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Research Report – Update

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

Solis Tek, Inc.

Speculative Buy

John Nobile

April 19, 2018

SLTK $1.08 — (OTC)

	2016A	2017A	2018E	2019E
Revenues (millions)	$8.6	$9.0	$8.5	$10.6
Earnings (loss) per share	$(0.02)	$(0.38)	$(0.17)	$(0.15)

52-Week range	$3.44 – $0.96	Fiscal year ends:	December
Common shares out as of 4/2/18	41.2 million	Revenue per share (TTM)	$0.24
Approximate float	20.5 million	Price/Sales (TTM)	4.5X
Market capitalization	$44 million	Price/Sales (FY2019)E	4.7X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2019)E	NMF

Solis Tek, headquartered in Carson, CA, is a developer, manufacturer, and distributor of products to commercial cannabis growers in both the medical and recreational space in legal markets across the US. The company's lighting products have enabled cannabis growers to increase yield and lower costs in order to maximize their return on investment. Solis Tek also offers a line of organic nutrient products.

Key investment considerations:

Maintaining Speculative Buy but lowering twelve-month price target to $2.25 per share from $3.00 on reduced sales expectations.

The company increased its market penetration in a rapidly growing cannabis market in 2017. However, a decision made by the US Attorney General in January 2018, could hinder short-term sales growth in the industry. The decision was to rescind Obama-era rules that called for the federal government to not interfere with states that had voted to legalize marijuana. We believe this could have an adverse impact on SLTK's sales in 1H18.

In April 2018, President Trump promised to support legislation protecting the marijuana industry in states that have legalized the drug. This support should help in returning growth to the industry. We project sales growth for SLTK resuming in 2H18.

The company is well positioned to capitalize on the expanding legalization of cannabis in the US through its lighting and nutrient products that should support cannabis growers.

For 2018, we project a 5.3% decrease in revenue to $8.5 million and a loss of $(0.17) per share. We previously projected revenue of $11.7 million and a loss of $(0.06) per share. Our lower revenue forecast reflects a slowdown in business stemming from the US Attorney General's January 2018 decision.

For 2019, we project a 24.7% increase in revenue to $10.6 million and a loss of $(0.15) per share. The increase in revenue should be driven by stabilization in the cannabis industry due to the potential legislative efforts of the Trump administration.

****Please view our disclosures on pages 17 - 19.***

Recommendation and Valuation

Maintaining Speculative Buy but lowering twelve-month price target to $2.25 per share from $3.00 on reduced sales expectations.

The company increased its market penetration in a rapidly growing market in 2017. However, a decision made by the US Attorney General, Jeff Sessions, in January 2018 to rescind Obama-era rules that called for the federal government to not interfere with states that had voted to legalize marijuana, could hinder short-term sales growth in the industry. We believe this is likely to have an adverse impact on SLTK's sales in 1H18.

In April 2018, President Trump promised to support legislation protecting the marijuana industry in states that have legalized the drug. This support should help in returning growth to the industry. We project sales growth for SLTK resuming in 2H18.

The company is well positioned to capitalize on the expanding legalization of cannabis in the US as its lighting and nutrient products should support cannabis growers' expansion.

In April 2018, New York Governor Andrew Cuomo laid the groundwork for legalizing marijuana in New York by stating that neighboring states already have, or are about to, so for all intents and purposes it is going to be in New York anyway. Also, in April 2018, former Speaker of the US House of Representatives, John Boehner, and former Governor of Massachusetts, Bill Weld, have joined one of the nation's largest, multi-state actively managed cannabis corporations, Acreage Holdings, to its Board of Advisors. In a joint statement, Speaker Boehner and Governor Weld said that while they come at the issue of federal marijuana policy from different perspectives and track records, they both believe that the time has come for serious consideration of a shift in federal marijuana policy.

Investing in the cannabis industry breaks down into two types of companies. Those that "touch the plant," meaning they make or sell a cannabis product directly and carry the most risks, and those that do not "touch the plant," such as those that provide the equipment and technology to the industry (such a SLTK).

Shares of SLTK currently trade at 4.5X trailing twelve months sales while the peer group (five publicly traded cannabis stocks excluding outliers) trades at a trailing twelve month sales ratio of 22X. We believe SLTK's multiple will approach that of the industry as revenue growth accelerates and margins expand. We applied a multiple of 11X (unchanged) to our FY19 sales per share projection of $0.23, discounted for the risks inherent in the industry, to obtain a year-ahead value of approximately $2.25 per share.

We believe shares of SLTK are suitable for risk tolerant investors looking to make an investment in the fast growing cannabis market. Investors are cautioned that although many states have legalized marijuana, current federal laws make marijuana use and possession illegal. While the current US Administration has indicated that it is not an efficient use of federal resources to prosecute those abiding by state-designated marijuana laws, there can be no assurance that the current, or any future Administration, will not change its policy regarding federal law enforcement.

Recent Developments

Alan Lien Appointed Chief Executive Officer – In February 2018, announced that its Co-Founder, Chairman, Chief Financial Officer and President, Alan Lien, has been appointed Chief Executive Officer. Lien replaces Dennis Forchic who has been removed both from his role as CEO and as a member of the Board of Directors due to a strategic outlook that was incompatible with the majority of the founding Directors' plans and expectations for the company.

Lien founded Solis Tek in 2009 and served as the company's CEO through 2016, at which point he was appointed Chairman. Since co-founding the company, Lien has been responsible for leading the manufacturing, development, and sourcing of Solis Tek’s products, in addition to the company's sales and operational strategies. In his return to the CEO role, Lien will be focused on driving revenue growth by launching new products and expanding into new territories.

From 2006 to 2009, Lien was the Chief Operating Officer for A&A Lien Enterprise. During his tenure as the COO for A&A, Lien supervised the development of new manufacturer relationships, purchasing and client development, as well as overseeing quality control and trade show participation. Lien received his BS in Marketing from Monmouth University.

Tiffany Davis Appointed Chief Operating Officer – In February 2018, Solis Tek announced the appointment of Tiffany Davis as Chief Operating Officer. Davis will report to Chief Executive Officer, Alan Lien.

Prior to joining Solis Tek, Davis worked as a senior executive for a US based cannabis consulting group supporting legal growers, assisting in license applications, developing programs for cultivators, and business structuring for medical dispensaries. Her previous experience includes serving as a Manager of Corporate Advisory for Grant Thornton overseeing accounting and supply chain advisory services during the automotive crisis in the US. BS from DePaul University. MBA from University of Chicago Graduate School of Business.

Cooperative Agreement with Medicine Man Technologies – In February 2018, Solis Tek announced a cooperative agreement under which Solis Tek will become Medicine Man Technologies' recommended supplier of High Intensity Discharge (HID) lighting technologies for its current and prospective consulting and sales relationships.

Business

Overview

Solis Tek, headquartered in Carson, CA, is a developer, manufacturer, and distributor of products to commercial cannabis growers in both the medical and recreational space in legal markets across the US. The company’s lighting products have enabled cannabis growers to increase yield and lower costs in order to maximize their return on investment. Late in 2016, Solis Tek launched a line of organic nutrient products.

Products

<u>*Digital lighting controller*</u> – Solis Tek introduced its digital lighting controller (picture shown at right) in October 2017, which enables commercial cannabis growers more control over its lighting environment. The company’s controller works with up to 300 lights at once and allows growers to manage multiple lighting cycles in different rooms/locations. Features of the controller include precise canopy temperature monitoring, customized sunrise and sunset options, data analytics to track a garden's events, high temperature auto dim and shut off that automatically reacts to a room’s temperature, and an energy efficient cloud cover to mimic the true nature of the sun when full intensity light is not needed.

Solis Tek Digital Lighting Controller

Source: Solis Tek

<u>*Ballasts*</u> – Ballasts are intended for use in high intensity lighting systems used for horticulture. An electrical ballast is a device intended to limit the amount of current in an electric circuit. A familiar and widely used example is the inductive ballast used in fluorescent lamps, to limit the current through the tube, which would otherwise rise to destructive levels due to the tube’s negative resistance characteristic.

Solis Tek's digital ballasts are designed with sequential lamp ignition (Ignition Control) and self-diagnostic safety systems (SenseSmart). Ignition Control assures that no matter how many lamps are contained in a lighting array attached to one power source, only one lamp will turn on at a predetermined time. This technology (not a randomized ignition startup) detects the voltage and amperage frequencies of the electrical circuit and ignites an array of lamps when the load for each lamp is most stable. This helps to prevent surges and spikes in the electrical environment in which an array of ballasts operate and also prevents the overloading of circuit breakers.

Solis Tek's SenseSmart self-diagnosing system enables the company's ballasts to internally conduct safety checks for over/under voltage, overheating, open circuits, short circuits and more. SenseSmart will recognize an unsafe condition and take pre-determined actions to alleviate the safety issue.

Solis Tek Complete Fixture

Source: Solis Tek

Complete lighting systems – Solis Tek's complete lighting systems (example shown at right) come equipped with ballast, reflector, and double ended HPS and metal halide lamps. SLTK's complete lighting systems include the company's proprietary Ignition Control and SenseSmart technology.

Digital lamps – The company's digital lamps are designed to be specifically tuned and matched with its digital ballasts. SLTK's lamps feature color enhanced full balanced spectrums, prolonged lamp life, low lumen output depreciation over time, and precise gas combinations for increased blues, reds, and ultra violet output. The company's lamps emit a full spectrum of light tuned specifically for particular types of plants and provide ample ultra violet light that plants thrive. Solis Tek's lamps are designed specifically for plant growth, quality, and yield.

The types of lamps the company offers are metal halide and low total harmonic distortion (THD) lamps. Total harmonic distortion creates premature lamp failure and excessive stress on electronic components. SLTK's low THD lamps and ballasts offer a significantly increased lifespan. Metal halide lamps are a type of HID (High Intensity Discharge) lamp with temperatures approaching 1,000ºC. Mercury vapor and high-pressure sodium (HPS) lamps are also HID lamps.

LED Technology - Solis Tek's LED (light emitting diode) lighting produces significantly less heat than conventional HID and HPS lamps, so growers can control their greenhouse climate more accurately. Less heat also means more effective use of light, for example by increasing light levels, extending lighting periods, or by using LED light in greenhouses on warmer days without having to ventilate. Less heat also means you can place the light source closer to plants, reducing light loss. The company intends to bring its LED lighting solutions to market in 2018.

Reflectors – The company's line of reflectors is designed for use with its digital ballasts and lamps. However, they have standard sockets so that lamps and ballasts manufactured by others may also be used. Each reflector features air cooling, heavily tinned wiring, low iron glass for less filtering of light, and utilize highly reflective aluminum to reflect light in the desired direction.

Nutrient product - The company, through its wholly owned subsidiary, Zelda Horticulture, Inc., introduced an organic nutrient product in late 2016, rolled out this product across the US in 2017, and intends to commence an enhanced marketing campaign in 2018. Zelda is aimed at increasing a grower's yield and enhancing the aromatic experience associated the product.

Zelda's first product, Terpenez, is formulated from all organic botanical extracts and is designed to be beneficial to the plant's oil and resin production. Terpenez has shown a superior safety profile when compared with other treatments and third parties have confirmed that plants treated with Terpenez showed no heavy metal toxicities.

In February 2018, Solis Tek announced it launched its Neutralizer plant wash, marking Zelda's second commercially available product. Neutralizer is a plant-derived, proactive plant wash made from all natural ingredients, which helps growers prevent and eradicate pest, fungus and mold infestations. Neutralizer provides growers with an alternative to chemical-laden IPM (integrated pest management) tools which can be carcinogenic. Zelda's Neutralizer offers an effective alternative which contains no ingredients that are banned in states like California, leveraging essential oils to help growers prevent and manage pest, fungus and mold infestations.

Zelda’s in-house R&D department formulates unique plant nutrient additives designed to create healthier plants which yield greater plant aroma, volume, and oil production and intensity in the growing cycle. End users of the company’s nutrient products are existing lighting clients. Solis Tek plans to develop additional nutrient products within the Zelda line and is currently in discussion to add to its product line via custom blending in third-party laboratories under its proprietary formulations.

Marketing and Manufacturing

The company markets its products directly and through distributors, to hydroponic retailers through direct contacts, on-line email advertising, social media, trade magazine advertising, trade show promotions, and cross-promotional offerings. Approximately 5% of SLTK’s revenues were derived from non-US sources in 2017. The company's customers include retail stores, distributors and commercial growers in the United States and abroad.

All of the company’s products are manufactured in China. Solis Tek relies upon one manufacturer and supplier for its ballast products. All other products are manufactured and supplied by third-party suppliers.

License Agreement

Solis Tek has entered into an agreement with G.A.S. Technologies Inc. (GAS) pursuant to which GAS will provide design, supply and engineering services to Solis Tek, as well as exclusively license to the company certain products for the horticultural industry, including all digital lighting products developed by GAS. The GAS agreement gives Solis Tek the exclusive right to manufacture, market and distribute all of the licensed technology. Products under this agreement include metal halide lamps and LED lighting technologies.

The GAS agreement provides that the company will pay the licensor a minimum royalty of $100,000 per year plus 7% of all net sales in excess of a fixed amount per calendar year.

Solis Tek owns a number of trademarks and relies on a combination of copyright and trade secrets, as well as confidentiality procedures and contractual provisions to protect its proprietary technology.

Grow Light Market

The majority of the company’s revenue is currently generated from sales of its lighting products. According to a September 2017 (latest available) report by Grand View Research, the global grow light market is projected to reach $8.6 billion by 2025 for a compound annual growth rate (CAGR) of 14.1%. Driving growth is the increased use of vertical farming (the practice of growing produce in vertically stacked layers) and indoor cultivation for producing crops.

Artificial lighting helps in extending the hours of the natural daylight which further increases the health, growth rate, and yield of the plants. Artificial lighting, such as offered by Solis Tek, can extend the availability of crops throughout a season.

The US government has increasingly started to legitimize cannabis plantation across various states. With this initiative, cannabis cultivation is close to becoming a big business in some parts of the US.

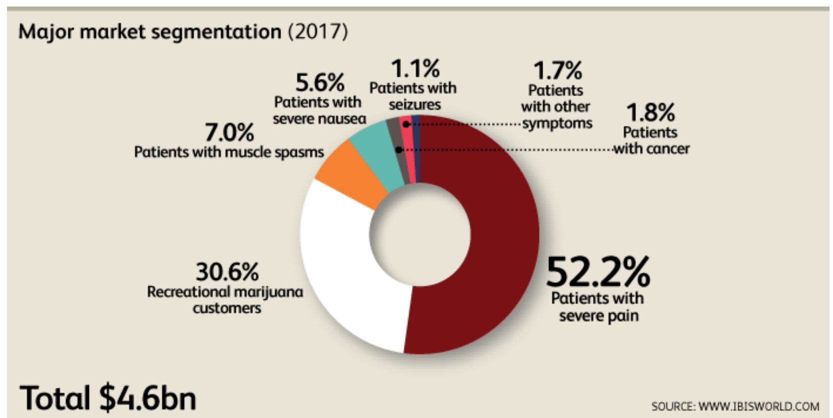
Cannabis Industry

Solis Tek's end markets are medical and recreational commercial cannabis growers in the US. This market has grown at an average annual rate of 26.1% over the past five years. IBISWorld projects this market to grow at an average annual rate of 31.6% over the next five years to generate revenue of $18.2 billion in 2022, up from a projected $4.6 billion in 2017. Driving growth will be increasingly favorable attitudes toward medical marijuana-based treatments and growing demand for recreational marijuana.

In this section and throughout this report, we use the words cannabis and marijuana interchangeably. Cannabis refers to the drug produced from cannabis plants (namely cannabis sativa and cannabis indica) while marijuana refers to the dried leaves from the cannabis plant.

IBISWorld reports that legalization victories in recent years, most notably during the 2016 election cycle, proved that the cannabis industry was one of the fastest growing industries in the US. In 2016, eight states passed initiatives to legalize marijuana. According to New Frontier Data, an estimated 31% of the US population now live in states with newly expanded access to legal marijuana. Consumer attitudes are also accelerating legalization efforts at the state level. Gallup reports that an estimated 80% of Americans approve of legal access to medical marijuana, while 60% approve of full adult use legalization. The growing acceptance of medical marijuana is providing growers and investors with significant opportunities.

IBISWorld estimates that medical marijuana patients will account for 69.4% of industry revenue in 2017. By contrast, the sale of recreational cannabis is estimated to account for 30.6% of industry revenue and is currently limited to the states that have passed legalization laws for adult full use. Although the sale of recreational marijuana only began in 2014, it is projected it will command nearly a third of the customer market for legal marijuana in 2017.



Medical marijuana - Marijuana, in its various forms, can be prescribed medically to treat a wide range of ailments. According to the US Government Accountability Office, under state medical marijuana laws, some of the symptoms and conditions that can be treated by cannabis include Alzheimer's disease, anorexia, AIDS, HIV, glaucoma, cancer, arthritis, epilepsy, nausea, pain, Crohn's disease, migraines, and multiple sclerosis.

Medical marijuana refers to using the whole cannabis plant, or the plant's extracts, for the treatment of various ailments or conditions. Marijuana has not been recognized or approved by the US Food and Drug administration (FDA) as a food or medicine; however, the agency has approved some cannabis-based medications for distribution in the US. Over half of the states and territories in the US have legalized marijuana for medical use, as long as patients have registered to obtain their state's medical cannabis card.

In general, the use of medical marijuana is increasing, particularly among people with chronic illnesses and pain. An October 2017 industry report by IBISWorld cited BDS Analytics that estimates nearly 1.9 million Americans are regular users of medical marijuana.

Medical marijuana was estimated to account for 69.4% of total industry revenue in 2017. Severe pain is the most commonly cited reason for medical marijuana use. Severe pain can result from a variety of chronic diseases and injuries. Medical marijuana can help alleviate severe pain and help patients relax and rest. On average, 52.2% of medical marijuana users used medical marijuana because of severe pain.

Muscle spasms can be caused by multiple sclerosis, Lou Gehrig's disease, cerebral palsy, quadriplegia, cranial and spinal nerve injuries and Tourette's syndrome, among others. Since medical marijuana is purported to help patients relax and sleep better, it is estimated that 7% of industry customers used medical marijuana because of muscle spasms.

A variety of diseases can cause nausea and migraines, including digestive disorders. Medical marijuana can provide relief and muscle relaxation, which helps alleviate nausea. IBISWorld estimates that in 2017, 5.6% of industry customers used medical marijuana because of severe nausea.

Medical marijuana is used to help provide pain relief in a variety of more specific diseases and conditions, such as patients suffering from cancer and seizures. Cancer treatment can be painful, and medical marijuana can help patients relax and rest to accelerate the recovery process.

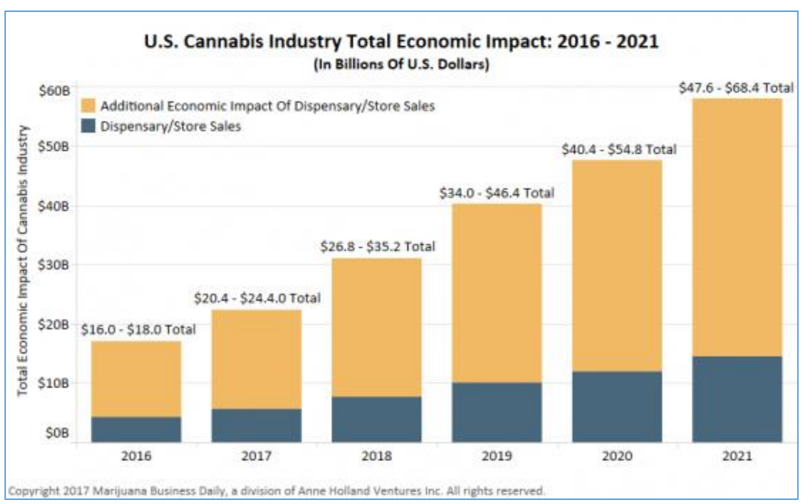
Recreational marijuana - The legalization of recreational marijuana spurred the industry's more recent growth. In 2014, legal recreational marijuana use became a reality in Colorado, stimulating demand for industry products as hundreds of retail stores opened throughout the year. Washington State was next to legalize recreational cannabis consumption which lead to recreational marijuana sales in July 2014. Since then, the number of states that have legalized recreational cannabis has risen to eight. California, Colorado and Washington account for 27%, 20% and 11% of the legal marijuana market, respectively, according to BDS Analytics. To meet consumer demand for marijuana, certain states issued licenses for the cultivation of recreational marijuana.

Recreational marijuana accounts for 30.6% of total industry revenue in terms of marijuana sales. Recreational marijuana users typically smoke in hand-rolled cigarettes ("joints"), pipes, or water pipes ("bongs"). They also smoke marijuana in blunts, which are cigars that have been emptied of tobacco and refilled with a mixture of marijuana and tobacco. Recreational marijuana users typically smoke to obtain a "high," which affects the part of the brain that influences pleasure, memory, thinking, concentration, sensory and time perception and coordinated movement. Currently, legal recreational marijuana use is limited to the states of Alaska, California, Colorado, Maine, Massachusetts, Oregon, Nevada and Washington. However, recreational users' share of the market is set to expand rapidly over the next five years as additional states permit the purchase of cannabis for recreational use and pass legislation authorizing its sale.

The future of the industry remains uncertain until the federal government definitively rules to decriminalize marijuana.

Economic Impact of the Industry

The increase in retail sales of marijuana over the next five years is projected to provide a substantial economic boost to the US economy. Marijuana Business Daily's (MBD)'s Marijuana Business Factbook 2017 projects the marijuana industry will create $20 billion - $24 billion of US economic impact in 2017 that could triple to nearly $70 billion annually by 2021 (see chart at right). MBD's forecast is based on retail marijuana sales and incorporate a multiplier of four. For every $1 consumer/patients spend at dispensaries or recreational stores, another $3 in economic benefits are created in cities, states and nationwide.



According to a January 2018 report by Arcview Market Research (US Legal Cannabis: Driving $40 Billion Economic Output), the total economic output from legal cannabis will grow 150% from $16 billion in 2017 to $40 billion by 2021. The report examines the economic multiplier effects through which US consumer spending on legal cannabis in 2021 of $20.8 billion will generate $39.6 billion in overall economic impact, 414,000 jobs, and more than $4 billion in tax receipts.

Six of the early movers in legal adult-use implementation (California, Colorado, Massachusetts, Nevada, Oregon, and Washington) will account for more than 60% of the $39.6 billion in 2021 total economic output. Medical use states will see far less positive economic impact, while the hold-out states will see none.

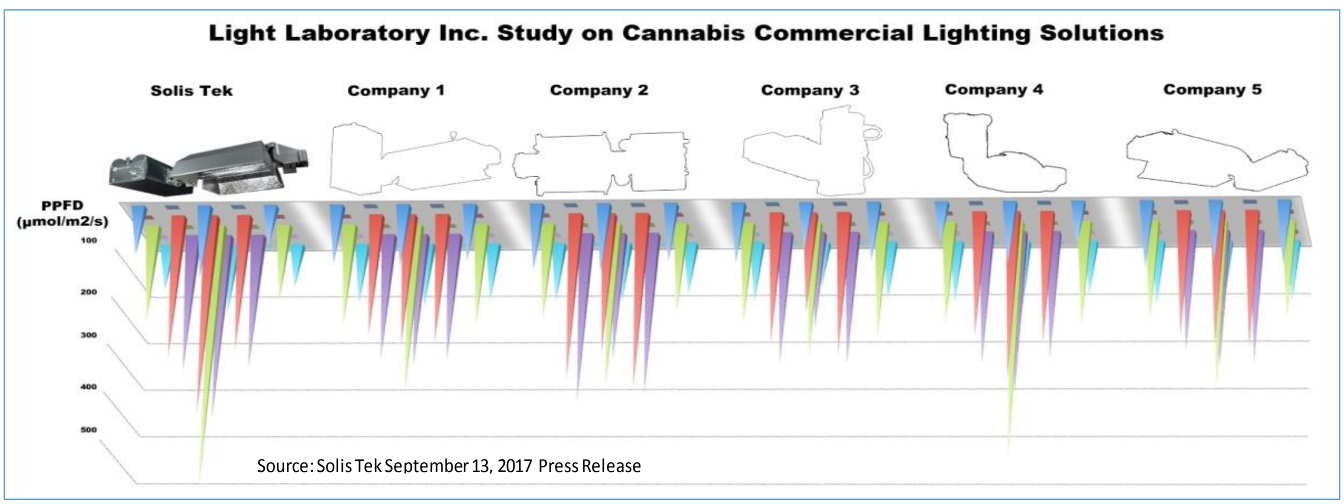
All of this economic activity, job creation, and tax revenue generation is a substantial benefit to state and local economies.

Competition, Competitive Advantage

Solis Tek faces competition from traditional lighting fixture companies, lamp manufacturers and from non-traditional companies focused on LED lighting systems including fixtures and lamps. Lighting companies such as Acuity Brands, Inc., the Cooper Lighting division of Eaton Corporation plc, General Electric Company, Hubbell Incorporated, Philips, OSRAM, Gavita, Sunlight Supply and Hydrofarm are the main competitors in this market.

Solis Tek's main competitors in the nutrient market include Botanicare and General Hydroponics. The company competes on the basis of product quality, effectiveness, and price.

An independent study on the effectiveness of cannabis lighting products, showed Solis Tek's product has a distinct competitive advantage in that it offers the best total light output and more light uniformity when compared to products from five other cannabis lighting companies. Light Laboratory Inc., an independent photometric testing laboratory, evaluated six different cannabis lighting providers to assess which offered the best overall value for cultivators. The study evaluated photosynthetic photon flux density (PPFD), which measures the quantity of light that arrives at the plant canopy and how plants "see" and "absorb" light. Higher readings translate to improved plant yields and lower costs for cultivators (see chart below).



The study found that Solis Tek's all-in-one A1 fixture had the best light output and provided a high-intensity and more consistent footprint than competing options. Solis Tek's products enable commercial growers to avoid hotspots and create a more even canopy, where no one plant grows taller and overshadows other plants. Solis Tek's unique lighting technology targets specific growth cycles and replicates the different seasons of the year, where plants make use of natural light in different ways. These attributes help to create the best environment for cultivators to increase yield and produce the highest quality crops at a low cost.

Another competitive advantage of the company lies in its ability to stay in front of the legislative process. Most of the states in the US where marijuana is legal require laboratory testing to check for the level of toxins such as heavy metals in the cannabis product. Increasingly, advocates for standardizing cannabis testing have cited harmful contaminants that include heavy metals. SLTK's Terpenez product was shown to be free of all heavy metals in independent laboratory testing in July 2017.

Laboratory analysis determined the level of heavy metals in Terpenez to be below the EPA's detection limit. The heavy metals tested include arsenic, cadmium, cobalt, lead, molybdenum, nickel, selenium, zinc, mercury, copper and chromium.

Strategy

Solis Tek's strategy is to increase its market share by expanding its marketing efforts and by introducing new and improved lighting technology to help the industry become more efficient. The company also started to market and sell a new line of plant nutrients and fertilizers through its wholly owned subsidiary Zelda Horticulture in an effort to expand its market reach and maximize revenue potential.

Solis Tek aims to take advantage of the expected increase in the number of states where the use of cannabis, both for medical and recreational use is being legalized. In an effort to grow outside the cannabis industry, the company intends to broaden its marketing efforts to the non-cannabis lighting market, which includes, among others, hothouse vegetables, decorative plant nurseries, indoor aquariums, and industrial painting facilities.

4Q and 2017 Financial Results

4Q17 – Revenue decreased 17.1% to $1.6 million. The net loss widened to $7.8 million or $(0.21) per share from a net loss of $376,000 or $(0.01) per share in the year-ago period. Included in 4Q17 results were $2.4 million or $(0.06) per share of financing costs, a loss of $2.5 million or $(0.07) per share from the change in derivative liability, and $607,000 or $(0.02) per share in deemed dividends. We projected 4Q17 revenue of $2.2 million and a net loss of $1.1 million or $(0.03) per share.

Gross profit decreased $324,000 or 42.9% to $432,000 from $756,000 in 4Q16 for gross margins of 26.4% and 38.3%, respectively. SG&A expenses increased to $2.6 million from $887,000. The operating loss widened to $2.1 million from a loss of $330,000.

2017 **-** Revenue increase 4.8% to $9 million due to greater market penetration. The net loss widened to $14.6 million or $(0.38) per share from a net loss of $539,000 or $(0.02) per share. Included in 2017 results were $2.4 million or $(0.06) per share of financing costs, a loss of $2.5 million or $(0.07) per share from the change in derivative liability, and $607,000 or $(0.02) per share in deemed dividends.

Although gross profit increased 1% to $3.1 million, gross margins decreased to 35% from 36.5% due to product mix.

SG&A expenses increased to $11.8 million from $3.2 million due primarily to increased stock compensation, payroll, consulting and professional fees, and marketing expenses. Research and development expenses decreased to $232,000 from $371,000 due primarily to the timing and scope of R&D projects as compared to 2016.

Liquidity – As of December 31, 2017, Solis Tek had $968,000 cash, a current ratio of 1.3X, and 1.9 million in debt of which 99% is classified as current.

Cash used in operations in 2017 was $2.1 million consisting of a cash loss of $2.5 million and a $441,000 decrease in working capital. The decrease in working capital was primarily due to a decrease in inventories offset in part by a decrease in related party vendor debt.

Cash used in investing consisted solely of $3,000 in capital expenditures. Cash provided by financing of $2.8 million consisted primarily of increased debt and proceeds from the sale of common stock.

The company has $1.1 million of notes payable which are all classified as current. The interest rates on these notes range from 8% to 14%. The notes are due May 31, 2018 or are payable on demand.

In November 2017, the company sold a $1.75 million secured convertible debenture and five year warrants to purchase approximately 1.1 million shares of SLTK common stock at $1.10 per share. The debenture matures on May 7, 2019 and bears interest at the rate of 5% per annum.

In October 2017, Solis Tek sold a total of 351,000 shares of series A convertible preferred stock for gross proceeds of $351,000. The company also issued five-year warrants to purchase a total of 283,140 shares of SLTK common stock for $1.25 per share.

Economic Outlook

In April 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from January 2018. The growth estimates reflect strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the US.

The IMF raised its economic growth estimate for the US to 2.9% in 2018 and 2.7% in 2019, up from its earlier (January 2018) growth forecast of 2.7% for 2018 and 2.5% for 2019. The upward revision reflects stronger than expected US economic activity in 2017, firmer external demand, and the expected economic impact from 2018 tax policy changes, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments.

The third estimate of US GDP growth (released on March 28, 2018) showed the US economy grew at an annual rate of 2.9% in 4Q17, down from 3.2% growth in 3Q17. The 4Q17 US GDP growth estimate primarily reflects increases in consumer spending, business investment, exports, housing investment, and government spending. These contributions were partly offset by declines in private inventory investment.

Projections

Basis for projections – The company has increased its market penetration in a rapidly growing market. We believe that as cannabis growers expand their use of SLTK's lighting and nutrient products, the company is well positioned to capitalize on the expanding legalization of cannabis in the US and should be able to increase its market penetration through our forecast horizon.

2018 Forecast – We project a 5.3% decrease in revenue to $8.5 million and a net loss of $7.2 million or $(0.17) per share. Our prior projections were revenue of $11.7 million and a net loss of $2.3 million or $(0.06) per share. The revenue decrease reflects a slowdown in business stemming from Jeff Sessions' threat to rescind Obama-era federal rules to not interfere with states that had voted to legalize marijuana in January 2018.

We anticipate gross margin compression to 33.5% from 35% due to decreased overhead coverage. We project SG&A trending downward to $9.4 million from $11.8 million as the bulk of spending to bring heightened visibility to customers and the investment community occurred in 2017. R&D expenses are projected at $400,000.

We project the company paying $280,000 in interest expense on higher average debt levels and minimal taxes. The outstanding share count should increase to approximately 42.5 million from 37.2 million in 2017 as the company continues to issue shares for services rendered.

We project cash used in operations of $1.3 million due primarily to a cash loss. The cash used in operations should necessitate additional sales of common stock and increased debt. Cash is projected to decrease by $521,000 to $447,000 at December 31, 2018.

2019 Forecast – We project a 24.7% increase in revenue to $10.6 million and a net loss of $7.2 million or $(0.15) per share. The increase in revenue should be driven by a reduction in political headwinds for the cannabis industry. In April 2018, President Trump vowed to support legislation protecting the marijuana industry in states that have legalized it.

Gross margins are projected to increase to 40% from 33.5% as sales from higher margin Terpenez continuing to ramp. We project SG&A increasing by $1.2 million or 12.8% to support sales growth. R&D expenses are projected at $400,000.

We project the company paying $440,000 in interest expense on higher average debt levels. The outstanding share count should increase by 4.1 million to approximately 46.6 million as the company continues to issue shares for services rendered.

We project cash used in operations of $1.5 million due to a $1.3 million cash loss and a $258,000 increase in working capital. The increase in working capital should come primarily from increasing inventories. The cash used in operations should necessitate additional sales of common stock and increased debt. Cash is projected to increase by $460,000 to $908,000 at December 31, 2019.

Risks

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

Going concern – Solis Tek had a net loss to common stockholders of $14.6 million and a shareholders' deficit of $6.3 million in 2017. The company will also need to raise additional working capital to continue its normal and planned operations. Accordingly, substantial doubt exists about the company's ability to continue as a going concern.

Marijuana laws – Solis Tek's business is dependent on laws pertaining to the marijuana industry. In April 2018, there were 29 states plus the District of Columbia that have laws that recognize legitimate medical uses for cannabis and consumer use of cannabis in connection with medical treatment. Colorado, Washington, California, Massachusetts, Alaska, Nevada, Oregon and Vermont, as well as the District of Columbia, have recently approved the recreational use of cannabis. These state laws are in conflict with federal laws which make marijuana use and possession illegal. The current US Administration has indicated that it is not an efficient use of federal resources to prosecute those abiding by state-designated marijuana laws. However, there can be no assurance that the current or any future Administration will not change its policy regarding federal law enforcement.

Sole source manufacturers - The company does not have long-term contracts with its manufacturers, two of which accounted for approximately 96% of cost of goods sold in both 2017 and 2016. Each of these manufacturers is the sole source supplier for the products that it produces. A loss of either or both of these manufacturers or other key manufacturers would result in delayed deliveries to SLTK's retailers and distributors and may require the company to establish new manufacturing relationships.

International business risks – SLTK faces business, political, operational, financial and economic risks inherent in international business. Some of these risks include difficulties obtaining domestic and foreign export, import and other governmental approvals, trade restrictions, higher tariffs, currency fluctuations or the imposition of additional regulations relating to the import or export of the company's products, especially in China, where substantially all of its products are manufactured.

Foreign currency risk - For most of the products SLTK imports, transactions are conducted in US dollars. Major movements in exchange rates could adversely impact the company's business results.

Competition – SLTK's industry is highly competitive and the company has less capital and resources than many of its competitors. This may lead to SLTK's competitors having an advantage in developing and marketing products similar to the company's making its products obsolete.

Liquidity risk - Shares of Solis Tek have risks common to those of the microcap segment of the market. Often these risks 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 and can lead to large spreads and high volatility in stock price. There are 20.5 million shares in the float and the average daily volume is approximately 82,000 shares.

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.

Consolidated Balance Sheets
(in thousands $)

	2015A	2016A	2017A	2018E	2019E
Cash	106	276	968	447	908
Accounts receivable	561	629	418	396	494
Inventories	3,896	2,881	1,684	1,634	1,837
Advances to suppliers	23	-	736	736	736
Prepaid expenses and other	10	72	134	134	134
Income tax receivable	75	2	-	-	-
Total current assets	4,671	3,860	3,940	3,347	4,108
Property and equipment	268	205	138	98	72
Other	32	32	38	38	38
Total assets	**4,971**	**4,097**	**4,116**	**3,483**	**4,218**
Accounts payable and accrued expenses	564	552	1,124	1,090	1,226
Due to related party vendor	1,172	1,084	381	381	381
Note payable-related parties	255	265	1,145	-	-
Convertible note payable	-	-	194	194	194
Amount due to related parties	127	134	147	147	147
Capital lease obligation, current portion	13	14	10	-	-
Loans payable, current portion	349	8	9	1	1
Line of credit	600	-	-	-	-
Total current liabilities	3,080	2,057	3,010	1,813	1,949
Capital lease obligation	24	9	-	-	-
Loans payable	34	26	17	1,517	3,017
Derivative liability	-	-	7,415	7,415	7,415
Notes payable-related parties	-	600	-	-	-
Total liabilities	**3,138**	**2,692**	**10,442**	**10,745**	**12,381**
Total stockholders' equity	**1,833**	**1,405**	**(6,326)**	**(7,263)**	**(8,163)**
Total liabilities & stockholders' equity	**4,971**	**4,097**	**4,116**	**3,483**	**4,218**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	2015A	2016A	2017A	2018E	2019E
Sales	7,713	8,564	8,976	8,500	10,600
Cost of goods sold	4,994	5,440	5,831	5,657	6,360
Gross profit	2,719	3,124	3,145	2,844	4,240
Selling, general and administrative	2,825	3,174	11,804	9,400	10,600
Research and development	257	371	232	400	400
Operating income (loss)	(363)	(421)	(8,891)	(6,957)	(6,760)
Financing costs	-	-	(2,353)	-	-
Change in fair value of derivative liability	-	-	(2,546)	-	-
Interest expense	(60)	(97)	(225)	(280)	(440)
Income (loss) before taxes	(672)	(538)	(14,015)	(7,237)	(7,200)
Income tax (benefit)	(119)	1	7	-	-
Net income / (loss)	(553)	(539)	(14,022)	(7,237)	(7,200)
Deemed dividend	-	-	(607)	-	-
Net income / (loss) to common	(553)	(539)	(14,629)	(7,237)	(7,200)
EPS	(0.02)	(0.02)	(0.38)	(0.17)	(0.15)
Shares Outstanding	29,577	29,633	37,158	42,475	46,625
Margin Analysis					
Gross margin	35.3%	36.5%	35.0%	33.5%	40.0%
SG&A	36.6%	37.1%	131.5%	110.6%	100.0%
Operating margin	(4.7)%	(4.9)%	(99.1)%	(81.8)%	(63.8)%
Net margin	(7.2)%	(6.3)%	(156.2)%	(85.1)%	(67.9)%
Tax rate	17.7%	(0.2)%	0.0%	0.0%	0.0%
Year / Year Growth					
Total Revenues		11.0%	4.8%	(5.3)%	24.7%
Net Income		NMF	NMF	NMF	NMF
EPS		NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2016A - 2018E
(in thousands $)

	3/17A	6/17A	9/17A	12/17A	2017A	3/18E	6/18E	9/18E	12/18E	2018E	3/19E	6/19E	9/19E	12/19E	2019E
Sales	2,902	2,441	1,994	1,639	8,976	1,700	2,400	2,300	2,100	8,500	2,850	2,550	2,450	2,750	10,600
Cost of goods sold	1,781	1,521	1,322	1,207	5,831	1,250	1,488	1,449	1,470	5,657	1,710	1,530	1,470	1,650	6,360
Gross profit	1,121	920	672	432	3,145	451	912	851	630	2,844	1,140	1,020	980	1,100	4,240
Selling, general and administrative	4,765	2,391	2,050	2,598	11,804	2,250	2,450	2,400	2,300	9,400	2,750	2,600	2,550	2,700	10,600
Research and development	83	83	83	(17)	232	100	100	100	100	400	100	100	100	100	400
Operating income (loss)	(3,727)	(1,554)	(1,461)	(2,149)	(8,891)	(1,900)	(1,638)	(1,649)	(1,770)	(6,957)	(1,710)	(1,680)	(1,670)	(1,700)	(6,760)
Financing costs	-	-	-	(2,353)	(2,353)	-	-	-	-	-	-	-	-	-	-
Change in fair value of derivative liability	-	-	-	(2,546)	(2,546)	-	-	-	-	-	-	-	-	-	-
Interest expense	(24)	(32)	(28)	(141)	(225)	(70)	(70)	(70)	(70)	(280)	(110)	(110)	(110)	(110)	(440)
Income (loss) before taxes	(3,751)	(1,586)	(1,489)	(7,189)	(14,015)	(1,970)	(1,708)	(1,719)	(1,840)	(7,237)	(1,820)	(1,790)	(1,780)	(1,810)	(7,200)
Income tax (benefit)	1	3	-	3	7	-	-	-	-	-	-	-	-	-	-
Net income / (loss)	(3,752)	(1,589)	(1,489)	(7,192)	(14,022)	(1,970)	(1,708)	(1,719)	(1,840)	(7,237)	(1,820)	(1,790)	(1,780)	(1,810)	(7,200)
Deemed dividend	-	-	-	(607)	(607)	-	-	-	-	-	-	-	-	-	-
Net income / (loss) to common	(3,752)	(1,589)	(1,489)	(7,799)	(14,629)	(1,970)	(1,708)	(1,719)	(1,840)	(7,237)	(1,820)	(1,790)	(1,780)	(1,810)	(7,200)
EPS	(0.10)	(0.04)	(0.04)	(0.21)	(0.38)	(0.05)	(0.04)	(0.04)	(0.04)	(0.17)	(0.04)	(0.04)	(0.04)	(0.04)	(0.15)
Shares Outstanding	36,389	37,012	37,180	37,158	37,158	39,200	41,200	43,500	46,000	42,475	46,250	46,500	46,750	47,000	46,625
Margin Analysis															
Gross margin	38.6%	37.7%	33.7%	26.4%	35.0%	26.5%	38.0%	37.0%	30.0%	33.5%	40.0%	40.0%	40.0%	40.0%	40.0%
SG&A	164.2%	98.0%	102.8%	158.5%	131.5%	132.4%	102.1%	104.3%	109.5%	110.6%	96.5%	102.0%	104.1%	98.2%	100.0%
Operating margin	(128.4)%	(63.7)%	(73.3)%	(131.1)%	(99.1)%	(111.7)%	(68.3)%	(71.7)%	(84.3)%	(81.8)%	(60.0)%	(65.9)%	(68.2)%	(61.8)%	(63.8)%
Net margin	(129.3)%	(65.1)%	(74.7)%	(438.8)%	(156.2)%	(115.9)%	(71.2)%	(74.7)%	(87.6)%	(85.1)%	(63.9)%	(70.2)%	(72.7)%	(65.8)%	(67.9)%
Tax rate	0.0%	(0.2)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth															
Total Revenues	12.3%	14.8%	6.2%	(17.1)%	4.8%	(41.4)%	(1.7)%	15.3%	28.1%	(5.3)%	67.6%	6.3%	6.5%	31.0%	24.7%
Net Income	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF
EPS	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

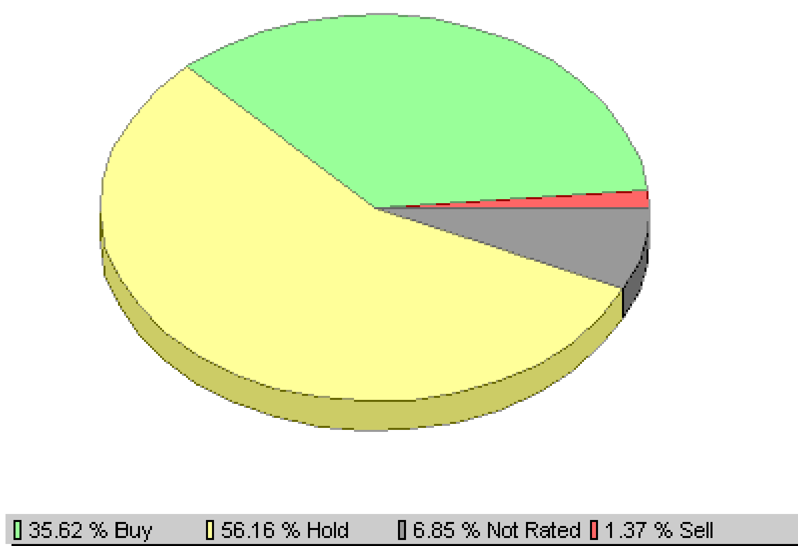
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2015A	2016A	2017A	2018E	2019E
Net income (loss)	(553)	(539)	(14,022)	(7,237)	(7,200)
Provision for bad debt expense	90	214	37	100	100
Provision for inventory reserves	-	-	11		
Depreciation & amortization	51	71	70	50	36
Amortization of loan fees	12	28	-	-	-
Fair value of common stock issued	25	111	5,769	5,800	5,800
Interest expense on loans payable-related parties	-	-	-	-	-
Fair value of vested stock options	-	-	274	-	-
Financing costs	-	-	2,514	-	-
Change in fair value of derivative liability	-	-	2,546	-	-
Common shares purchased by officer at discount	-	-	300	-	-
Cash earnings (loss)	(375)	(115)	(2,501)	(1,287)	(1,264)
Changes in assets and liabilities					
Accounts receivable	(160)	(282)	174	(78)	(190)
Inventories	(1,840)	1,015	1,185	50	(203)
Advances to suppliers	9	22	(736)	-	-
Prepaid expenses and other	7	(62)	(62)	-	-
Income taxes receivable	24	73	3	-	-
Other assets	(2)	-	(6)	-	-
Accounts payable and accrued expenses	336	(12)	572	(34)	136
Due to related parties	1,033	(88)	(690)	-	-
Interest expense on notes payable to officers	16	30	-	-	-
Customer deposits	(12)		-	-	-
Income taxes payable	(285)	-	-	-	-
(Increase) decrease in working capital	(874)	696	440	(61)	(258)
Net cash provided by (used in) operations	**(1,249)**	**581**	**(2,061)**	**(1,348)**	**(1,522)**
Purchase of properrty and equipment	(144)	(8)	(3)	(10)	(10)
Net cash used in investing	**(144)**	**(8)**	**(3)**	**(10)**	**(10)**
Proceeds from sale of common stock	806	-	555	500	500
Proceeds from sale of convertible preferred stock	-	-	295	-	-
Proceeds from convertible note payable	-	-	1,648	1,500	1,500
Payments on convertible note payable	-	-	-	-	-
Payments on capital lease obligations	(14)	(13)	(14)	(10)	-
Payment on line of credit	-	(600)	-	-	-
Proceeds from loans payable	500	110	-	-	-
Payments on loans payable	(172)	(487)	(8)	(8)	(8)
Proceeds from notes payable related parties	-	610	300	-	-
Payments on notes payable related parties	(30)	(23)	(20)	(1,145)	-
Net cash provided by (used in) financing	**1,090**	**(403)**	**2,756**	**837**	**1,992**
Net change in cash	**(303)**	**170**	**692**	**(521)**	**460**
Cash - beginning of period	**409**	**106**	**276**	**968**	**447**
Cash - end of period	**106**	**276**	**968**	**447**	**908**

Source: Company filings 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**	**12**
Hold		
Sell		
Not Rated		

Important Disclosures

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I, John Nobile, 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:

Acuity Brands (NYSE: AYI)
Eaton Corporation (NYSE: ETN)
General Electric (NYSE: GE)
OSRAM (OTC: ASAGF)
Philips (NYSE: PHG)

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.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, 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.