Initial Research Report

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

Solis Tek, Inc.

Speculative Buy

John Nobile
November 20, 2017

SLTK $1.50 — (OTC)

	2015A	2016A	2017E	2018E
Revenues (millions)	$7.7	$8.6	$9.5	$11.7
Earnings (loss) per share	$(0.02)	$(0.02)	$(0.21)	$(0.06)

52-Week range	$3.44 – $0.25	Fiscal year ends:	December
Common shares out as of 11/7/17	38.0 million	Revenue per share (TTM)	$0.27
Approximate float	16.7 million	Price/Sales (TTM)	5.6X
Market capitalization	$57 million	Price/Sales (FY2018)E	5.2X
Tangible book value/share	$0.02	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2018)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:

Initiating coverage of Solis Tek, Inc. with a Speculative Buy rating and twelve-month price target of $3.00 per share.

Solis Tek's end markets are medical and recreational commercial cannabis growers in the US. This market is projected to grow at an average annual rate of 31.6% over the next five years to generate revenue of $18.2 billion in 2022. Driving growth will be increasingly favorable attitudes toward medical marijuana-based treatments and growing demand for recreational marijuana.

We believe that as cannabis growers expand their use of SLTK's lighting products (including a new lighting controller product), and begin to purchase the company's nutrient product Terpenez, 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.

For 2017, we project an 11% increase in revenue to $9.5 million and a net loss of $8 million or $(0.21) per share.

For 2018, we project a 22% increase in revenue to $11.7 million and a net loss of $2.3 million or $(0.06) per share. The company should benefit from a full year of sales from customer acceptance of Terpenez and its new lighting controller product.

In November 2017, Solis Tek closed on a financing that provided more than $2 million in capital to support supply chain fulfillment and to automate production of its nutrient line, which is nearing the introduction of its second commercial product.

****Please view our disclosures on pages 16 - 18.***

Recommendation and Valuation

We are initiating coverage of Solis Tek, Inc. with a Speculative Buy rating and twelve-month price target of $3.00 per share.

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 products (including a new lighting controller product), and begin to purchase the company's nutrient product Terpenez, 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.

We believe investments in this industry will accelerate in the coming months as investors seek to participate in the fast growing cannabis market. Already, some large companies have agreed to take, or at least evaluate, a potential investment in this industry.

In October 2017, the large beer and wine company Constellation Brands agreed to take a 9.9% stake in Canadian marijuana growing company, Canopy Growth, for CAD $245 million (US $190 million). Constellation said that the investment was part of its plans to identify, meet, and stay ahead of evolving consumer trends and market dynamics. In an interview with the Wall Street Journal, Constellation's CEO said the company was considering developing nonalcoholic cannabis-based beverages and that he believed, like many investors, that full legalization in the US was highly likely.

In November 2017, Molson Coors' CEO stated that the company has created a team to evaluate the potential impacts and/or opportunities of the booming cannabis industry.

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 5.6X trailing twelve months sales while the peer group (five publicly traded cannabis stocks excluding outliers) trades at a trailing twelve month sales ratio of 15.4X. We believe SLTK's multiple will approach that of the industry as revenue growth accelerates and margins expand. We applied a multiple of 11X to our FY18 sales per share projection of $0.29, discounted for the risks inherent in the industry, to obtain a year-ahead value of approximately $3.00 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.

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

Digital Ballasts – 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.

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.

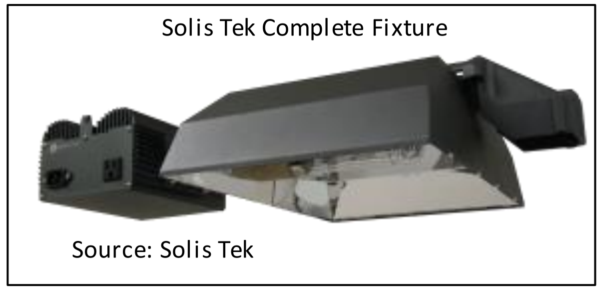
Lighting controller – Solis Tek introduced its lighting controller (picture shown at right) in October 2017, which enables commercial cannabis growers more control over its lighting environment. The company's controller works with up to 300 lights at once and allows growers to manage multiple lighting 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

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.



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.

Nutrient products - The company, through its wholly owned subsidiary, Zelda Horticulture, Inc., introduced an organic solutions and nutrient line in late 2016. Zelda's products are aimed at increasing a grower's yield and enhancing the aromatic experience associated the product.

Zelda's products currently include Terpenez and Neutralizer. 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. Neutralizer is an all-natural plant extract based leaf wash designed to be used as an organic pesticide for the cannabis industry, as well as an everyday fertilizer.

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 aims to leverage its existing sales and distribution channels to gain maximum efficiencies with this relatively new division.

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 1% of SLTK's revenues were derived from non-US sources in 2016. The company's customers include retail stores, distributors and commercial growers in the United States and abroad.

Substantially all of the company's products are manufactured in China. Solis Tek relies upon one manufacturer (of which the family of the spouse of SLTK's president owns a 30% interest in) and supplier for its ballast products. All other products are manufactured and supplied by unaffiliated 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

Virtually all of the company's revenue is currently generated from sales of its lighting products. According to a September 2017 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 high-pressure sodium lighting and LED lighting can extend the availability of crops throughout a season.

High pressure sodium (HPS) lighting is the lowest cost and most ubiquitous form of artificial lighting in the cannabis industry. However, HPS lighting systems are energy inefficient and generate a lot of excess heat.

LED lighting is the fastest growing form of artificial lighting in the cannabis industry. LED lighting is more energy efficient and generates less heat than HPS lighting. However, LED lighting systems tend to be about four to six times more expensive and they lack the intensity of light that HPS lighting solutions do, which can result in lower yields.

Solis Tek is focused on a lighting technology known as ceramic metal halide (CMH) lighting. Unlike HPS lighting, CMH systems operate with a high level of efficiency and a source that is controllable. Unlike LEDs, CMH systems have much greater intensity that can help improve yields.

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.

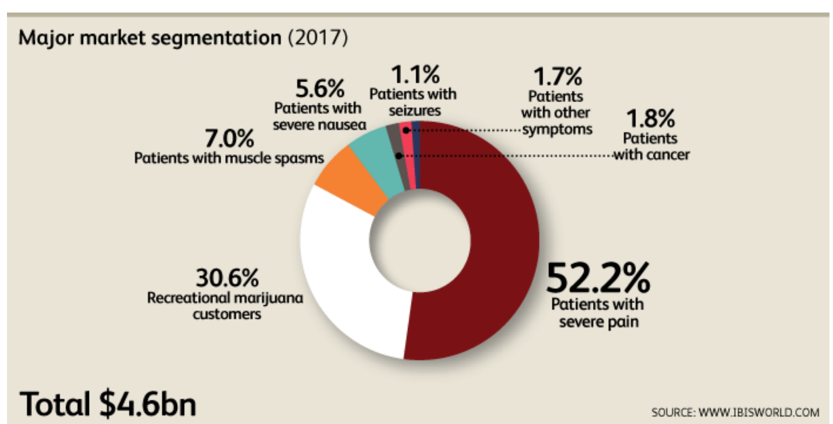
Cannabis Industry

Solis Tek's end markets are medical and recreational commercial cannabis growers in the US. This market has grown at an average annual growth 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 is expected 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.

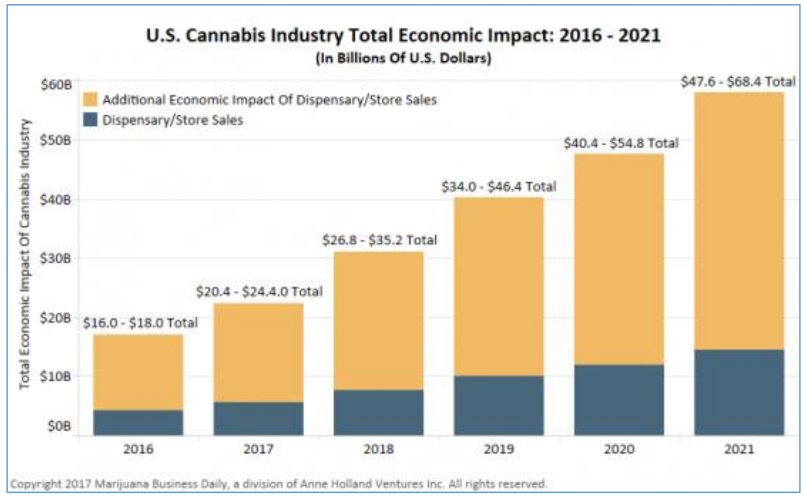
Recreational marijuana - The legalization of recreational marijuana spurred the industry's more recent growth. At the outset of 2014, legal recreational marijuana use became a reality in Colorado, stimulating demand for industry products as hundreds of retail stores opened throughout the year. Washington State was next to legalize recreational cannabis consumption which lead to recreational marijuana sales that began 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, however, until the federal government definitively rules to decriminalize marijuana. Until then, a growing number of medical marijuana patients, as well as a burgeoning recreational cannabis legalization movement, should generate an expanding consumer base for growers.

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 the National Cannabis Industry Association (NCIA), the cannabis industry has already created more than 18,000 jobs in Colorado. The first two years of adult-use legalization in the state generated $168 million in tax revenue, and another $140 million or more was expected by the end of 2016.

In California, the legal cannabis market is projected to be worth $6.6 billion by 2020 and the state expects to collect $1.4 billion in tax revenues from cannabis businesses in just the first year of full operation. The cannabis market in Massachusetts is expected to reach $1.1 billion by 2020 and generate $100 million a year in tax revenue. Even a smaller state like Maine projects a market worth almost $300 million by 2020.

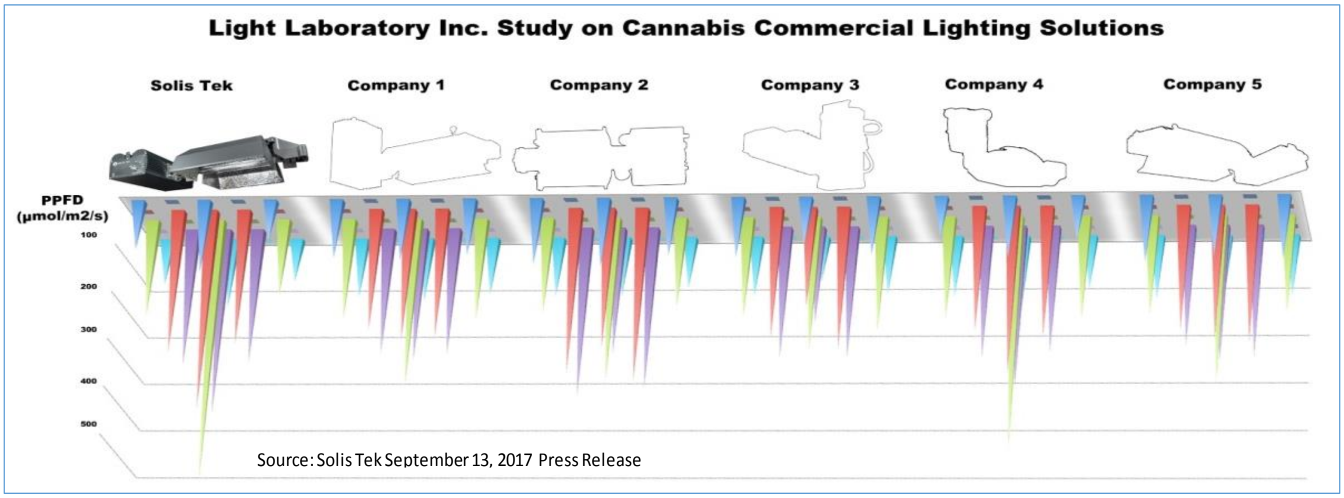
All of this economic activity, job creation, and tax revenue generation is a substantial benefit to state and local economies.

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.

A recent independent study (September 2017) 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 on top of next page).



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.

3Q and Nine-month Financial Results

3Q17 – Revenue increase 6% to $2 million due to greater market penetration. The net loss widened to $1.5 million or $(0.04) per share from a net loss of $173,000 or $(0.01) per share.

The increase in revenue resulted in gross profit increasing to $671,000 from $640,000 in 3Q16 due to sales growth, partly offset by gross margin compression to 33.7% from 34.1% due to product mix.

SG&A expenses increased to $2.1 million from $767,000 due primarily to increased payroll, marketing, and stock compensation expenses. Research and development expenses increased to $83,000 from $58,000 due primarily to the fair value of common stock ($25,000) issued to an employee for improving existing products and developing new products.

Nine-months 2017 - Revenue increase 11% to $7.3 million due to greater market penetration. The net loss widened to $6.8 million or $(0.18) per share from a net loss of $164,000 or $(0.01) per share.

The increase in revenue and gross margin expansion to 37% from 35.9% due to product mix resulted in gross profit increasing to $2.7 million from $2.4 million.

SG&A expenses increased to $9.2 million from $2.3 million due primarily to increased payroll, consulting, and stock compensation expenses. Research and development expenses increased to $248,000 from $173,000 due primarily to the fair value of common stock ($75,000) issued to an employee for improving existing products and developing new products.

(in thousands $)	9m17A	9m16A
Sales	7,337	6,587
Cost of goods sold	4,625	4,219
Gross profit	2,712	2,368
Selling, general and administrative	9,206	2,286
Research and development	248	173
Operating income (loss)	(6,742)	(91)
Interest expense	(84)	(77)
Interest income	-	5
Income (loss) before taxes	(6,826)	(163)
Income tax (benefit)	4	-
Net income / (loss)	(6,830)	(163)
EPS	(0.18)	(0.01)
Shares Outstanding	37,483	29,624
Margin Analysis		
Gross margin	37.0%	35.9%
SG&A	125.5%	34.7%
Operating margin	(91.9)%	(1.4)%
Net margin	(93.1)%	(2.5)%
Tax rate	(0.1)%	0.0%
Year / Year Growth		
Total Revenues	11.4%	
Net Income	NMF	
EPS	NMF	

Source: Company filings

Liquidity – As of September 30, 2017, Solis Tek had $194,000 cash, a current ratio of 1.5X, a debt to equity ratio of 2.1X and 17% of assets were financed by equity.

Cash used in operations in the first nine months of 2017 was $897,000 consisting of a cash loss of $1.2 million and a $343,000 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 vendor debt.

Cash used in investing consisted solely of $3,000 in capital expenditures. Cash provided by financing of $819,000 consisted primarily of increased debt and proceeds from the sale of common stock.

The company has $1.1 million of notes payable to related parties of which $545,000 is classified as current and $600,000 as long-term. The interest rates on these notes range from 8% to 14%. The long-term notes are due May 31, 2018 and the short-term notes are payable on demand. A total of $50,000 is past due as of September 30, 2017. The maturities have been extended with mutual consent.

In November 2017, the company sold a $1.75 million secured convertible debenture and five year warrants to purchase 1,137,500 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.

From October 20, 2017 through November 7, 2017 Solis Tek sold a total of 117 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 226,512 shares of SLTK common stock for $1.25 per share.

Economic Outlook

In October 2017, the IMF raised its economic growth estimate for the US to 2.2% in 2017 and 2.3% in 2018, up from its earlier (July 2017) growth forecast of 2.1% for both years. The upward revision reflects strong, broad based US economic activity in 1H17.

The advance estimate of US GDP growth (released on October 27, 2017) showed the US economy grew at an annual rate of 3% in 3Q17, down from 3.1% growth in 2Q17. The 3Q17 US GDP growth estimate primarily reflects increases in consumer spending, inventory investment, business investment, and exports. Partly offsetting these contributions to GDP growth was a decrease in housing 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 products (including a new lighting controller product), and begin to purchase the company's nutrient product Terpenez, 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.

2017 Forecast – We project an 11.4% increase in revenue to $9.5 million and a net loss of $8 million or $(0.21) per share. We anticipate gross margins of 36.8% compared to 36.5% in 2016 as sales from SLTK's higher margin Terpenez (approximately 70% gross margins versus 30% to 40% from lighting products) start to ramp.

We project a large jump in SG&A expenses to $11 million from $3.2 million as the company increases spending to heighten its industry and investment community visibility. Most of the increase will be non-cash common stock issuances in lieu of cash for services rendered. R&D expenses are projected at $332,000, in line with year-to-date results.

We project the company paying $134,000 in interest expense and minimal taxes. The outstanding share count should increase to approximately 37.1 million from 29.6 million as the company issues shares for services rendered.

We project a cash loss of $701,000 and a $1.1 million increase in working capital will result in $1.8 million cash used in operations. The increase in working capital will come primarily from a decrease in amounts due to related parties and an increase in accounts receivable and inventories. Proceeds from the sale of common and preferred stock and loans should more than offset cash used in operations and capital expenditures increasing cash by $573,000 to $849,000 at December 31, 2017.

2018 Forecast – We project a 22% increase in revenue to $11.7 million and a net loss of $2.3 million or $(0.06) per share. The company should benefit from a full year of sales of Terpenez and its new lighting controller product. Gross margins are projected to increase to 40% from 36.8% as sales from higher margin Terpenez continue to ramp.

We project SG&A trending downward to $6.4 million from $11 million as the bulk of spending to heighten the company's industry and investment community visibility will have been realized in 2017. R&D expenses are projected at $400,000.

We project the company paying $176,000 in interest expense on higher average debt levels and minimal taxes. The outstanding share count should increase to approximately 40.5 million as the company continues to issue shares for services rendered.

We project cash earnings of $1 million and a $666,000 increase in working capital will result in $362,000 cash from operations. The increase in working capital will come primarily from an increase in receivables and inventories. Cash from operations should more than offset debt payments and capital expenditures increasing cash by $43,000 to $891,000 at December 31, 2018.

Management

Dennis Forchic, Chief Executive Officer and Board Member – Appointed in 2017, Forchic co-founded five start-up entities over the last 25 years. His experience includes leading multiple early stage growth companies to revenues in the mid-to-upper eight figure range prior to exiting through successful sales transactions to the investment communities. In 2016, Forchic acted as senior advisor to Solis Tek's Chief Executive Officer, and integrated himself into the agri-grow, hydroponic, and cannabis industry. BBA in Finance from the University of Miami.

Alan Lien, Co-founder, Chairman, President, Director, Chief Financial Officer, Secretary and Treasurer – Lien is responsible for setting the sales, product development, product strategy, and input on the strategic direction of the company. He leads the manufacturing, development and sourcing of Solis Tek products and setting up company infrastructure. From 2006 to 2009, Lien was the Chief Operating Officer for A&A Lien Enterprise, a trading company with a focus on sporting equipment located in Taipei, Taiwan. During the the four year tenure as Chief Operating Officer for A&A, Lien supervised the development of new manufacturer relations, purchasing, quality control, trade show supervision, as well as developing new customer accounts. BS in Marketing from Monmouth University.

Alvin Hao, Co-founder, Director and Executive Vice President – Hao has broad knowledge of the hydroponics industry, including aspects of hardware and years of gardening experience. Hao is responsible for creating and maintaining corporate infrastructure, overseeing daily operations, sales, and financial planning, and leading the company's marketing strategy. BS in Business Administration and Marketing from California State University Long Beach.

Risks

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

Marijuana laws – Solis Tek's business is dependent on laws pertaining to the marijuana industry. Currently, there are 28 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 and Oregon, 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 2016 and 2015. 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 16.7 million shares in the float and the average daily volume is approximately 78,000 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	9/17A	2017E	2018E
Cash	106	276	194	849	891
Accounts receivable	561	629	865	700	856
Inventories	3,896	2,881	1,770	3,195	3,702
Advances to suppliers	23	-	-	-	-
Prepaid expenses and other	10	72	229	79	79
Income tax receivable	75	2	-	-	-
Total current assets	4,671	3,860	3,058	4,823	5,528
Property and equipment	268	205	155	160	126
Other	32	32	37	32	32
Total assets	**4,971**	**4,097**	**3,250**	**5,015**	**5,686**
Accounts payable and accrued expenses	564	552	939	612	709
Due to related party vendor	1,172	1,084	399	399	399
Note payable-related parties	255	265	545	545	545
Amount due to related parties	127	134	160	151	151
Capital lease obligation, current portion	13	14	13	7	-
Loans payable, current portion	349	8	8	8	8
Line of credit	600	-	-	-	-
Total current liabilities	3,080	2,057	2,064	1,722	1,812
Capital lease obligation	24	9	-	2	-
Loans payable	34	26	20	1,270	970
Notes payable-related parties	-	600	600	600	600
Total liabilities	**3,138**	**2,692**	**2,684**	**3,594**	**3,382**
Total stockholders' equity	**1,833**	**1,405**	**566**	**1,420**	**2,304**
Total liabilities & stockholders' equity	**4,971**	**4,097**	**3,250**	**5,015**	**5,686**

Source: Company filings and Taglich Brothers' estimates

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

	2015A	2016A	2017E	2018E
Sales	7,713	8,564	9,537	11,650
Cost of goods sold	4,994	5,440	6,032	6,990
Gross profit	2,719	3,124	3,505	4,660
Selling, general and administrative	2,825	3,174	11,006	6,400
Research and development	257	371	332	400
Operating income (loss)	(363)	(421)	(7,833)	(2,140)
Interest expense	(60)	(97)	(134)	(176)
Interest income	-	5	-	-
Other income (expense)	(249)	(25)	-	-
Income (loss) before taxes	(672)	(538)	(7,967)	(2,316)
Income tax (benefit)	(119)	1	4	-
Net income / (loss)	(553)	(539)	(7,971)	(2,316)
EPS	(0.02)	(0.02)	(0.21)	(0.06)
Shares Outstanding	29,577	29,633	37,145	40,500
Margin Analysis				
Gross margin	35.3%	36.5%	36.8%	40.0%
SG&A	36.6%	37.1%	115.4%	54.9%
Operating margin	(4.7)%	(4.9)%	(82.1)%	(18.4)%
Net margin	(7.2)%	(6.3)%	(83.6)%	(19.9)%
Tax rate	17.7%	(0.2)%	-0.1%	0.0%
Year / Year Growth				
Total Revenues		11.0%	11.4%	22.2%
Net Income		NMF	NMF	NMF
EPS		NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

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

	3/16A	6/16A	9/16A	12/16A	2016A	3/17A	6/17A	9/17A	12/17E	2017E	3/18E	6/18E	9/18E	12/18E	2018E
Sales	2,585	2,126	1,877	1,976	8,564	2,902	2,441	1,994	2,200	9,537	3,500	2,700	2,550	2,900	11,650
Cost of goods sold	1,659	1,324	1,237	1,220	5,440	1,781	1,521	1,322	1,408	6,032	2,100	1,620	1,530	1,740	6,990
Gross profit	926	802	640	756	3,124	1,121	920	672	792	3,505	1,400	1,080	1,020	1,160	4,660
Selling, general and administrative	754	766	767	887	3,174	4,765	2,391	2,050	1,800	11,006	1,600	1,600	1,600	1,600	6,400
Research and development	57	58	57	199	371	83	83	83	83	332	100	100	100	100	400
Operating income (loss)	115	(22)	(184)	(330)	(421)	(3,727)	(1,554)	(1,461)	(1,091)	(7,833)	(300)	(620)	(680)	(540)	(2,140)
Interest expense	(27)	(24)	(27)	(19)	(97)	(24)	(32)	(28)	(50)	(134)	(48)	(45)	(43)	(40)	(176)
Interest income	-	5	-	-	5	-	-	-	-	-	-	-	-	-	-
Other income (expense)	-	-	-	(25)	(25)	-	-	-	-	-	-	-	-	-	-
Income (loss) before taxes	88	(41)	(211)	(374)	(538)	(3,751)	(1,586)	(1,489)	(1,141)	(7,967)	(348)	(665)	(723)	(580)	(2,316)
Income tax (benefit)	43	(6)	(38)	2	1	1	3	-	-	4	-	-	-	-	-
Net income / (loss)	45	(35)	(173)	(376)	(539)	(3,752)	(1,589)	(1,489)	(1,141)	(7,971)	(348)	(665)	(723)	(580)	(2,316)
EPS	0.00	(0.00)	(0.01)	(0.01)	(0.02)	(0.10)	(0.04)	(0.04)	(0.03)	(0.21)	(0.01)	(0.02)	(0.02)	(0.01)	(0.06)
Shares Outstanding	25,595	29,597	29,659	29,633	29,633	36,389	37,012	37,180	38,000	37,145	39,000	40,000	41,000	42,000	40,500
Margin Analysis															
Gross margin	35.8%	37.7%	34.1%	38.3%	36.5%	38.6%	37.7%	33.7%	36.0%	36.8%	40.0%	40.0%	40.0%	40.0%	40.0%
SG&A	29.2%	36.0%	40.9%	44.9%	37.1%	164.2%	98.0%	102.8%	81.8%	115.4%	45.7%	59.3%	62.7%	55.2%	54.9%
Operating margin	4.4%	(1.0)%	(9.8)%	(16.7)%	(4.9)%	(128.4)%	(63.7)%	(73.3)%	(49.6)%	(82.1)%	(8.6)%	(23.0)%	(26.7)%	(18.6)%	(18.4)%
Net margin	1.7%	(1.6)%	(9.2)%	(19.0)%	(6.3)%	(129.3)%	(65.1)%	(74.7)%	(51.9)%	(83.6)%	(9.9)%	(24.6)%	(28.4)%	(20.0)%	(19.9)%
Tax rate	48.9%	14.6%	18.0%	(0.5)%	(0.2)%	0.0%	-0.2%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth															
Total Revenues					11.0%	12.3%	14.8%	6.2%	11.3%	11.4%	20.6%	10.6%	27.9%	31.8%	22.2%
Net Income					NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF
EPS					NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

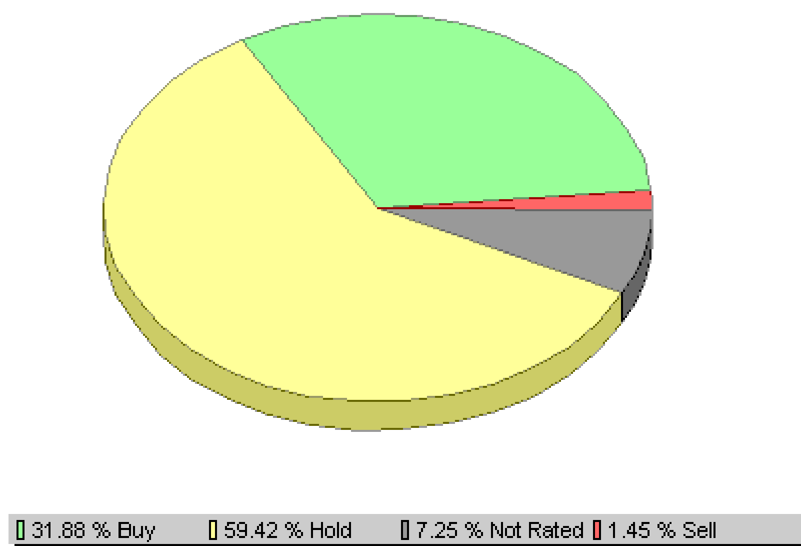
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2015A	2016A	9m17A	2017E	2018E
Net income (loss)	(553)	(539)	(6,830)	(7,971)	(2,316)
Provision for bad debt expense	90	214	75	100	100
Depreciation & amortization	51	71	53	55	44
Amortization of loan fees	12	28	-	-	-
Fair value of common stock issued	25	111	4,932	6,576	3,200
Interest expense on loans payable-related parties	-	-	26	35	-
Fair value of vested stock options	-	-	204	204	-
Common shares purchased by officer at discount	-	-	300	300	-
Cash earnings (loss)	(375)	(115)	(1,240)	(701)	1,028
Changes in assets and liabilities					
Accounts receivable	(160)	(282)	(312)	(198)	(256)
Inventories	(1,840)	1,015	1,111	(314)	(507)
Advances to suppliers	9	22	-	-	-
Prepaid expenses and other	7	(62)	(159)	(7)	-
Income taxes receivable	24	73	-	2	-
Other assets	(2)	-	-	-	-
Accounts payable and accrued expenses	336	(12)	388	60	97
Due to related parties	1,033	(88)	(685)	(685)	-
Interest expense on notes payable to officers	16	30	-	-	-
Customer deposits	(12)		-	-	-
Income taxes payable	(285)	-	-	-	-
(Increase) decrease in working capital	(874)	696	343	(1,141)	(666)
Net cash provided by (used in) operations	**(1,249)**	**581**	**(897)**	**(1,842)**	**362**
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	555	-
Proceeds from sale of convertible preferred stock	-	-	-	351	
Payments on capital lease obligations	(14)	(13)	(11)	(11)	(9)
Payment on line of credit	-	(600)	-	-	-
Proceeds from loans payable	500	110	-	1,750	-
Payments on loans payable	(172)	(487)	(6)	(500)	(300)
Proceeds from notes payable related parties	-	610	300	300	-
Payments on notes payable related parties	(30)	(23)	(20)	(20)	-
Net cash provided by (used in) financing	**1,090**	**(403)**	**818**	**2,425**	**(309)**
Net change in cash	**(303)**	**170**	**(82)**	**573**	**43**
Cash - beginning of period	**409**	**106**	**276**	**276**	**849**
Cash - end of period	**106**	**276**	**194**	**849**	**891**

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	**2**	**10**
Hold		
Sell		
Not Rated	**1**	**33**

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

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Analyst Certification

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.