# *Research Report – Update*

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

# Creative Realities, Inc.

**Rating: Speculative Buy**

Howard Halpern

## CREX $3.13 — (NASDAQ)

August 7, 2023

| | 2021 A | 2022 A | ***2023 E*** | ***2024 E*** |
|---|---|---|---|---|
| Total Revenues (in millions) | $18.4 | $43.4 | ***$46.7*** | ***$70.0*** |
| Earnings (loss) per share | $0.06* | $0.28** | ***($0.40)*** | ***$0.35*** |

| | | | |
|---|---|---|---|
| 52-Week range | $4.00 – $1.68 | Fiscal year ends: | December |
| Shares outstanding a/o 8/4/23 | 7.4 million | Revenue/shares (ttm) | $5.57 |
| Approximate float | 5.2 million | Price/Sales (ttm) | 0.6X |
| Market Capitalization | $23.2 million | Price/Sales (2024) E | 0.4X |
| Tangible Book value/shr | ($3.58) | Price/Earnings (ttm) | NMF |
| Price/Book | NMF | Price/Earnings (2024) E | 8.9X |

*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 but reducing our twelve-month price target to $6.50 per share from $7.00 per share due primarily to a reduction in our 2024 sales per share forecast.***

***Creative Realities has substantial growth potential for its end-to-end digital signage technology offerings in the US and international markets. Analysts project the US digital signage market growing 7.9% annually to $11.5 billion in 2028, up from an estimated $7.8 billion in 2023.***

***Supporting our forecasts through 2024 is acquisition of Reflect System that added a technology suite of media advertising offerings that could generate $5 million in 2024, up from an estimated $3 million 2023. CREX had a record high backlog of approximately $110 million and an annual recurring revenue run rate of $15.2 million entering 2H23. We forecast an annual recurring revenue run rate of $16 million entering 2024.***

***CREX reported (on 8-4-23) a 2Q23 loss per share of ($0.19) on revenue of $9.2 million. In 2Q22, after excluding one-time gains the loss per share was ($0.06) on revenue of $10.9 million. We projected a loss per share of ($0.12) on revenue of $10 million.***

***For 2023, we project a loss of ($0.40) per share on 7.8% revenue growth to $46.7 million. We previously forecast EPS of $0.10 per share on revenue of $60 million. Our forecasts reflect 1H23 results and an unanticipated delay in the start of a large customer deployment due to third party issues.***

***For 2024, we project EPS of $0.35 on 49.8% revenue growth to $70 million. We previously forecast EPS of $0.75 per share on revenue of $72 million. Our revenue forecast anticipates a revised customer deployment schedule and increasing annual recurring revenue customer base. Our EPS forecast reflects a shift toward lower margin hardware sales resulting in gross margin contracting to 41.7% from an estimated 44.8% in 2023.***

***Please view our Disclosures on pages 14 - 16***

## *Appreciation Potential*

**Maintaining Speculative Buy rating but reducing our twelve-month price target to $6.50 per share from $7.00 per share due primarily to a reduction in our 2024 sales per share forecast.** 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 3Q23, the company had a record high backlog of approximately $110 million and an annual recurring revenue run rate of $15.2 million (up from $14.8 million entering 2Q23) We project entering 2024, CREX should generate an annual recurring revenue run rate of approximately $16 million.

**Our 12-month price target of $6.50 per share implies shares could more than double 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 0.6X (prior was 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 nearly 50% in 2024. We applied a price-to-sales multiple of 1.1X (unchanged) to our 2024 sales per share forecast of $8.92 (prior was $9.18), discounted for execution risks and potential dilution from the exercise of outstanding warrants, to obtain a year-ahead price target of approximately $6.50 per share.

Creative Realities' valuation should improve as it reports revenue growth, a swing to operating profits, and growing cash earnings. We anticipate the company generating an operating profit of $5.4 million in 2024, up from $160,000 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 $8.3 million, up from estimated cash earnings of $3 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 August 4, 2023,** Creative Realities, announced there would be a shift in the revenue ramp associated with a large customer deployment due to unexpected supply chain delays for certain route/switch equipment, which was being procured and delivered by a third-party. While the supply chain issue has been resolved it is anticipated that these delays are likely to impact full year 2023 revenue results. Revenues from this project remain intact but have instead experienced a shift in timing. CREX expects to generate between $60 million and $80 million in revenue for the next twelve-month period beginning in third quarter 2023.

## *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 $38 billion globally by 2028. 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.

The company will be launching a channel partner program targeting small-to-medium sized business customers working with smaller integrators. The opportunity to roll out a channel partner program should enable CREX to leverage its digital signage solutions to integrators under a recurring revenue subscription license.

In 2023, CREX intends to launch a generative artificial intelligence solution that will be designed to change its content management application by deliver to customers a more contextual messaging that should drive consumer behavior and improve operational throughput, basket size, and profitability.

CREX is in a position to maintain and refresh 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.

In August 2024, the company will be Panera Bread's digital signage solution for both indoor and digital drive-thru beginning with new construction and remodel sites. It is anticipated the first deployments could occur as early as September 2023. Panera has over 2,000 locations and 1,000 drive-thru. This engagement should build overtime as Panera's franchises seek to modernize their stores and enhance revenue opportunities which CREX's solution provide.

The company intends to make target acquisitions of smaller market participants that generate revenue of $3 million to $10 million and 1 or 2 large 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 1Q22 acquisition of Reflect Systems that enables cross-selling Reflect's digital signage platforms and media technology offerings to existing CREX customers, and selling and deploying hardware to Reflects' customers. CREX has a record high backlog of approximately $110 million and an annual recurring revenue run rate of $15.2 million entering 2H23. We forecast an annual recurring revenue run rate of at least $16 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. In August 2023, management indicated that its Bowling Proprietors deployment experienced unanticipated third party supply chain delays for certain route/switch equipment. While resolved, the supply chain issue caused delays that are likely to impact 2H23 revenue results. Overall, this project remain intact and once back on track, CREX expects to generate revenue between $60 million and $80 million during the next four quarters.

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.

Economy

In July 2023, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 3% for 2023 and 3% for 2024. In April 2023, the IMF's prior projections called for growth of 2.8% in 2023 and 3% growth in 2024. The forecast reflects an anticipated decline in global inflation, partly offset by a tightening of monetary policy resulting in higher global interest rates.

The IMF revised its economic growth estimate for the US to an increase of 1.8% for 2023 and 1% for 2024. In April 2023, the IMF projected US economic growth of 1.6% and 1.1% for 2023 and 2024, respectively.

*Operations 2023*

We project 7.8% total revenue growth to $46.7 million (prior was $60 million) reflecting service and other sales growth of 6.5% to $25 million from $23.5 million in 2022 due to increases in recurring revenue. We anticipate hardware sales increasing 9.4% to $21.8 million (prior was $29.7) from $19.9 million base on company guidance that deployments delays are likely to shift revenue from 2H23 into 2023. That shift should also slow the rate of other sales until the large deployments get underway.

We forecast gross profit increasing 18% to $20.9 million from $17.7 million in 2022 due primarily to revenue growth and gross margin expansion to 44.8% from 40.9% last year. We anticipate service and other gross margin of 65.3%, up from a 61.6% in 2022. We estimate hardware gross margin improving to 21.3% from 16.5% in 2022.

We expect operating expenses increasing 2.7% to $20.8 million from $20.2 million in 2022, with the year-ago period including deal and transaction costs of $592,000. We anticipate sales and marketing expense increasing 34.6% to $4.9 million from $3.7 million last year in order to facilitate continue growth in the company's backlog. We forecast D&A expense of $3.2 million compared to $2.8 million in the year-ago period along with R&D expense increasing by $207,000 to $1.5 million. We anticipate partly offsetting the increase in operating expenses is likely to be a decrease in G&A expense to $11.2 million from $11.7 million in 2022 as higher personnel costs are more than offset by reductions in merger related expenses that will not recur in the current period

We project a swing to operating income of $160,000 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 44.5% compared to 46.6% in 2022.

We anticipate non-operating expense of $3 million (of which nearly $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 a net loss of $3 million or ($0.40) per share. We previously projected EPS of $0.10 per share.

*Finances*
We forecast 2023 cash earnings of $3 million and a decrease in working capital of $6.2 million resulting in cash from operations of $9.2 million. Cash from operations is should cover capital expenditures, capitalized software development, and repayment of debt obligations increasing cash by $734,000 to $2.4 million at December 31, 2023.

*Operations – 2024*
We project 49.8% total revenue growth to $70 million (prior was $72 million) reflecting service and other sales growth of 19.1% to $29.8 million from an estimated $25 million in 2023 due to increases in recurring revenue stemming from deployments made in 2H23 and through 2024. We anticipate hardware sales increasing nearly 85% to $40.3 million from an estimated $21.8 million in 2023 due to an expanding customer base and the company's deployment to a large customer regains traction after supply chain and timing issues last year.

We forecast gross profit increasing 39.5% to $29.2 million from an estimated $20.9 million in 2023 due primarily to revenue growth, partly offset by gross margin compression to 41.7% from an estimated 44.8% in 2023. We anticipate service and other gross margin of 67%, up from an estimated 65.3% in 2023. We estimate hardware gross margin improving to 22.5% from an estimated 21.3% in 2023. The gross margin compression reflects the sales mix that should shift toward lower margin hardware sales due to initial deployments to new customers.

We expect operating expenses to increase by 14.7% to $23.8 million from an estimated $20.8 million in 2023. We project G&A expense increasing 21% to $13.6 million from an estimated $11.2 million in 2023 to support revenue growth. We anticipate sales and marketing expense increasing 18.5% to $5.8 million from an estimated $4.9 million in 2023 to support the effort to continue building and refreshing its customer backlog. We forecast D&A expense to be flat at $3.1 million along with R&D expense decreasing by $158,000 to $1.3 million.

We project operating income increasing to nearly $5.4 million from an estimated $160,000 in 2023. The improvement reflects revenue growth and operating expense margin improving to 34.1% compared to an estimated 44.5% in 2023.

We anticipate non-operating expense of $2.6 million compared to estimated expense of $3 million in 2023. The decrease reflects lower average debt balances.

We project net income of $2.8 million or $0.35 per share. We previously projected net income of $5.8 or $0.75 per share. Our reduced forecast reflects an anticipated shift in the sales mix toward lower margin hardware offerings due to the timing of large customer deployments.

*Finances*
We forecast 2024 cash earnings of $8.3 million and a decrease in working capital of $1.2 million resulting in cash from operations of $9.5 million. Cash from operations is unlikely to cover capital expenditures, capitalized software, and repayment of debt obligations, reducing cash by $1.3 million to nearly $1.1 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 2023, Mordor Intelligence published a report indicating that the US digital signage market is anticipated to reach $11.5 billion by 2028, up from nearly $7.9 billion estimated for 2023 for annualized growth of nearly 7.9%. A primary growth drive for the US digital signage market is the increasing need to enhance a customers' experience therefore within the industry turnkey solutions are seeing huge demand in order to cater to this demand.

Nearly every industry is using or find a place for digital outdoor signage. The most prominent usage is within restaurants (especially within quick serve and drive thru sectors), hotels, retail places, transit facilities, and entertainment events. In 2021, Screen Fluency statistics indicated that as a result of digital signage 76% of American consumers enter stores they had never visited before and 68% of Americans have paid for a product or service because its signage drew their attention.

**Global Digital Signage Market**

Expert Market Research published a report indicating that the global digital signage market is expected to grow 8% annually to $38.5 billion in 2028 from $24.5 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 15.8% to $9.2 million from $10.9 million due primarily to a $2.2 million reduction in hardware revenues to $3.4 million stemming from a hardware refresh for two significant customers in the prior year that did not recur in 2Q23. Partly offsetting the decrease was a $503,000 increase in services and other revenues to nearly $5.8 million driven primarily by increases in installation services.

Gross profit decreased to $4.3 million from nearly $4.7 million in the year-ago period due primarily to lower sales, partly offset by gross margin expansion to 46.7% from 42.7% last year. Gross margin improvement reflects higher hardware segment gross margin of 20.7% compared to 18.7% in 2Q22. Services and other gross margin decreased to 62.3% compared to 68.6% in 2Q22. Overall gross margin improvement reflects a favorable revenue mix skewed to higher margin recurring SaaS revenues along with improvement in hardware segment gross margin.

Operating expenses increased to $5 million from $4.6 million (excluding $37,000 in deal/transaction expenses) last year. While G&A expense was flat at $2.6 million and sales and marketing expense increased $82,000 to $1.2 million. D&A expense was $797,000 compared to $468,000 in the year-ago period and R&D expense was $377,000 compared to $418,000 in 2Q22.

The company's operating loss was $700,000 compared to operating income of $67,000 (excluding $37,000 in one-time charges) last year. The decrease is due primarily to lower hardware sales.

Non-operating expense was $680,000 compared to income of $1.3 million in 2Q23. The current period includes interest expense of $787,000 and a negative change in fair value of equity guarantee of $16,000, partly offset by a $123,000 gain in other. The year-ago period reflects interest expense of $750,000 and charges of $418,000 related to fair value of equity guarantee and warrant amendment, which was more than offset by positive changes of nearly $2.4 million change in fair value of warrant liability and settlement obligations.

Net loss was $1.4 million or ($0.19) per share on 7.4 million average shares compared to a net income of $1.3 million or $0.17 per share on 7.2 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 ($0.06) per share. We projected a loss per share of ($0.12) on revenue of $10 million.

**1H23**

Total revenue decrease 11.7% to $19.1 million from $21.7 million due to a $4.4 million reduction in hardware revenues to $7.8 million, partly offset by a $1.8 million increase in services and other revenues to $11.4 million.

Gross profit increased to $9.4 million from nearly $8.6 million in the year-ago period due primarily to gross margin expansion to 49% from 39.5% last year.

Operating expenses increased to $9.5 million from $9 million (excluding $428,000 in deal/transaction expenses and $106,000 bad debt expense) last year.

The company's operating loss was $790,000 compared to a loss of $450,000 (excluding $534,000 in one-time charges) last year.

| In Thousands $ | 6 Mos. '23 | 6 Mos. '22 | % D |
|---|---|---|---|
| Total revenue | $ 19,140 | $ 21,680 | **(11.7%)** |
| Cost of sales | 9,753 | 13,126 | **(25.7%)** |
| Gross Profit | 9,387 | 8,554 | **9.7%** |
| Total Operating Expenses | 10,177 | 9,538 | **6.7%** |
| Operating Income (loss) | (790) | (984) | **NMF** |
| Total Other Income (expense) | (1,547) | 4,804 | **NMF** |
| Pre-Tax Income (loss) | (2,337) | 3,820 | **NMF** |
| Income Tax Expense (Benefit) | 88 | 56 | |
| Net income (loss) | (2,425) | 3,764 | **NMF** |
| Earnings per share | $ (0.33) | $ 0.62 | |
| Avg Shares Outstanding | 7,379 | 6,060 | |
| Adjusted EBITDA | 1,248 | 1,568 | |
| Margin Analysis | | | |
| Gross margin | 49.0% | 39.5% | |
| Operating margin | (4.1%) | (4.5%) | |
| Pre-tax margin | (12.2%) | 17.6% | |
| Source: company reports | | | |

Non-operating expense was $1.5 million compared to income of $4.8 million in 1H23. The current period includes interest expense of $1.6 million and a negative change in fair value of equity guarantee of $92,000, partly offset by a $135,000 gain in other. The year-ago period reflects interest expense of $1.2 million, a loss on debt waiver consent of $1.2 million, settlement obligations charge of $274,000, and charges of $418,000 related to fair value of equity guarantee and warrant amendment, which was more than offset by positive changes of nearly $7.9 million change in fair value of warrant liability.

Net loss was $2.4 million or ($0.33) per share on nearly 7.4 million average shares compared to a net income of $3.8 million or $0.62 per share on 6.1 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 ($0.26) per share.

*Finances*

In 1H23, cash earnings of $805,000 and a decrease in working capital of $5.5 million resulted in cash from operations of $6.3 million. Cash from operations covered capital expenditures and repayment of debt obligations. Cash increased by $1.6 million to $3.3 million at June 30, 2023.

*Capital Structure*

At June 30, 2023, CREX had total debt on its balance sheet of $15.8 million, of which $4.2 million is short-term consisting of a seller note ($833,000) 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 $3.3 million as short-term on a portion of consolidation term loan (included $119,000 of related party debt).

Creative Realities has $8.9 million (net of $1.1 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 $2.7 million (net of $464,000 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 and was paid off subsequent to the end of 2Q23.

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 June 30, 2023, the company's accumulated deficit was $52.8 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.

Reliance on related party for financing operations – Going Concern
As of August 4, 2023, CREX's largest shareholder and investor, Slipstream Communications LLC owned 96% 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). The company has been unable to obtain a continuing support letter from Slipstream beyond the period ending May 31, 2024, which means without obtaining this support letter beyond one year, management's plans do not alleviate substantial doubt CREX's ability to continue as a going concern.

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.

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 August 4, 2023) to 37,700. 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 | 2Q23A | **FY2023E** | **FY2024E** |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 1,826 | $ 2,883 | $ 1,633 | $ 3,264 | **$ 2,367** | **$ 1,054** |
| Accounts receivable, net | 2,302 | 3,006 | 8,263 | 6,496 | **7,141** | **9,722** |
| Unbilled receivables | 41 | 369 | - | - | **-** | **-** |
| Inventories, net | 2,351 | 1,880 | 2,267 | 1,148 | **2,580** | **4,293** |
| Prepaid expense and other current assets - includes contracts | 507 | 1,634 | 1,819 | 784 | **818** | **1,050** |
| **Total current assets** | 7,027 | 9,772 | 13,982 | 11,692 | **12,906** | **16,119** |
| Operating lease right-of-use | 931 | 654 | 1,584 | 1,356 | **1,356** | **1,356** |
| Property and equipment, net | 175 | 75 | 201 | 453 | **450** | **450** |
| Intangible, net | 4,955 | 4,850 | 23,752 | 23,936 | **21,162** | **19,265** |
| 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 | $ 63,934 | **$ 62,371** | **$ 63,687** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | |
| Current liabilities: | | | | | | |
| Short-term seller note payable | 1,637 | - | 1,248 | 833 | **-** | **-** |
| Short-term related party convertible loans payable | - | - | 1,251 | 3,245 | **-** | **-** |
| Short-term term loan | - | - | 2,000 | 119 | **-** | **-** |
| Accounts payable | 1,661 | 2,517 | 3,757 | 2,892 | **3,154** | **4,532** |
| Accrued expenses | 2,142 | 2,110 | 3,828 | 3,217 | **3,870** | **4,079** |
| Deferred revenues | 764 | 426 | 1,223 | 2,827 | **4,000** | **5,500** |
| Customer deposits | 770 | 1,525 | 2,478 | 3,985 | **4,500** | **6,000** |
| Current maturities of operating leases | 355 | 281 | 711 | 645 | **700** | **675** |
| Current maturities of financing leases | 4 | - | - | - | **-** | **-** |
| **Total current liabilities** | 7,333 | 6,859 | 16,496 | 17,763 | **16,224** | **20,785** |
| Payroll protection program - note payable | 1,552 | - | - | - | **-** | **-** |
| Secured promissory note | - | - | 208 | - | **-** | **-** |
| Related party acquisition term loan, net | - | - | 8,516 | 8,861 | **8,861** | **4,773** |
| Related party loans payable, net | 4,436 | 4,624 | 4,349 | 2,724 | **2,724** | **2,724** |
| Related party convertible loans payable, at fair value | 2,270 | 2,251 | - | - | **-** | **-** |
| Contingent acquisition consideration, at fair value | - | - | 9,789 | 9,881 | **9,881** | **7,000** |
| Long-term obligations under operating leases | 584 | 373 | 873 | 711 | **700** | **500** |
| Accrued expenses | 108 | - | - | - | **-** | **-** |
| Other and deferred tax liabilities | - | 45 | 205 | 136 | **246** | **246** |
| **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 | 76,618 | **77,035** | **78,179** |
| Retained earnings (accumulated deficit) | (52,468) | (52,254) | (50,409) | (52,834) | **(53,374)** | **(50,594)** |
| **Total stockholders' equity** | 4,353 | 8,729 | 25,579 | 23,858 | **23,735** | **27,659** |
| **Total liabilities and stockholders' equity** | $ 20,636 | $ 22,881 | $ 66,015 | $ 63,934 | **$ 62,371** | **$ 63,687** |
| SHARES OUT | 3,641 | 4,003 | 7,266 | 7,409 | **7,425** | **7,465** |

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 | **$ 21,759** | **$ 40,250** |
| Services and other | 8,466 | 8,987 | 23,455 | **24,981** | **29,750** |
| Total Revenues | $ 17,457 | $ 18,437 | $ 43,350 | **$ 46,740** | **$ 70,000** |
| | | | | | |
| Cost of Sales per segement | | | | | |
| Hardware | 6,251 | 6,914 | 16,613 | **17,130** | **31,190** |
| Services and other | 3,085 | 3,166 | 8,998 | **8,673** | **9,595** |
| Total Cost of sales | 9,336 | 10,080 | 25,611 | **25,803** | **40,785** |
| | | | | | |
| **Gross Profit** | 8,121 | 8,357 | 17,739 | **20,937** | **29,215** |
| | | | | | |
| **Operating Expenses:** | | | | | |
| Sales and marketing | 1,676 | 1,153 | 3,651 | **4,915** | **5,825** |
| Research and development | 1,083 | 550 | 1,251 | **1,458** | **1,300** |
| General and administrative | 9,293 | 7,598 | 11,728 | **11,243** | **13,600** |
| Depreciation and amortization | 1,474 | 1,364 | 2,833 | **3,161** | **3,110** |
| Bad debt expense/(recovery) | - | (277) | 164 | - | - |
| Deal and transaction costs | - | 518 | 592 | - | - |
| | | | | | |
| Total Operating Expenses | 24,203 | 10,906 | 20,219 | **20,777** | **23,835** |
| | | | | | |
| **Operating Income (loss)** | (16,082) | (2,549) | (2,480) | **160** | **5,380** |
| | | | | | |
| Other income (expense) | | | | | |
| Interest (expense) includes amortization of debt discount | (1,023) | (805) | (2,743) | **(3,080)** | **(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 | **(92)** | - |
| 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) | **135** | - |
| Total Other Income (expense) | (920) | 2,803 | 4,435 | **(3,037)** | **(2,600)** |
| | | | | | |
| **Pre-Tax Income (loss)** | (17,002) | 254 | 1,955 | **(2,877)** | **2,780** |
| | | | | | |
| Income Tax Expense (Benefit) | (158) | 22 | 79 | **88** | - |
| | | | | | |
| Net income (loss) | (16,844) | 232 | 1,876 | **(2,965)** | **2,780** |
| | | | | | |
| **Earning (loss) per share** | $ (4.96) | $ 0.06 | $ 0.28 | **$ (0.40)** | **$ 0.35** |
| | | | | | |
| Avg Shares Outstanding | 3,398 | 3,920 | 6,664 | 7,403 | **7,844** |
| | | | | | |
| Adjusted EBITDA | $ (3,226) | $ 1,221 | $ 3,845 | **$ 4,183** | **$ 9,390** |
| | | | | | |
| Margin Analysis | | | | | |
| Hardware | 30.5% | 26.8% | 16.5% | **21.3%** | **22.5%** |
| Services and other | 63.6% | 64.8% | 61.6% | **65.3%** | **67.7%** |
| Total gross margin | 46.5% | 45.3% | 40.9% | **44.8%** | **41.7%** |
| Sales and marketing | 9.6% | 6.3% | 8.4% | **10.5%** | **8.3%** |
| Research and development | 6.2% | 3.0% | 2.9% | **3.1%** | **1.9%** |
| General and administrative | 53.2% | 41.2% | 27.1% | **24.1%** | **19.4%** |
| Depreciation | 8.4% | 7.4% | 6.5% | **6.8%** | **4.4%** |
| Operating margin | (92.1%) | (13.8%) | (5.7%) | **0.3%** | **7.7%** |
| Pre-tax margin | (97.4%) | 1.4% | 4.5% | **(6.2%)** | **4.0%** |
| Tax rate | 0.9% | 8.7% | 4.0% | **(3.1%)** | **0.0%** |
| | | | | | |
| YEAR / YEAR GROWTH | | | | | |
| Total Revenues | (44.8%) | 5.6% | 135.1% | **7.8%** | **49.8%** |

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 A | 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 | $ 3,437 | $ 6,000 | $ 8,000 | **$ 21,759** | $ 9,000 | $ 10,500 | $ 11,000 | $ 9,750 | **$ 40,250** |
| Services and other | 4,298 | 5,256 | 6,165 | 7,736 | 23,455 | 5,622 | 5,759 | 6,600 | 7,000 | **24,981** | 6,500 | 7,500 | 8,000 | 7,750 | **29,750** |
| Total Revenues | $ 10,757 | $ 10,923 | $ 11,180 | $ 10,490 | $ 43,350 | $ 9,944 | $ 9,196 | $ 12,600 | $ 15,000 | **$ 46,740** | $ 15,500 | $ 18,000 | $ 19,000 | $ 17,500 | **$ 70,000** |
| | | | | | | | | | | | | | | | |
| Cost of Sales per segement | | | | | | | | | | | | | | | |
| Hardware | 5,382 | 4,610 | 3,811 | 2,810 | 16,613 | 3,206 | 2,724 | 4,800 | 6,400 | **17,130** | 6,975 | 8,135 | 8,525 | 7,555 | **31,190** |
| Services and other | 1,483 | 1,651 | 2,855 | 3,009 | 8,998 | 1,649 | 2,174 | 2,400 | 2,450 | **8,673** | 2,145 | 2,475 | 2,400 | 2,575 | **9,595** |
| Total Cost of sales | 6,865 | 6,261 | 6,666 | 5,819 | 25,611 | 4,855 | 4,898 | 7,200 | 8,850 | **25,803** | 9,120 | 10,610 | 10,925 | 10,130 | **40,785** |
| | | | | | | | | | | | | | | | |
| **Gross Profit** | 3,892 | 4,662 | 4,514 | 4,671 | 17,739 | 5,089 | 4,298 | 5,400 | 6,150 | **20,937** | 6,380 | 7,390 | 8,075 | 7,370 | **29,215** |
| | | | | | | | | | | | | | | | |
| **Operating Expenses:** | | | | | | | | | | | | | | | |
| Sales and marketing | 707 | 1,147 | 718 | 1,079 | 3,651 | 1,136 | 1,229 | 1,250 | 1,300 | **4,915** | 1,400 | 1,450 | 1,500 | 1,475 | **5,825** |
| Research and development | 241 | 418 | 238 | 354 | 1,251 | 366 | 377 | 365 | 350 | **1,458** | 325 | 325 | 325 | 325 | **1,300** |
| General and administrative | 2,754 | 2,562 | 2,789 | 3,623 | 11,728 | 2,898 | 2,595 | 2,750 | 3,000 | **11,243** | 3,200 | 3,300 | 3,600 | 3,500 | **13,600** |
| Depreciation and amortization | 707 | 468 | 885 | 773 | 2,833 | 779 | 797 | 795 | 790 | **3,161** | 785 | 780 | 775 | 770 | **3,110** |
| 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 | 4,998 | 5,160 | 5,440 | **20,777** | 5,710 | 5,855 | 6,200 | 6,070 | **23,835** |
| | | | | | | | | | | | | | | | |
| **Operating Income (loss)** | (1,014) | 30 | (284) | (1,212) | (2,480) | (90) | (700) | 240 | 710 | **160** | 670 | 1,535 | 1,875 | 1,300 | **5,380** |
| | | | | | | | | | | | | | | | |
| Other income (expense) | | | | | | | | | | | | | | | |
| Interest (expense) includes amortization of debt discount | (449) | (750) | (757) | (787) | (2,743) | (803) | (787) | (765) | (725) | **(3,080)** | (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) | (16) | - | - | **(92)** | - | - | - | - | - |
| 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 | 123 | - | - | **135** | - | - | - | - | - |
| Total Other Income (expense) | 3,569 | 1,285 | (280) | (139) | 4,435 | (867) | (680) | (765) | (725) | **(3,037)** | (700) | (650) | (635) | (615) | **(2,600)** |
| | | | | | | | | | | | | | | | |
| **Pre-Tax Income (loss)** | 2,555 | 1,315 | (564) | (1,351) | 1,955 | (957) | (1,380) | (525) | (15) | **(2,877)** | (30) | 885 | 1,240 | 685 | **2,780** |
| | | | | | | | | | | | | | | | |
| Income Tax Expense (Benefit) | 3 | 53 | (10) | 33 | 79 | 43 | 45 | - | - | **88** | - | - | - | - | - |
| | | | | | | | | | | | | | | | |
| Net income (loss) | 2,552 | 1,262 | (554) | (1,384) | 1,876 | (1,000) | (1,425) | (525) | (15) | **(2,965)** | (30) | 885 | 1,240 | 685 | **2,780** |
| | | | | | | | | | | | | | | | |
| **Earning (loss) per share** | $ 0.52 | $ 0.17 | $ (0.08) | $ (0.19) | $ 0.28 | $ (0.14) | $ (0.19) | $ (0.07) | $ (0.00) | **$ (0.40)** | $ (0.00) | $ 0.11 | $ 0.16 | $ 0.09 | **$ 0.35** |
| | | | | | | | | | | | | | | | |
| Avg Shares Outstanding | 4,873 | 7,234 | 7,250 | 7,300 | 6,664 | 7,351 | 7,406 | 7,425 | 7,430 | 7,403 | 7,800 | 7,835 | 7,865 | 7,875 | **7,844** |
| | | | | | | | | | | | | | | | |
| Adjusted EBITDA | $ 635 | $ 933 | $ 1,249 | $ 1,028 | $ 3,845 | $ 957 | $ 291 | $ 1,235 | $ 1,700 | **$ 4,183** | $ 1,680 | $ 2,540 | $ 2,875 | $ 2,295 | **$ 9,390** |
| | | | | | | | | | | | | | | | |
| Margin Analysis | | | | | | | | | | | | | | | |
| Hardware | 16.7% | 18.7% | 24.0% | (2.0%) | 16.5% | 25.8% | 20.7% | 20.0% | 20.0% | **21.3%** | 22.5% | 22.5% | 22.5% | 22.5% | **22.5%** |
| Services and other | 65.5% | 68.6% | 53.7% | 61.1% | 61.6% | 70.7% | 62.3% | 63.6% | 65.0% | **65.3%** | 67.0% | 67.0% | 70.0% | 66.8% | **67.7%** |
| Total gross margin | 36.2% | 42.7% | 40.4% | 44.5% | 40.9% | 51.2% | 46.7% | 42.9% | 41.0% | **44.8%** | 41.2% | 41.1% | 42.5% | 42.1% | **41.7%** |
| Sales and marketing | 6.6% | 10.5% | 6.4% | 10.3% | 8.4% | 11.4% | 13.4% | 9.9% | 8.7% | **10.5%** | 9.0% | 8.1% | 7.9% | 8.4% | **8.3%** |
| Research and development | 2.2% | 3.8% | 2.1% | 3.4% | 2.9% | 3.7% | 4.1% | 2.9% | 2.3% | **3.1%** | 2.1% | 1.8% | 1.7% | 1.9% | **1.9%** |
| General and administrative | 25.6% | 23.5% | 24.9% | 34.5% | 27.1% | 29.1% | 28.2% | 21.8% | 20.0% | **24.1%** | 20.6% | 18.3% | 18.9% | 20.0% | **19.4%** |
| Depreciation | 6.6% | 4.3% | 7.9% | 7.4% | 6.5% | 7.8% | 8.7% | 6.3% | 5.3% | **6.8%** | 5.1% | 4.3% | 4.1% | 4.4% | **4.4%** |
| Operating margin | (9.4%) | 0.3% | (2.5%) | (11.6%) | (5.7%) | (0.9%) | (7.6%) | 1.9% | 4.7% | **0.3%** | 4.3% | 8.5% | 9.9% | 7.4% | **7.7%** |
| Pre-tax margin | 23.8% | 12.0% | (5.0%) | (12.9%) | 4.5% | (9.6%) | (15.0%) | (4.2%) | (0.1%) | **(6.2%)** | (0.2%) | 4.9% | 6.5% | 3.9% | **4.0%** |
| Tax rate | 0.1% | 4.0% | 1.8% | (2.4%) | 4.0% | (4.5%) | (3.3%) | 0.0% | 0.0% | **(3.1%)** | 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%) | (15.8%) | 12.7% | 43.0% | **7.8%** | 55.9% | 95.7% | 50.8% | 16.7% | **49.8%** |

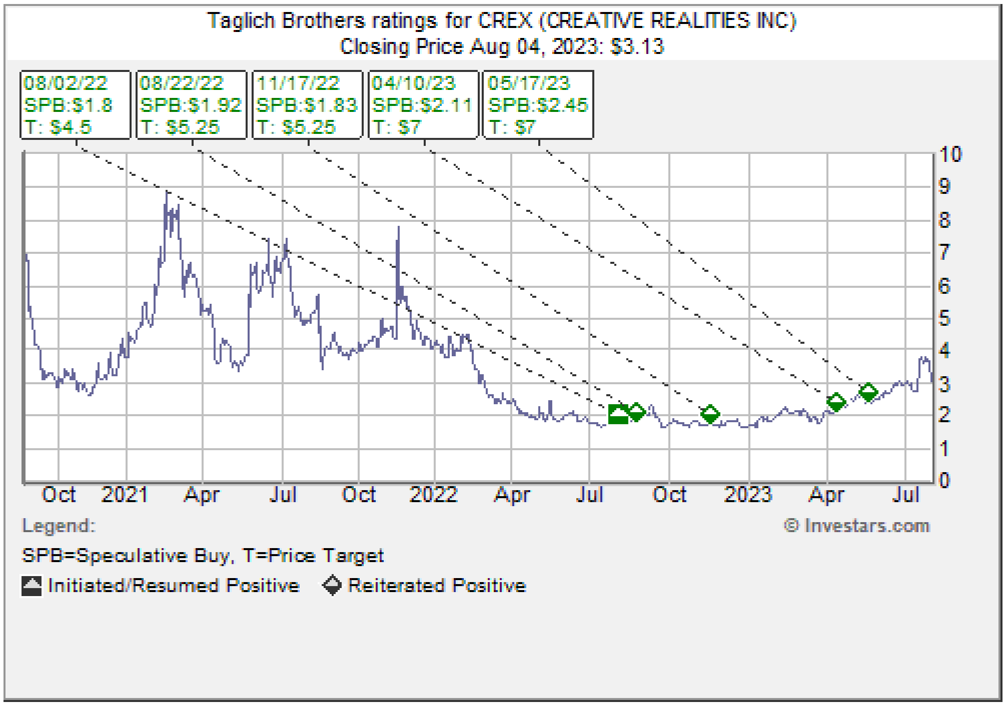
Source: Company reports and Taglich Brothers estimates

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

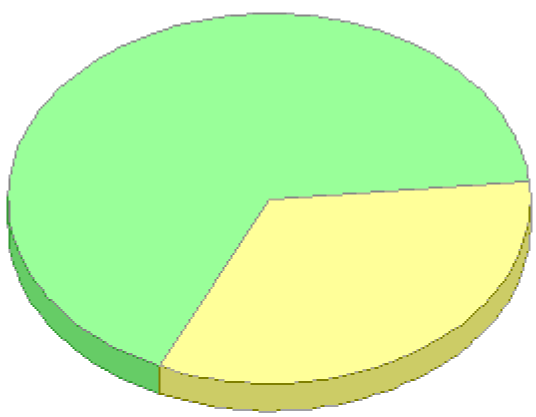
| | FY2020A | FY2021A | FY2022A | 6 Mos. 23A | **FY2023E** | **FY2024E** |
|---|---|---|---|---|---|---|
| *Cash Flows from Operating Activities* | | | | | | |
| Net Income (loss) | $ (16,844) | $ 232 | $ 1,876 | $ (2,425) | **$ (2,965)** | **$ 2,780** |
| Depreciation and amortization | 1,474 | 1,364 | 2,833 | 1,576 | **3,161** | **3,110** |
| Amortizaton of debt discount | 339 | 159 | 1,268 | 714 | **1,425** | **1,400** |
| Stock-based compensation | 719 | 1,893 | 2,116 | 493 | **975** | **1,000** |
| (Gain)/loss on change in fair value of warrant liability | - | - | (7,902) | - | - | - |
| Allowance for doubful accounts | 613 | 10 | 398 | 309 | **309** | - |
| 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) | - | - | 46 | **46** | - |
| 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) | 92 | **92** | - |
| Cash earnings (burn) | (2,814) | (1,020) | 2,584 | 805 | **3,043** | **8,290** |
| *Changes In:* | | | | | | |
| Accounts receivable and unbilled receivables | 1,793 | (673) | (3,927) | 1,458 | **1,122** | **(2,581)** |
| Inventories - work-in-progress | (1,972) | 471 | (1,472) | 1,119 | **(313)** | **(1,713)** |
| Prepaid expenses and other current assets | (71) | 18 | 480 | 1,035 | **1,001** | **(232)** |
| Vendor deposits | (116) | (360) | - | - | **(350)** | **(350)** |
| Other assets | 130 | - | - | - | **(1)** | - |
| Operating lease right of use asset, net | 149 | 277 | - | - | **228** | - |
| Accounts payable and other current payables | 3 | 869 | 914 | (585) | **(3,102)** | **1,378** |
| Deferred revenue | (8) | (338) | (462) | 1,604 | **2,777** | **1,500** |
| Accrued expenses, net | (502) | 206 | 1,112 | (559) | **42** | **208** |
| Customer deposits | 15 | 1,261 | 110 | 1,507 | **2,022** | **1,500** |
| Operating lease liabilities, net | (139) | (285) | - | - | - | - |
| Other, net | 2 | 45 | (47) | (40) | **2,777** | **1,500** |
| (Increase)/decrease in Working Capital | (716) | 1,491 | (3,292) | 5,539 | **6,203** | **1,210** |
| **Net cash provided (used in) Operations** | (3,530) | 471 | (708) | 6,344 | **9,246** | **9,500** |
| *Cash Flows from Investing Activities* | | | | | | |
| Purchase of property and equipment | (92) | (19) | (149) | (219) | **(275)** | **(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) | (1,984) | **(3,500)** | **(3,000)** |
| **Cash flow provided (used in) Investing Activities** | (657) | (1,159) | (21,475) | (2,203) | **(3,775)** | **(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 | (1,881) | **(3,477)** | **(4,788)** |
| Proceeds from payroll protection program loan | 1,552 | - | - | - | - | - |
| Principal payments on finance leases | (24) | (4) | - | (6) | **(12)** | - |
| Repayment of short-term related party | - | - | - | - | - | - |
| Repayment of seller note | - | (100) | (1,044) | (623) | **(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 | (2,510) | **(4,737)** | **(7,663)** |
| Net change in Cash | (708) | 1,057 | (1,250) | 1,631 | **734** | **(1,313)** |
| Cash Beginning of Period | 2,534 | 1,826 | 2,883 | 1,633 | **1,633** | **2,367** |
| Cash End of Period | $ 1,826 | $ 2,883 | $ 1,633 | $ 3,264 | **$ 2,367** | **$ 1,054** |

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 | 4 | 22 |
| 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.**

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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.