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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 $3.69 — (NASDAQ)

May 21, 2024

	2022 A	2023 A	*2024 E*	*2025 E*
Total Revenues (in millions)	$43.4	$46.7	***$60.0***	***$72.6***
Earnings (loss) per share	$0.28*	($0.35)**	***$0.14***	***$0.32***

52-Week range	$4.35 – $1.22	Fiscal year ends:	December
Shares outstanding a/o 5/9/24	10.4 million	Revenue/shares (ttm)	$5.14
Approximate float	8.1 million	Price/Sales (ttm)	0.7X
Market Capitalization	$38.4 million	Price/Sales (2025) E	0.5X
Tangible Book value/shr	($2.07)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2025) E	11.5X

*All per share figures reflect a 1 for 3 reverse stock split effective March 27, 2023 *Includes an estimated net gain of $1.78 per share for certain items **Includes an estimated negative ($0.17) per share related to the change in fair value of contingent consideration*

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 reducing our twelve-month price target to $7.00 per share from $7.75 per share due primarily to a decrease in sector valuation.

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.

Reinforcing our 2024 and 2025 forecasts is guidance provided on March 21, 2024 by management that indicates year-over-year growth rates depending on project deployments and ramp of recurring revenue. CREX is maintaining a record backlog of approximately $100 million. Entering 2Q24, annual recurring revenue run rate was $17.7 million, which should reach $20 million by the end of 2024.

In 1Q24, CREX reported (on 4-10-23) a ($0.01) loss per share on revenue of $12.3 million compared to a loss per share of ($0.14) on revenue of $9.9 million. We projected a ($0.09) loss per share on revenue of $12.3 million.

For 2024, we project EPS of $0.14 on 32.9% revenue growth to $60 million. We previously forecast EPS of $0.15 per share on revenue of $62.1 million. Our reduced revenue forecast reflects indications that some customer deployments are likely slower to develop than previously anticipated. Our EPS forecast anticipates operating expense margin of 38.9% compared to 46.1% reported in 2023.

For 2025, we project EPS of $0.32 (prior was $0.40) on 21% revenue growth to $72.6 million (unchanged). Our forecasts anticipate continued customer deployments, annual recurring revenue in excess of $20 million, operating expense margin improving to 36.3% from an estimated 38.9% in 2024. Our reduced EPS forecast reflects a higher than previously anticipated ramp in operating expenses.

Please view our Disclosures on pages 14 - 16

Appreciation Potential

Maintaining Speculative Buy rating and reducing our twelve-month price target to $7.00 per share from $7.75 per share due primarily to a decrease in sector valuation. 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 2022 acquisition of Reflect Systems is supporting 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 2Q24, the company had a near record backlog of approximately $100 million. Exiting 1Q24, the annual recurring revenue run rate was $17.7 million (up from $16.3 million exiting 4Q23). We project by 4Q24, CREX should generate an annual recurring revenue run rate of approximately $20 million.

Our 12-month price target of $7.00 per share implies shares could nearly 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 1.9X (prior was 2.2X), compared to Creative Realities trailing price-to-sales multiple of 0.7X (unchanged). We anticipate investors are likely to accord CREX a multiple between the sector's multiple and its current trailing multiple due to projected average annual sales growth of 26.8% from 2023 to 2025. We applied a price-to-sales multiple of 1.1X (prior was 1.4X) to our 2025 sales per share forecast of $6.89 (prior was $6.90), discounted for execution risks, to obtain a year-ahead price target of approximately $7.00 per share.

Creative Realities' valuation should improve as it reports revenue growth, generates sustained operating profits, and grow cash earnings. We anticipate the company generating an operating profit of $6 million in 2025, up from an estimated $3.5 million in 2024 compared to operating income of $1.3 million in 2023. In 2025, CREX should generate cash earnings of $7.3 million, up from estimated cash earnings of $5.3 million in 2024. Cash earning in 2023 was $3.9 million.

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

In 2Q24, the company announced development of a channel program tailored and targeted for Europe, Middle East, and African (EMEA) marketplace. CREX anticipated being able to penetrate these markets with its offerings for food service and restaurants including the quick serve restaurant and convenience store segments, as well as offerings for retail customers, and the ability to provide all those customers with ad-serving capabilities and programmatic integration for campaign management required for retail media networks.

In 1Q24, CREX announced it has partnered with IceBox Network, a new ad-based network concept under digital out-of-home technology provider Digi Point Media. This partnership could revolutionize retail advertising with exclusive digital display placements atop ice suppliers across retail stores with the potential to reach approximately

85,000 end points with merchandisers spread across 37 states. This collaboration could help leverage Creative Realities' ReflectView™ CMS and Reflect AdLogic™ platform, as well as integrate programmatic platforms to quickly distribute content, track ads, and provide automatic ad placement.

In 4Q23, Creative Realities announced a partnership with veteran-founded Black Rifle Coffee. The joint effort aims to revolutionize Black Rifle's concept stores, bringing next-generation digital solutions to the forefront of their in-store experience. Also, the company announced a collaboration with Paradies Lagardère that has over 700 retail and restaurant locations strategically positioned across more than 90 airports in North America. CREX's offerings will provide technologies that should enhance the overall ambiance with seasonal and environmental content while promoting specific products and in-store sales across the 700 Paradies Lagardère retail locations in North America.

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.

On February 1, 2024, the company launched a channel partner program targeting small-to-medium sized business customers working with smaller integrators. During the first month and a half 100 licenses were signed. 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. The initial goal is to ramp up to 1,000 licenses that would generate additional higher margin recurring subscription revenue.

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 begin expanding on its record backlog that is in excess of $100 million entering 2024. 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 continued cross-selling opportunities created by the acquisition of Reflect Systems and their digital signage platforms and media technology offerings to existing CREX customers, and selling and deploying hardware to Reflects' customers. We anticipate CREX should achieve an annual recurring revenue run rate of at least $20 by the end of 2024, which is an increase from $17.7 million in March 2024. We forecast an annual recurring revenue run rate of at least $25 million by the end of 2025. The company's near record 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 May 2024, management indicated that its Bowling Proprietors deployment is progressing but still at the lower end of expectation with eight installations occurring in 2023 and 54 installations occurring in 1Q24 with a steady ramp likely to occur in 2H24. The company also announced that it deployed 150 locations for its Starlite Media customer in 1Q24, with the expectation to obtain an order for an additional 250 sites in 2Q24. Base on increased deployment visibility, CREX expects to generate revenue year-over-year revenue growth of at least 20% and up to 40%.

Our net income forecasts anticipates the company completing the refinancing of its debt obligations. In May 2024, a non-binding commitment letter was agree to with First Merchants Bank for a $20 million senior secured revolving credit facility. The company anticipated the initial drawn down of funds on this new facility should approximate $14.5 million. We anticipate this variable interest rate facility will have a similar interest rate as the company's current outstanding debt.

We are not forecasting (only recording what CREX reports) income tax expense as the company had approximately $13.8 million in federal and state net operating loss carryforwards at December 31, 2023.

Economy

In April 2024, the International Monetary Fund (IMF) revised its global economic growth estimates to 3.2% for 2024 and 3.2% for 2025. In January 2024, the IMF's prior projection called for growth of 3.1% in 2024 and 3.2% in 2025.

The IMF revised its economic growth estimate for the US to an increase of 2.7% for 2024 and 1.9% for 2025. In January 2024, the IMF projected US economic growth of 2.1% and 1.7% for 2024 and 2025, respectively. The IMF increased its 2024 forecast due primarily to fiscal over-performance in the early part of the year, with aggregate demand being supported by stronger-than-expected private consumption.

Operations 2024

We project 37.4% total revenue growth to $60 million (prior was $62.1 million) reflecting service and other sales (includes recurring subscription revenue) growth of 29.4% to $32.2 million (prior was $30.7 million) from $24.9 million in 2023. The increase in recurring revenue stemming from deployments made in 2H23 and through 2024, partly restrained by media contracts being recorded (as of 4Q23) on a net basis which will likely reduce initial revenue recognition of new or renewed customer contracts. We anticipate hardware sales increasing 37.1% to 27.8 million (prior was $31.4 million) from $20.3 million in 2023. The reduction from our prior forecast reflects 1Q24 results and a slower ramp of a large customer deployment in 1H24 compared to 2H24.

We forecast gross profit increasing 21% to $26.8 million from $22.2 million in 2023 due primarily to revenue growth, partly offset by gross margin compression to 44.7% from 49.2% in 2023. We anticipate service and other gross margin of 63.4%, down from 69.8% in 2023. The year-ago service margin experienced some one-time positive anomalies in 4Q23 due to new media contract recognition that removed some costs. We estimate hardware gross margin of 23.2% compared to 24.7% in 2023. The gross margin compression reflects the sales mix that should shift toward lower margin hardware sales and installation service revenue due to initial deployments to new customers.

We expect operating expenses to increase 12% to $23.3 million from $20.8 million in 2023. We anticipate sales and marketing expense increasing 13.7% to $6 million from $5.2 million in 2023 to support the continued efforts in expanding and refreshing its customer backlog. We project G&A expense increasing 12.8% to $12.2 million from $10.8 million in 2023 as this level of spending should continue supporting accelerated revenue growth. We forecast D&A and R&D expenses to be $3.2 million and $1.9 million, respectively, compared to $3.2 million and $1.6 million, respectively, in the year-ago period.

We project operating income increasing to $3.5 million from $1.3 million in 2023. The improvement reflects revenue growth and operating expense margin improving to 38.9% compared to 46.1% in 2023, partly offset by gross margin compression.

We anticipate non-operating interest expense of $2.6 million compared to $3 million in 2023. The decrease reflects lower average debt balances, partly offset by potentially higher interest rates from the new credit facility. We also project a positive change in contingent consideration compared to a negative change of $1.4 million in 1Q23.

We project net income of $1.5 million or $0.14 per share. We previously projected net income of $1.5 or $0.15 per share on average shares of 10.5 million.

Finances

We forecast 2024 cash earnings of $5.3 million and a decrease in working capital of $3.4 million resulting in cash from operations of $8.7 million. Cash from operations and refinancing debt into a new revolving credit facility is likely to cover capital expenditures, capitalized software, and repayment of short-term debt obligations, allowing cash to increase by $1.5 million to nearly $4.5 million at December 31, 2024.

Operations – 2025

We project 21% total revenue growth to $72.6 million (unchanged) reflecting service and other sales growth of 19.4% to $38.4 million from an estimated $32.2 million in 2024 due to increases in recurring revenue stemming from deployments made in 2024 and 1H25. We anticipate hardware sales increasing 22.8% to $34.2 million from an estimated $27.8 million in 2024 due to an expanding customer base and increased deployment schedule.

We forecast gross profit increasing 20.5% to $32.4 million from an estimated $26.8 million in 2024 due primarily to revenue growth, as gross margin is likely to be essentially flat at 44.6%. We anticipate service and other gross margin of 64.2%, up from an estimated 63.4% in 2024. We estimate hardware gross margin of 22.5% from an estimated 23.2% in 2024.

We expect operating expenses increasing 12.9% to $26.4 million from an estimated $23.3 million in 2024. We project G&A expense increasing 13.7% to $13.9 million from an estimated $12.2 million in 2024 to support revenue growth. We anticipate sales and marketing expense increasing 21.5% to $7.3 million from an estimated $6 million in 2024 to support expansion of its customer backlog. We forecast D&A expense flat at $3.3 million, while R&D expense should increase to $2 million from an estimated $1.9 million in 2024.

We project operating income increasing to $6 million from an estimated $3.5 million in 2024. The improvement reflects revenue growth and operating expense margin improving to 36.3% from an estimated 38.9% in 2024. We anticipate non-operating interest expense increasing to $2.7 million from $2.6 million due to higher average outstanding balances.

We project net income of $3.3 million or $0.32 per share. We previously projected net income of $4.2 million or $0.40 per share on average shares of 10.5 million. The reduction in our net income forecast reflects higher expenses than previously anticipated.

Finances
We forecast 2025 cash earnings of nearly $7.1 million and a decrease in working capital of $3.1 million resulting in cash from operations of nearly $10.2 million. Cash from operations is unlikely to cover capital expenditures, capitalized software, and payment of contingent consideration, reducing cash by $1.7 million to $2.7 million at December 31, 2025.

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
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.

1Q24 Results

1Q24
CREX reported total revenue increased 23.5% to $12.3 million from $9.9 million in 1Q23. The increase reflects a 44.8% increase in services and other revenues to $8.1 million driven by higher installations and managed services revenue. The latter included software subscriptions that ended 1Q24 with an annual recurring run rate of $17.7 million from $16.3 million at the end of 4Q23. Installation services revenue increased by $1.2 million or 128% reflecting significant installation deployment activity. Hardware revenues decreased by $178,000 to $4.1 million reflecting reduced customer concentration (as no single customer accounted for greater than 20% of hardware revenues) and an increasing number of customers making consistent, repeated purchases of similar solutions. In the year-ag period a single customer represented 62% of total hardware revenues.

Gross profit increased 13.3% to $5.8 million from $5.1 million in the year-ago period due primarily to revenue growth, part offset by gross margin compression to 46.9% from 51.2% last year. Gross margin compression reflects lower hardware segment gross margin of 22.9% compared to 25.5% in 1Q23 due to a product mix shift. Services and other gross margin decreased to 59.1% compared to 70.7% in the year-ago period stemming from revenue mix that reflects an increase in low margin installation services that accounted for 18% of total service revenue compared to 10% last year.

Operating expenses increased 12.8% to $5.8 million from $5.2 million in the year-ago period. G&A expense increased $130,000 to $3 million, sales and marketing expense increased $329,000 to nearly $1.5 million. D&A expense was $839,000 compared to $779,000 in the year-ago period and R&D expense was $508,000 compared to $366,000 in 1Q23. The overall increase in operating expense reflects a higher headcount as operations were scaled up due to increased customer acquisitions and associated planned deployments.

The company's operating loss was $76,000 compared to an operating loss of $90,000 in the year-ago period. The improvement in the operating loss reflects revenue growth and operating expense margin improving to 47.5% from 52.1% in 1Q23, partly offset by gross margin compression.

Non-operating expense was $24,000 compared to a loss of $867,000 last year. The current period includes interest expense of $663,000, which was nearly offset by a $604,000 positive change in the fair value of contingent consideration and $35,000 in other income. The year-ago period reflects interest expense of $803,000 and negative change of $76,000 in the fair value of contingent consideration, partly offset by other income of $12,000.

Net loss was $109,000 or ($0.01) per share on 10.4 million average shares compared to a net loss of $1 million or ($0.14) per share on 7.4 million average shares in the year-ago period. We projected a loss per share of ($0.09) on revenue of $12.3 million.

<u>*Finances*</u>
In 1Q24, cash earnings of $493,000 and a decrease in working capital of $1.4 million resulted in cash from operations of $1.9 million. Cash from operations did not cover capital expenditures and repayment of debt obligations. Cash decreased by $11,000 to $2.9 million at March 31, 2024.

<u>*Capital Structure*</u>
At March 31, 2024, CREX had total debt on its balance sheet of nearly $12.8 million (net of $1.3 million discount), of which all was classified as short-term.

As of May 10, 2024, net debt was approximately $11.7 million, which is a reduction of approximately $7.5 million in net debt compared to December 31, 2022. The company is reaping repaying $370,000 in debt principal monthly, with a focus to reduce its leverage ratio to between 1X and 1.2X by December 31, 2024.

Subsequent to the end of 1Q24, the company announced it signed a non-binding commitment letter for a $20 million refinancing agreement (with a $5 million accordion feature) with First Merchants Bank. The refinancing is expected to occur on or before May 17, 2024. We anticipate the initial draw on this facility will be to repay all outstanding short-term debt. The facilities interest rate is equivalent to the company's current rate of nearly 9%. The facilities rate is variable so if rates were to decrease it would be a benefit and if interest rates were to increase it would negatively impact bottom line results. This facility should provide the company with a flexible capital structure that should enable CREX to repay contingent consideration in 2025 and operations for the foreseeable future. Our forecast anticipate the company closing this facility in 2Q24.

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 Poppulo. 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.

<u>Operating Losses</u>
At March 31, 2024, the company's accumulated deficit was $53.5 million, up from $50.4 million at December 31, 2022. 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. In 2023, CREX generated operating income of $1.3 million. 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.

<u>Reliance on related party for financing operations – Going Concern</u>
We estimate CREX's largest shareholder and investor, Slipstream Communications LLC owned 100% of its outstanding debt instruments, including two term loans, and has a beneficial ownership of 29% of outstanding common stock (on an as-converted, fully diluted basis). The monthly principal payment are approximately $370,000. It is also important to note that the company has contingent consideration obligations due in 1H25. Subsequent to 1Q24, the company has in place a refinancing agreement to repay all outstanding debt to Slipstream, which if executed would likely alleviate the going concern issue that existed on March 31, 2024.

<u>Credit Facility</u>
It is anticipated the company will have in place a new credit facility on or before May 17, 2024. The new revolving credit facility will have a variable interest rate. If interest rates were to increase it would likely have a negative impact on operations and bottom line results.

<u>Dilution</u>
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 may utilize acquisitions as part of its growth strategy. Acquisitions 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 2023, average daily volume was 44,000 a decrease from nearly 181,00 in 2022. Average daily volume increased over the last three months (ending May 17, 2024) to 67,200. CREX has a float of approximately 8.1 million shares and outstanding shares of 10.4 million.

Creative Realities, Inc.
Consolidated Balance Sheets
FY2022 – FY2025E
(in thousands)

	FY2022A	FY2023A	1Q24A	**FY2024E**	**FY2025E**
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,633	$ 2,910	$ 2,899	**$ 4,456**	**$ 2,718**
Accounts receivable, net	8,263	12,468	9,516	**9,502**	**10,083**
Unbilled receivables	-	-	-	**-**	**-**
Inventories, net	2,267	2,567	3,065	**3,685**	**4,237**
Prepaid expense and other current assets - includes contracts	1,819	665	837	**840**	**871**
Total current assets	13,982	18,610	16,317	**18,483**	**17,909**
Operating lease right-of-use	1,584	1,041	875	**875**	**1,041**
Property and equipment, net	201	499	464	**460**	**490**
Intangible, net	23,752	24,062	23,985	**23,754**	**23,446**
Goodwill	26,453	26,453	26,453	**26,453**	**26,453**
Other assets	43	112	112	**449**	**505**
Total assets	$ 66,015	$ 70,777	$ 68,206	**$ 70,474**	**$ 69,844**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Short-term seller note payable	1,248	-	-	**-**	**-**
Short-term related party convertible loans payable	1,251	3,690	3,383	**-**	**-**
Short-term term loan	2,000	-	-	**-**	**-**
Short-term related party acquisition term loan	-	-	9,387	**-**	**-**
Contingent acquisition consideration, at fair value	-	-	10,603	**10,603**	**-**
Accounts payable	3,757	7,876	4,788	**5,528**	**6,708**
Accrued expenses	3,828	3,761	3,955	**4,312**	**4,830**
Deferred revenues	1,223	1,132	1,777	**2,500**	**4,000**
Customer deposits	2,478	3,233	4,411	**5,400**	**6,500**
Current maturities of operating leases	711	505	431	**331**	**231**
Total current liabilities	16,496	20,197	38,735	**28,673**	**22,269**
Revolving credit facility	-	-	-	**10,500**	**12,500**
Secured promissory note	208	-	-	**-**	**-**
Related party acquisition term loan, net	8,516	9,213	-	**-**	**-**
Related party loans payable, net	4,349	616	-	**-**	**-**
Related party convertible loans payable, at fair value	-	-	-	**-**	**-**
Contingent acquisition consideration, at fair value	9,789	11,208	-	**-**	**-**
Long-term obligations under operating leases	873	536	444	**344**	**244**
Other and deferred tax liabilities	205	176	178	**178**	**178**
Stockholders' equity:					
Common stock, $0.01 par value; authorized 200,000 shares;	72	104	104	**104**	**104**
Additional paid-in capital	75,916	82,073	82,200	**82,520**	**83,064**
Retained earnings (accumulated deficit)	(50,409)	(53,346)	(53,455)	**(51,845)**	**(48,515)**
Total stockholders' equity	25,579	28,831	28,849	**30,779**	**34,653**
Total liabilities and stockholders' equity	$ 66,015	$ 70,777	$ 68,206	**$ 70,474**	**$ 69,844**
SHARES OUT	7,266	10,410	10,447	**10,475**	**10,500**

Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Annual Income Statement
FY2022 – FY2025E
(in thousands)

	FY22 A	FY23 A	**FY24 E**	**FY25 E**
Hardware	$ 19,895	$ 20,303	**$ 27,844**	**$ 34,200**
Services and other	23,455	24,863	**32,166**	**38,400**
Total Revenues	$ 43,350	$ 45,166	**$ 60,010**	**$ 72,600**
Cost of Sales per segement				
Hardware	16,613	15,280	**21,388**	**26,500**
Services and other	8,998	7,703	**11,778**	**13,750**
Total Cost of sales	25,611	22,983	**33,166**	**40,250**
Gross Profit	17,739	22,183	**26,844**	**32,350**
Operating Expenses:				
Sales and marketing	3,651	5,247	**5,965**	**7,250**
Research and development	1,251	1,574	**1,858**	**2,000**
General and administrative	11,728	10,795	**12,178**	**13,850**
Depreciation and amortization	2,833	3,221	**3,329**	**3,250**
Bad debt expense/(recovery)	164	-	-	-
Deal and transaction costs	592	-	-	-
Total Operating Expenses	20,219	20,837	**23,330**	**26,350**
Operating Income (loss)	(2,480)	1,346	**3,514**	**6,000**
Other income (expense)				
Interest (expense) includes amortization of debt discount	(2,743)	(2,992)	**(2,643)**	**(2,670)**
Gain (loss) on extinguishment/settlement of obligations	(237)	-	**-**	**-**
Change in fair value of contingent consideration	1,074	(1,419)	**604**	**-**
Warrant amendment	(345)	-	-	-
Change in fair value of warrant liability	7,902	-	-	-
Loss on fair value of debt and debt waiver consent	(1,212)	-	-	-
Other income (expense), net	(4)	211	**35**	**-**
Total Other Income (expense)	4,435	(4,200)	**(2,004)**	**(2,670)**
Pre-Tax Income (loss)	1,955	(2,854)	**1,510**	**3,330**
Income Tax Expense (Benefit)*	79	83	**9**	**-**
Net income (loss)	1,876	(2,937)	**1,501**	**3,330**
Earning (loss) per share	$ 0.28	$ (0.35)	**$ 0.14**	**$ 0.32**
Avg Shares Outstanding	6,664	8,470	**10,462**	**10,544**
Adjusted EBITDA	$ 3,845	$ 5,100	**$ 7,146**	**$ 9,650**
Margin Analysis				
Hardware	16.5%	24.7%	**23.2%**	**22.5%**
Services and other	61.6%	69.0%	**63.4%**	**64.2%**
Total gross margin	40.9%	49.1%	**44.7%**	**44.6%**
Sales and marketing	8.4%	11.6%	**9.9%**	**10.0%**
Research and development	2.9%	3.5%	**3.1%**	**2.8%**
General and administrative	27.1%	23.9%	**20.3%**	**19.1%**
Depreciation	6.5%	7.1%	**5.5%**	**4.5%**
Operating margin	(5.7%)	3.0%	**5.9%**	**8.3%**
Pre-tax margin	4.5%	(6.3%)	**2.5%**	**4.6%**
Tax rate	4.0%	(2.9%)	**0.6%**	**0.0%**
YEAR / YEAR GROWTH				
Total Revenues	135.1%	4.2%	**32.9%**	**21.0%**

Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Income Statement Model
Quarters FY2023A – 2025E
(in thousands)

	Q1 23 A	Q2 23 A	Q3 23 A	Q4 23 A	FY23 A	Q1 24 A	Q2 24 E	Q3 24 E	Q4 24 E	**FY24 E**	Q1 25 E	Q2 25 E	Q3 25 E	Q4 25 E	**FY25 E**
Hardware	$ 4,322	$ 3,437	$ 4,847	$ 7,697	$ 20,303	$ 4,144	$ 6,000	$ 8,000	$ 9,700	**$ 27,844**	$ 6,000	$ 10,500	$ 11,200	$ 6,500	**$ 34,200**
Services and other	5,622	5,759	6,721	6,761	24,863	8,141	6,900	8,200	8,925	**32,166**	8,900	9,000	10,000	10,500	**38,400**
Total Revenues	$ 9,944	$ 9,196	$ 11,568	$ 14,458	$ 45,166	$ 12,285	$ 12,900	$ 16,200	$ 18,625	**$ 60,010**	$ 14,900	$ 19,500	$ 21,200	$ 17,000	**$ 72,600**
Cost of Sales per segement															
Hardware	3,206	2,724	3,384	5,966	15,280	3,193	4,470	6,200	7,525	**21,388**	4,650	8,135	8,680	5,035	**26,500**
Services and other	1,649	2,174	2,881	999	7,703	3,328	2,550	2,800	3,100	**11,778**	3,385	3,400	3,500	3,465	**13,750**
Total Cost of sales	4,855	4,898	6,265	6,965	22,983	6,521	7,020	9,000	10,625	**33,166**	8,035	11,535	12,180	8,500	**40,250**
Gross Profit	5,089	4,298	5,303	7,493	22,183	5,764	5,880	7,200	8,000	**26,844**	6,865	7,965	9,020	8,500	**32,350**
Operating Expenses:															
Sales and marketing	1,136	1,229	1,301	1,581	5,247	1,465	1,475	1,525	1,500	**5,965**	1,700	1,800	1,900	1,850	**7,250**
Research and development	366	377	393	438	1,574	508	475	450	425	**1,858**	500	500	500	500	**2,000**
General and administrative	2,898	2,595	2,632	2,670	10,795	3,028	3,035	3,050	3,065	**12,178**	3,350	3,450	3,550	3,500	**13,850**
Depreciation and amortization	779	797	817	828	3,221	839	835	830	825	**3,329**	820	815	810	805	**3,250**
Total Operating Expenses	5,179	4,998	5,143	5,517	20,837	5,840	5,820	5,855	5,815	**23,330**	6,370	6,565	6,760	6,655	**26,350**
Operating Income (loss)	(90)	(700)	160	1,976	1,346	(76)	60	1,345	2,185	**3,514**	495	1,400	2,260	1,845	**6,000**
Other income (expense)															
Interest (expense) includes amortization of debt discount	(803)	(787)	(734)	(668)	(2,992)	(663)	(665)	(660)	(655)	**(2,643)**	(660)	(665)	(670)	(675)	**(2,670)**
Change in fair value of contingent consideration	(76)	(16)	(1,369)	42	(1,419)	604	-	-	-	**604**	-	-	-	-	-
Other income (expense), net	12	123	(3)	79	211	35	-	-	-	**35**	-	-	-	-	-
Total Other Income (expense)	(867)	(680)	(2,106)	(547)	(4,200)	(24)	(665)	(660)	(655)	**(2,004)**	(660)	(665)	(670)	(675)	**(2,670)**
Pre-Tax Income (loss)	(957)	(1,380)	(1,946)	1,429	(2,854)	(100)	(605)	685	1,530	**1,510**	(165)	735	1,590	1,170	**3,330**
Income Tax Expense (Benefit)*	43	45	(15)	10	83	9	-	-	-	**9**	-	-	-	-	-
Net income (loss)	(1,000)	(1,425)	(1,931)	1,419	(2,937)	(109)	(605)	685	1,530	**1,501**	(165)	735	1,590	1,170	**3,330**
Earning (loss) per share	$ (0.14)	$ (0.19)	$ (0.22)	$ 0.14	$ (0.35)	$ (0.01)	$ (0.06)	$ 0.07	$ 0.15	**$ 0.14**	$ (0.02)	$ 0.07	$ 0.15	$ 0.11	**$ 0.32**
Avg Shares Outstanding	7,351	7,406	8,713	10,410	8,470	10,421	10,450	10,475	10,500	**10,462**	10,525	10,535	10,550	10,565	**10,544**
Adjusted EBITDA	$ 957	$ 291	$ 1,022	$ 2,830	$ 5,100	$ 766	$ 995	$ 2,275	$ 3,110	**$ 7,146**	$ 1,415	$ 2,315	$ 3,170	$ 2,750	**$ 9,650**
Margin Analysis															
Hardware	25.8%	20.7%	30.2%	22.5%	24.7%	22.9%	25.5%	22.5%	22.4%	**23.2%**	22.5%	22.5%	22.5%	22.5%	**22.5%**
Services and other	70.7%	62.3%	57.1%	85.2%	69.0%	59.1%	63.0%	65.9%	65.3%	**63.4%**	62.0%	62.2%	65.0%	67.0%	**64.2%**
Total gross margin	51.2%	46.7%	45.8%	51.8%	49.1%	46.9%	45.6%	44.4%	43.0%	**44.7%**	46.1%	40.8%	42.5%	50.0%	**44.6%**
Sales and marketing	11.4%	13.4%	11.2%	10.9%	11.6%	11.9%	11.4%	9.4%	8.1%	**9.9%**	11.4%	9.2%	9.0%	10.9%	**10.0%**
Research and development	3.7%	4.1%	3.4%	3.0%	3.5%	4.1%	3.7%	2.8%	2.3%	**3.1%**	3.4%	2.6%	2.4%	2.9%	**2.8%**
General and administrative	29.1%	28.2%	22.8%	18.5%	23.9%	24.6%	23.5%	18.8%	16.5%	**20.3%**	22.5%	17.7%	16.7%	20.6%	**19.1%**
Depreciation	7.8%	8.7%	7.1%	5.7%	7.1%	6.8%	6.5%	5.1%	4.4%	**5.5%**	5.5%	4.2%	3.8%	4.7%	**4.5%**
Operating margin	(0.9%)	(7.6%)	1.4%	13.7%	3.0%	(0.6%)	0.5%	8.3%	11.7%	**5.9%**	3.3%	7.2%	10.7%	10.9%	**8.3%**
Pre-tax margin	(9.6%)	(15.0%)	(16.8%)	9.9%	(6.3%)	(0.8%)	(4.7%)	4.2%	8.2%	**2.5%**	(1.1%)	3.8%	7.5%	6.9%	**4.6%**
Tax rate	(4.5%)	(3.3%)	0.8%	0.7%	(2.9%)	(9.0%)	0.0%	0.0%	0.0%	**0.6%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	(7.6%)	(15.8%)	3.5%	37.8%	4.2%	23.5%	40.3%	40.0%	28.8%	**32.9%**	21.3%	51.2%	30.9%	(8.7%)	**21.0%**

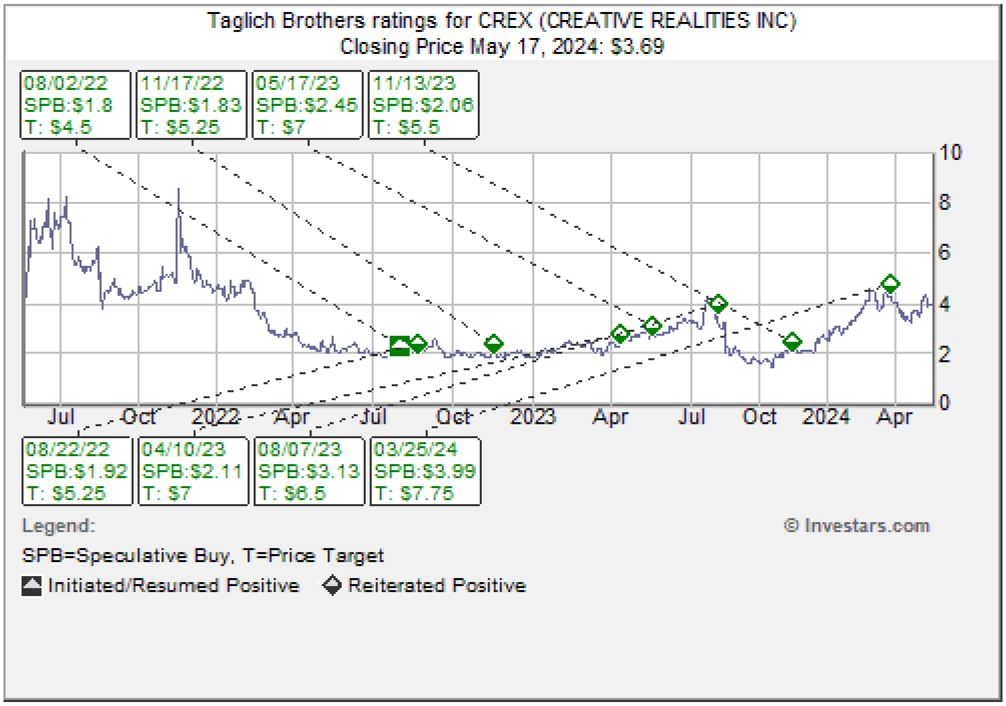
Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Cash Flow Statement
FY2022 – FY2025E
(in thousands)

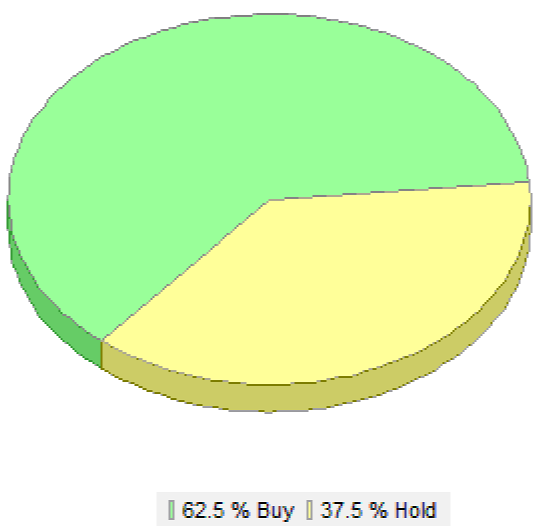
	FY2022A	FY2023A	1Q24A	**FY2024E**	**FY2025E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 1,876	$ (2,937)	$ (109)	**$ 1,501**	**$ 3,330**
Depreciation and amortization	2,833	3,221	839	**3,329**	**3,250**
Amortizaton of debt discount	1,268	1,443	360	**720**	**-**
Stock-based compensation	2,116	563	3	**303**	**400**
(Gain)/loss on change in fair value of warrant liability	(7,902)	-	-	**-**	**-**
Allowance for doubful accounts	398	153	-	**-**	**-**
Loss on debt waiver consent	1,212	-	-	**-**	**-**
Loss on warrant amendment	345	-	-	**-**	**-**
Deferred tax (benefit)/expense	-	44	4	**4**	**-**
Loss (gain) on obligation settlement	237	-	-	**-**	**-**
Loss (gain) on earnout liability and contingent consideration	(1,074)	1,419	(604)	**(604)**	**-**
Cash earnings (burn)	1,309	3,906	493	**5,253**	**6,980**
Changes In:					
Accounts receivable and unbilled receivables	(3,927)	(4,358)	2,952	**2,966**	**(582)**
Inventories - work-in-progress	(197)	(300)	(498)	**(1,118)**	**(552)**
Prepaid expenses and other current assets	480	952	(172)	**(175)**	**(31)**
Accounts payable and other current payables	914	4,486	(2,976)	**(2,348)**	**1,181**
Deferred revenue	(462)	(91)	645	**1,368**	**1,500**
Accrued expenses, net	1,112	(47)	317	**551**	**518**
Customer deposits	110	755	1,178	**2,167**	**1,100**
Other, net	(47)	(136)	(1)	**2**	**-**
(Increase)/decrease in Working Capital	(2,017)	1,261	1,445	**3,412**	**3,135**
Net cash provided (used in) Operations	(708)	5,167	1,938	**8,665**	**10,115**
Cash Flows from Investing Activities					
Purchase of property and equipment	(149)	(306)	(6)	**(200)**	**(200)**
Acquisition of a business, net of cash acquired	(17,186)	-	-	**-**	**-**
Capitalization of internal and external labor for software development	(4,140)	(3,721)	(824)	**(3,500)**	**(3,000)**
Cash flow provided (used in) Investing Activities	(21,475)	(4,027)	(830)	**(3,700)**	**(3,200)**
Cash Flows from Financing Activities					
Proceeds from common stock issuance, net of issuance costs	-	5,454	-	**-**	**-**
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 proceeds (repayment)	2,000	(4,040)	(1,109)	**(13,879)**	**-**
Proceeds from revolving credit facility	-	-	-	**14,500**	**2,000**
Revolving credit facility (repayment)	-	-	-	**(4,000)**	**-**
Principal payments on finance leases	-	(23)	(10)	**(40)**	**(50)**
Contingent consideration	-	-		**-**	**(10,603)**
Repayment of seller note	(1,044)	(1,254)	-	**-**	**-**
Net cash provided (used) by Financing	20,933	137	(1,119)	**(3,419)**	**(8,653)**
Net change in Cash	(1,250)	1,277	(11)	**1,546**	**(1,738)**
Cash Beginning of Period	2,883	1,633	2,910	**2,910**	**4,456**
Cash End of Period	$ 1,633	$ 2,910	$ 2,899	**$ 4,456**	**$ 2,718**

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	3	18
Hold		
Sell		
Not Rated		

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

Public Companies mentioned in this report:

Meaning of Ratings

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

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

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

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

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

Some notable Risks within the Microcap Market

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

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