

December 8, 2022

## DGLY: Proposed TicketSmarter Separation Expected to Unlock Shareholder Value

On December 8, DGLY approved a plan to pursue a separation of its TicketSmarter business from the legacy camera and medical billing roll-up business segments. The split will allow the two independent companies to optimize capital allocation and focus on growth. We see this as a positive event that will help to unlock shareholder value.

### Details of Separation

- Expected to occur through a tax-free distribution of Kustom Entertainment, Inc. to Digital Ally shareholders.
- Expected to be completed during the first half of 2023, subject to final approval by the board of directors. Shareholder approval is not required.
- Additional details are expected to be announced in the coming months.

**Takeaways.** Each standalone entity is expected to generate between \$16M-\$18M in revenues. While similar in size, an overlay of the company's different business models added a layer of complexity to the optimization of shareholder value. Additionally, differing business models attract different customers and a different shareholder base.

Kustom Entertainment (SpinCo), is firmly in growth mode and focused on driving users to its TicketSmarter platform, building out a primary ticketing agency (in addition to its existing secondary marketplace), and generating partnerships with additional venues. The newly formed events and production business, Kustom 44, will enhance TicketSmarter's offering as a primary ticketing platform.

Digital Ally (RemainCo) will be led by Brody Green, who will serve as President effective January 1, 2023, and CEO effective at the date of the spin-off. The legacy video camera business demands capital for R&D and new product development, as well as an optimization of the business model for increased profitability (new subscription model). The medical billing segment is a roll-up strategy in which new accretive acquisitions are expected to continue.

We believe that there are differing capital needs for each business segment. As a combined entity, these models compete for capital, creating opportunity costs and conflicting strategic initiatives. This dynamic has masked the broader opportunity and created a lack of transparency around the company's ability to monetize its different assets. We believe that the proposed transaction is a strong step by management toward unlocking shareholder value. There could be further upside should the RemainCo (DGLY) ultimately scale the medical billing segment and pursue a similar strategic direction. Regardless, having dedicated resources and focused capital allocation should be a net benefit for each business segment.

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### MARKET DATA

Rating	Buy
Price Target	\$2.50
Price	\$0.31
Average Daily Volume	132
Market Cap (\$M)	\$16.7
Enterprise Value (\$M)	\$11.8
Dividend Yield	0.0%

### ESTIMATES

	2020A	2021A	2022E	2023E
EPS	(0.12)	0.51	(0.30)	(0.35)
P/E	(2.6)x	0.6x	(1.0)x	(0.9)x
EBITDA	(7.4)	(13.9)	(25.1)	(14.8)
EV/EBITDA	(1.6)	(0.8)	(0.5)	(0.8)
Revenue (\$M)	10.5	21.4	40.1	50.0
EV/Sales	1.1x	0.5x	0.3x	0.2x

### One Year Performance Chart



Please see analyst certification and important disclosures on page 3 of this report.

**Valuation.** We are maintaining our PT of \$2.50 and believe this transaction is a catalyst to help shareholders realize this value. Our valuation is based on a sum-of-the-parts method. We have applied multiples of 3x, 2x, and 2x to our estimate of FY23 revenues for the three separate business segments, TicketSmarter, video/camera, and medical billing, respectively. The result is an implied enterprise value of \$109M. The company has approximately \$6M in cash and nearly \$2M in debt per the latest filings.

Note that in late August, SeatGeek raised \$238M in a private market transaction. This capital raise implied a \$1.2B valuation for the company and a 6.5x revenue multiple of its 2021 sales of \$186M (5x estimated forward revenues). While we don't believe that TicketSmarter deserves the same multiple as SeatGeek at this point, for context, a 5x sales multiple would value the TicketSmarter asset at \$140M. We believe that as a standalone entity, the market will have more visibility to value the TicketSmarter business and apply a fair value multiple.

**Risks.** Risks include additional public company costs from splitting into two entities, the separation may not be approved by the board, competition, new product adoption, inflationary pressures leading to increased costs (insurance, marketing, etc.), and integration risk from acquisitions. The company currently generates negative cash flow and may need to access the capital markets in the future, diluting shareholders or adding debt. Share price remains below \$1.00 and does not meet NASDAQ listing requirements. In addition, we strongly encourage investors to review regulatory filings for additional risk factors.

## Important Disclosures

### Analyst Certification

I, Michael Albanese, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	101	99.02	18	17.82
HOLD	1	0.98	0	0.00
SELL	0	0.00	0	0.00

### Digital Ally, Inc. Rating History as of 12/07/2022

