%)	**19.9%**

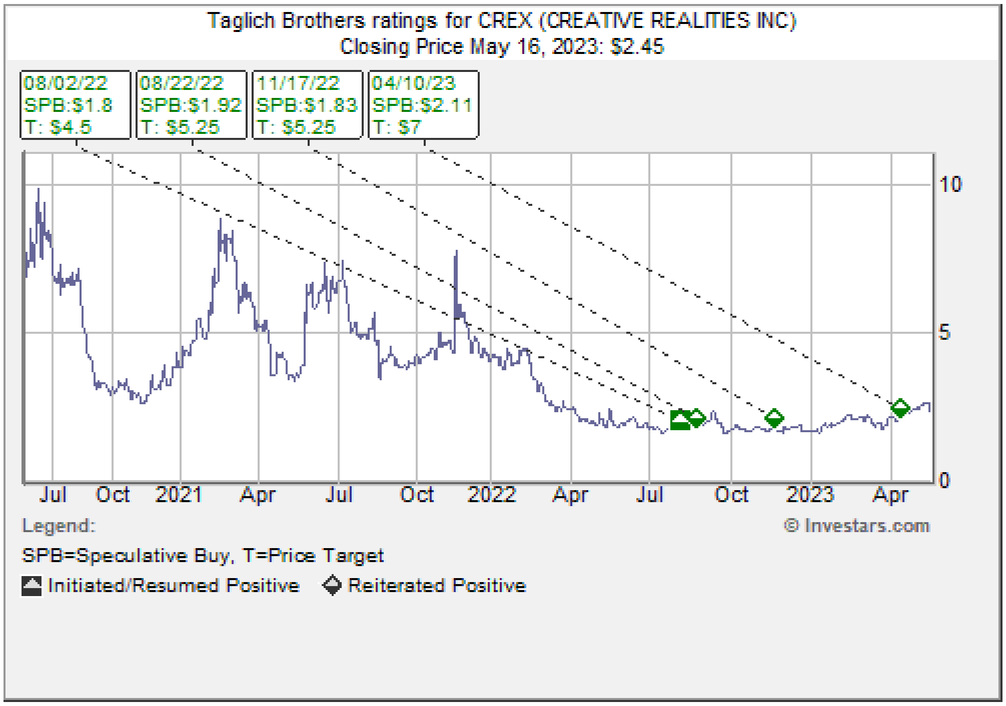
Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Cash Flow Statement
FY2020 – FY2024E
(in thousands)

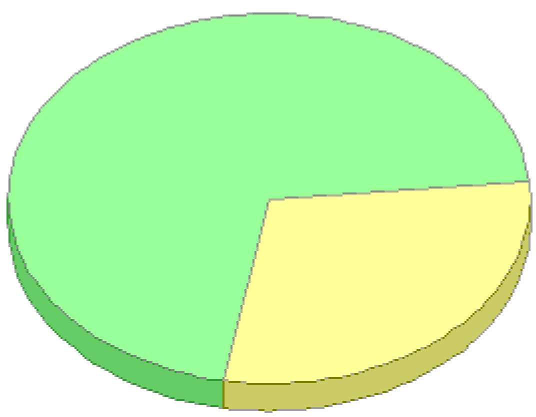
	FY2020A	FY2021A	FY2022A	1Q23A	**FY2023E**	**FY2024E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (16,844)	$ 232	$ 1,876	$ (1,000)	**$ 775**	**$ 5,845**
Depreciation and amortization	1,474	1,364	2,833	779	**3,089**	**3,010**
Amortizaton of debt discount	339	159	1,268	356	**1,425**	**1,400**
Stock-based compensation	719	1,893	2,116	298	**1,200**	**1,300**
Shares issued for services	-	-	-	-	-	-
(Gain)/loss on change in fair value of warrant liability	-	-	(7,902)	-	-	-
Allowance for doubful accounts	613	10	398	237	**237**	**250**
Loss on debt waiver consent	-	-	1,212	-	-	-
Loss on warrant amendment	-	-	345	-	-	-
Employee retention and other government credits	-	(785)	-	-	-	-
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	(175)	-	-	24	**24**	-
Gain on forgiveness of PPP loan	-	(1,552)	-	-	-	-
Gain on settlement of seller note	-	(1,538)	-	-	-	-
Loss (gain) on obligation settlement	(209)	(359)	237	-	-	-
Loss on disposal of assets and change in excess/obsotete inventory	13	-	1,275	-	-	-
Loss on fair value of debt	93	(166)	-	-	-	-
Goodwill impairment	10,646	-	-	-	-	-
Loss (gain) on earnout liability and contingent consideration	-	-	(1,074)	76	**76**	-
Cash earnings (burn)	(2,814)	(1,020)	2,584	770	**6,826**	**11,805**
Changes In:						
Accounts receivable and unbilled receivables	1,793	(673)	(3,927)	1,177	**(76)**	**(2,061)**
Inventories - work-in-progress	(1,972)	471	(1,472)	788	**(679)**	**(1,509)**
Prepaid expenses and other current assets	(71)	18	480	1,015	**618**	**(1,499)**
Vendor deposits	(116)	(360)	-	-	**(350)**	**(350)**
Other assets	130	-	-	-	**(1)**	-
Operating lease right of use asset, net	149	277	-	-	**80**	**(342)**
Accounts payable and other current payables	3	869	914	(486)	**(2,115)**	**871**
Deferred revenue	(8)	(338)	(462)	2,382	-	-
Accrued expenses, net	(502)	206	1,112	(45)	**1,932**	**255**
Customer deposits	15	1,261	110	(1,693)	**522**	**1,000**
Operating lease liabilities, net	(139)	(285)	-	-	-	-
Other, net	2	45	(47)	(40)	**2,777**	**1,000**
(Increase)/decrease in Working Capital	(716)	1,491	(3,292)	3,098	**2,707**	**(2,635)**
Net cash provided (used in) Operations	(3,530)	471	(708)	3,868	**9,533**	**9,170**
Cash Flows from Investing Activities						
Purchase of property and equipment	(92)	(19)	(149)	(31)	**(125)**	**(150)**
Acquisition of a business, net of cash acquired	-	-	(17,186)	-	-	-
Capitalization of internal and external labor for software development	(565)	(1,140)	(4,140)	(1,003)	**(4,000)**	**(3,000)**
Proceeds from net working capital settlement	-	-	-	-	-	-
Purchases/additions of property, equipment, and software development	-	-	-	-	-	-
Cash flow provided (used in) Investing Activities	(657)	(1,159)	(21,475)	(1,034)	**(4,125)**	**(3,150)**
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	-	-	-
Proceeds from sale and exercise of pre-funded warrants in PIPE, net	-	-	8,295	-	-	-
Proceeds from acquisition loan, net	-	-	9,868	-	-	-
Term loan short-term proceeds (repayment)	-	-	2,000	(250)	**(2,048)**	**(3,000)**
Proceeds from related party loans	-	-	-	-	-	-
Proceeds from payroll protection program loan	1,552	-	-	-	-	-
Principal payments on finance leases	(24)	(4)	-	(2)	-	-
Repayment of short-term related party	-	-	-		-	-
Repayment of seller note	-	(100)	(1,044)	(310)	**(1,248)**	-
Proceeds from warrant exercise into common stock	120	-	-	-	-	-
Other financing activities, contingent consideration net	-	-	-	-	-	**(2,875)**
Net cash provided (used) by Financing	3,479	1,745	20,933	(562)	**(3,296)**	**(5,875)**
Net change in Cash	(708)	1,057	(1,250)	2,272	**2,112**	**145**
Cash Beginning of Period	2,534	1,826	2,883	1,633	**1,633**	**3,745**
Cash End of Period	$ 1,826	$ 2,883	$ 1,633	$ 3,905	**$ 3,745**	**$ 3,890**

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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Analyst Certification

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.