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December 15, 2021

## Genius Brands International, Inc. (NASDAQ: GNUS)

### Buy: Initiate with Buy Recommendation and \$5 Price Target

*With the pending acquisition of Wow Unlimited and the investment in Your Family Entertainment, Genius has created a global children's entertainment enterprise with significant potential for revenue growth and margin improvement. We believe the company's library is a valuable asset that can be leveraged across its global distribution network. We expect the company's revenue and EBITDA growth will result in margin and multiple expansion. We initiate coverage with a Buy recommendation and \$5 price target.*

The pending acquisition of Wow Unlimited and Your Family Entertainment (YFE) will catapult Genius into a global player in the children's entertainment industry. The combined entity will have significant capabilities in content creation, in-house animation production, global distribution, digital media management and an extensive under-utilized library of content with a replacement cost twice the current share price.

At the end of September, Genius had a \$130 million mountain of cash. The company's investment in YFE will require \$11 million in cash (before funds needed to strengthen YFE's balance sheet), and \$39 million in cash will be required to acquire Wow. This still leaves Genius with \$80 million to accelerate product development, expand YFE's distribution and grow its distribution outlet, Kartoon Channel!

The substantial amount of cash Genius raised in 2020 has been partially deployed with the acquisition of media buyer ChizComm, the pending purchase of Wow Unlimited, an owner of animation studios, manager of a YouTube multi-channel network, owner and operator of YouTube channels, and developer and producer of animated content and investment in YFE, which has a global distribution network and control of 4,000 episodes of animated and live action productions. We expect the company to expand its development pipeline and remain an active buyer of media properties to grow its scale and scope.

The acquisition of ChizComm, the pending purchase of Wow and the investment in YFE also brings significant management talent to the organization and we believe the scale and capabilities of the combined enterprise will attract additional creative and professional talent. We believe this will help sustain a high growth rate, high multiple and strong stock price that can be used for additional acquisitions.

**Valuation:** We believe the shares should trade at the high-end of the range of a comparable group of media companies, or 7x to 9x 2023E sales. This puts the valuation for the revenue generated predominantly by the Genius and Wow content at around \$2.50 per share. We estimate the replacement value of the company's library of content, primarily from YFE, which has been under-utilized because of its weak balance sheet, is over \$800 million, or an additional \$2.50 per share. Combined, this results in a price target of \$5 per share.

**Risks:** Risks to achieving our price target include challenges in integrating the operation of Wow and YFE, competition from larger companies, ability to attract creative talent, attracting and retaining management necessary to manage a global organization and changes in consumer behavior and viewing patterns brought on by the COVID-19 pandemic.

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Current Price	\$1.14		
Price Target	\$5.00		
Estimates	F2021E	F2022E	F2023E
Revenues (\$000s)	\$ 7,149 E	\$ 49,959	\$ 87,492
1Q March	\$ 1,064 A	\$ 2,719	\$ 17,433
2Q June	\$ 2,342 A	\$ 2,719	\$ 21,153
3Q September	\$ 1,871 A	\$ 20,484	\$ 22,498
4Q December	\$ 1,871 E	\$ 24,037	\$ 26,407
	F2021E	F2022E	F2023E
EBITDA (\$000s)	\$(16,704)E	\$ (4,470)	\$ 9,540
1Q March	\$ (3,994)A	\$ (4,081)	\$ (202)
2Q June	\$ (4,339)A	\$ (4,081)	\$ 914
3Q September	\$ (4,249)A	\$ (544)	\$ 1,317
4Q December	\$ (4,122)E	\$ 1,668	\$ 3,662
EV/Sales	NM	6.4 x	3.7 x
EV/EBITDA	NM	(71.7) x	33.6 x
Stock Data			
52-Week Range	\$1.14	-	\$3.12
Shares Outstanding (mil.)	314.6		
Market Capitalization (mil.)	\$359		
Enterprise Value (mil.)	\$320		
Debt to Capital	19%		
Book Value/Share	\$0.56		
Price/Book	2.0x		
Average Three Months Trading Volume (K)	3,303		
Insider Ownership	5.3%		
Institutional Ownership	19.6%		
Short interest (mil.)	15.0%		
Dividend / Yield	\$0.00/0.0%		



## Overview

Genius Brands is an integrated creator and distributor of (primarily) animated content for toddlers to tweens, owns and operates the Kartoon Channel!, available in over 100 million U.S. television households and over 200 million mobile devices, across multiple AVOD (ad-based video on demand), OTT (over the top) and cable platforms and is the largest purchaser of children's media across both traditional and digital platforms in North America, as well as a leader in PR, media, and marketing within the kids/family media and consumer product sectors via its purchase of ChizComm Ltd. and ChizComm Beacon Media. At the end of Q3, the company had over \$130 million in cash and an active acquisition strategy. Genius recently announced the purchase of Wow Unlimited, (expected to close in 2022) and an investment in Munich-based Your Family Entertainment (YFE). These will significantly expand the company's capabilities, content library, production in development, management talent and ability to attract additional creative talent.

Genius is led by Andy Heyward, a legend in the industry. In 2009 Mr. Heyward co-founded A Squared Entertainment LLC and served as its Co-President. When A Squared merged with Genius Brands International in 2013 Mr. Heyward became Chairman and CEO of the combined company. Mr. Heyward has had a storied career starting as a writer at Hanna & Barbera (under the personal stewardship of Joe Barbera), writing for many classic animated shows including Scooby Doo, Flintstones, and Jetsons. In 1983 Mr. Heyward co-founded DIC Entertainment (DIC) and for 25 years produced more than 5,000 episodes of award-winning children's entertainment programs, including Inspector Gadget, Strawberry Shortcake, Alvin and the Chipmunks, Care Bears, Super Mario Brothers, Hello Kitty, Sonic the Hedgehog, Captain Planet, G.I. Joe, Madeline, Sabrina the Teenage Witch, Liberty's Kids, Carmen Sandiego, and The Archies. DIC was sold to Capital Cities/ABC, Inc. in 1993. Mr. Heyward continued to run the company after The Walt Disney Company purchased Cap Cities. In 2000 he and Bain Capital purchased DIC Entertainment L.P. and DIC Productions L.P. from Disney. DIC Entertainment Corporation went public on the AIM exchange and was sold in 2008 to Cookie Jar Group. Cookie Jar's CEO, Michael Hirsh, is now Chairman and CEO of Wow Unlimited.

The company generates revenue by licensing copyrights and trademarks of its brands and brands for which it acts as a licensing agent, distributing its content to global media outlets including broadcasters, cable TV, satellite operators, online and mobile operators, video on demand (VOD), subscription video on demand (SVOD), ad-based video on demand (AVOD) and transactional video on demand (TVOD), advertising on its Kartoon Channel! and product sales. The cartoons build brand awareness and demand for consumer products. The company licenses the characters of the cartoons for incorporation into consumer products including electronics, games, toys, apps, apparel, and accessories. If successful, the company will create assets of enduring value. For instance, some (non-Genius) animation brands are household names and have enduring values. Mickey Mouse was created in 1928; Donald Duck, and Tom & Jerry in the 1930's; Bugs Bunny, Roadrunner and Daffy Duck in the 1940's; Alvin and the Chipmunks in the 1950's; Flintstones, Jetsons, Spiderman, the Hulk in the 1960's; Scooby Doo, Hello Kitty, and Smurfs in the 1970's; Transformers, Inspector Gadget, Super Mario Bros, and Strawberry Shortcake in the 1980's. These are global brands still generating revenue from licensing of the content and merchandise sales long after the initial content was produced and are likely to continue generating revenue for many decades to come. This is the road Genius is traveling.

Prior to 2020, the company was capital constrained and produced one to two seasons of animated content per year. However, the improvement in the company's stock price allowed the company to amass a war chest, raising over \$150 million and positioning it to expand its development pipeline, grow its distribution and acquire additional entertainment assets. Genius has announced two acquisitions this year: ChizComm and Wow Unlimited and recently announced an investment in Munich-based Your Family Entertainment (YFE). Pro forma for the Wow and YFE transactions the company will still have over \$80 million in cash to further its growth.

## Existing Genius Properties

The company's content library includes the *Baby Genius* catalogue of 500 songs, 125 music videos, and toys targeted to the toddler market. Genius relaunched Baby Genius in September 2015 with new designs, content and products.

*Warren Buffett's Secret Millionaire's Club*, is an animated series featuring Warren Buffet, a mentor to a group of entrepreneurial kids. There are 26 thirty-minute episodes and 26 four-minute webisodes, in the series





*Thomas Edison's Secret Lab*, was released in 2016 and includes 52 eleven-minute episodes plus 52 ninety-second original music videos. The animated series follows a 12-year-old prodigy and her friends who discover Thomas Edison's secret lab and was produced by Grammy Award-winning producer Ron Fair.

producer and music veteran Ron Fair. *SpacePop* products ranged from apparel and accessories, to beauty, cosmetics, candy, books and music. The series has 108 three- minute webisodes.



Genius completed production of fifteen half-hour animated episodes of *Llama Llama* in 2017 and it premiered on Netflix in early 2018. *Llama Llama's* creators included Oscar-winning director Rob Minkoff (*The Lion King*), director Saul Blinkoff (*Doc McStuffins*), showrunner Joe Purdy, art director Ruben Aquino (*Frozen*) and Emmy-winning producers Jane Startz and Andy Heyward. The show is based on the NY Times #1 best-selling children's books of the same name.

Season 2 of *Llama Llama* completed production in 2019 and was delivered to Netflix in September 2019. There are 10 half-hour episodes in Season 2.

Season 1 of *Rainbow Rangers* premiered on Nick Jr. and completion of the 26 half-hour episodes was completed in early 2019. The series was created by Shane Morris, the co-writer of *Frozen*, and Rob Minkoff, the director of *The Lion King*. *Rainbow Rangers* follows the adventures of seven magical girls from Kaleidoscopia. The Rangers are Earth's guardians and first-responders.



*Rainbow Rangers*, Season 2, comprising 26 half-hour episodes, was delivered to Nick Jr. in 2020 and is now available across multiple media platforms, including Genius's Kartoon Channel! in the U.S., Netflix, Amazon Prime Video Direct, HBO Max, Nickelodeon Latin America, and China's largest broadcaster, CCTV.

Season 3 of *Rainbow Rangers* was greenlit by Genius in April 2021.



*Superhero Kindergarten* was produced in conjunction with Stan Lee's POW! Entertainment and Arnold Schwarzenegger's Oak Productions. *Superhero Kindergarten* is the story of classroom kids with superpowers, taught by a former superhero/teacher voiced by Mr. Schwarzenegger. The series is available on the company's Kartoon Channel!

the company's first live-action program.

*KC! Pop Quiz* is a quiz show for kids and premiered on the Kartoon Channel! in September of 2021. The show stars Casey Simpson, of the hit Nickelodeon series *Nicky, Ricky, Dicky & Dawn*, and a major kid influencer across Tik Tok, Twitter, and You Tube. He has a social media following of 12+ million. This is



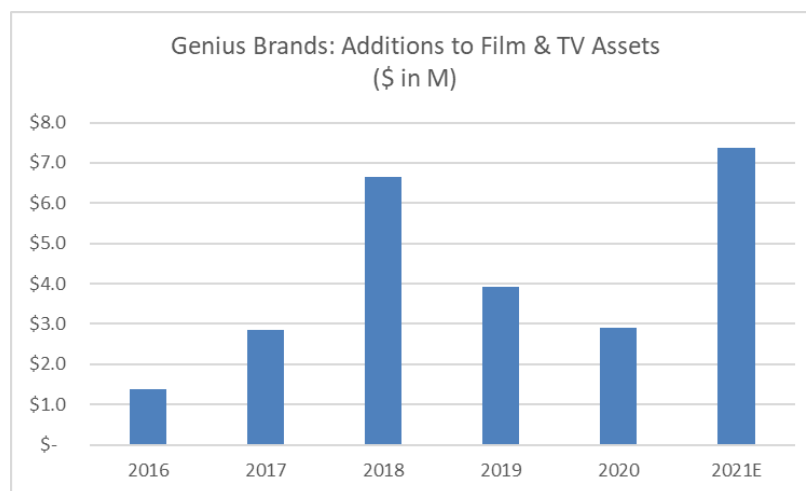
In production: *Shaq's Garage*, co-produced by NBA all-star and MVP, Shaquille O'Neal. *Shaq's Garage* is a children's animated series about the secret adventures of Shaq's collection of cars, trucks, and other unique vehicles—the Shaq Pack.

**Genius Content Released, In Production and In Development by Year**

	<b>Released</b>	<b>In Production</b>	<b>In Development</b>
2021	Superhero Kindergarten KC! Pop Quiz	Shaq's Garage Rainbow Rangers Season 3 (greenlit)	
2020	Rainbow Rangers Season 2	Superhero Kindergarten	Shaq's Garage KC! Pop Quiz
2019	Llama Llama Season 2	Rainbow Rangers Rainbow Rangers Season 2	Superhero Kindergarten
2018	Rainbow Rangers	Rainbow Rangers Llama Llama Season 2	Superhero Kindergarten Baby Genius
2017	Llama Llama SpacePop	Rainbow Rangers	Baby Genius
2016	Thomas Edison's Secret Lab SpacePop	Llama Llama SpacePop Stan Lee's Cosmic Crusaders	Rainbow Rangers
2015		Thomas Edison's Secret Lab	Llama Llama SpacePop Rainbow Rangers Stan Lee's Cosmic Crusaders
2014	Baby Genius Warren Buffet's Secret Millionaire's Club Stan Lee's Mighty 7 Martha & Friends Gisele & the Green Team	Thomas Edison's Secret Lab	Llama Llama SpacePop Rainbow Rangers Stan Lee's Cosmic Crusaders

Source: Genius Brands International, Inc.

Since 2016 annual spending on film and television development and production has averaged \$4.2 million. This results in the delivery of one to two seasons per year of animated content to SVOD platforms like Netflix, cable TV networks like Nick Jr, or the company's owned platform, Kartoon Channel! With the greater amount of capital available We expect this to increase organically and via acquisitions like the announced Wow Unlimited transaction and YFE investment.



Source: Genius Brands International, Inc. and Dawson James Securities estimates

The \$4.2 million in annual spending is before production loans, which to date have been readily available and also does not reflect guarantees of payment upon delivery by customers like Netflix and Nick Jr.

**Kartoon Channel! Network**

In June 2020, Genius Brands launched Kartoon Channel!, which is accessible by over 100 million U.S. television households and over 300 million devices across multiple AVOD and over-the-top platforms. This includes Comcast, Cox, DISH, Sling TV, Amazon Prime, Amazon Fire, Apple TV, Apple iOs, Android TV, Android Mobile, Google Play, Xumo, Roku, Tubi, and streaming via KartoonChannel.com. Kartoon Channel! is also pre-loaded on Samsung Smart TVs and LG TVs. Much of the company's owned content is available on Kartoon Channel! as well as other family-friendly titles such as *The Wubbulous World of Dr. Seuss*, *Babar*,



*Mello Dees*, *Super Simple Songs*, and content for bigger kids, such as *Pac-Man*, *Angry Birds*, *Yu-Gi-Oh*, and *Bakugan*. The investment in Your Family Entertainment will enable access to a large library of content controlled by YFE and strengthen the channel's value to viewers and advertisers.

The company announced it will be delivering a block of content to YFE's international channels, branded as "Kartoon Genius." The programs available for viewing will start with *Stan Lee's Superhero Kindergarten*, *Rainbow Rangers*, *Warren Buffett's Secret Millionaires Club*, *Albert*, *Space Yoghurt*, *Kids Songs* and *Reboot*. We believe the airing of content from YFE on Kartoon Channel! and from Genius on YFE's channels is the first step in creating a global channel with access to an extensive library of content.

Simultaneously with the investment in YFE, Genius announced the appointment of Paul Robinson as Managing Director of Kartoon Channel! Worldwide, responsible for overseeing the international buildout and growth of Kartoon Channel! Mr. Robinson was formerly Managing Director of Disney Television International and Senior Vice President Disney Channel Worldwide. We believe Mr. Robinson's hiring is indicative of the ability of Genius to attract highly experienced professionals and as the company continues to grow we expect the ability of the company to attract this caliber of creative and professional talent will grow as well.

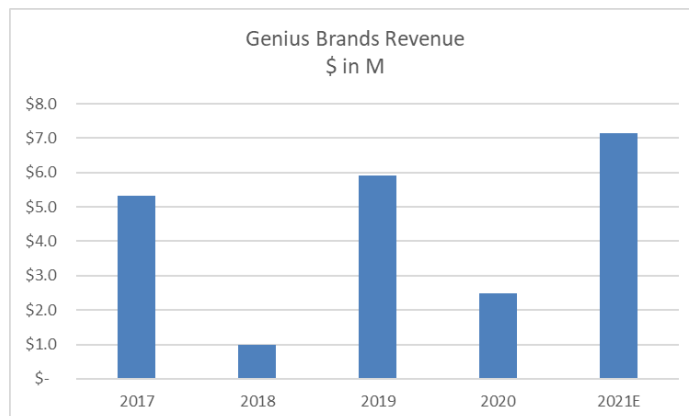
### ChizComm

In February of this year Genius purchased ChizComm Ltd., a marketing and media agency, and ChizComm Beacon Media, a media research, planning and buying division. Chizcomm's annual media spending exceeds \$100 million and has consistently been ranked the largest media buyer within the Kids 2-11 age group. It represents more than 30 major toy companies as well as iconic children and family media brands.

ChizComm's buying power could give Genius additional leverage in placing content on additional distribution channels and introduce advertisers to the company-owned and controlled content.

### Genius Revenue Summary

Revenue for Genius (prior to the acquisition of Wow and investment in YFE) has fluctuated from year to year and reflects the timing of program delivery plus, to date, limited advertising and royalties from merchandise sales. The acquisition of ChizComm scaled revenue to a much higher level and the addition of Wow should increase revenue to a significantly higher plateau.



Source: Genius Brands International, Inc. and Dawson James Securities estimates

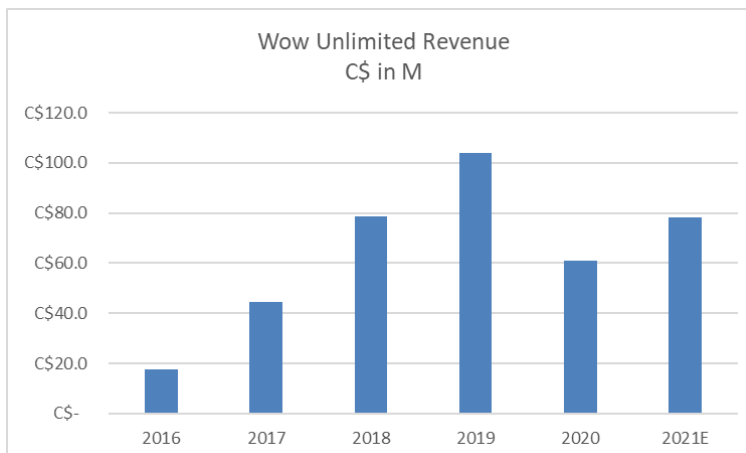
### Wow Unlimited

On October 27, 2021 Genius Brands and Wow Unlimited announced a definitive arrangement agreement for the purchase of all Wow shares by Genius for C\$66 million (US\$53 million) in cash and stock. This is 0.9x the C\$74 million of trailing 12-months sales ending September 30 and 0.94x the C\$70 million of backlog as of September 30. Wow's backlog consists of contracted work for animation services and licensing and distribution agreements not yet been performed. Under the terms of the agreement, shareholders of Wow will receive approximately C\$1.623 per share consisting of 0.271 shares of Genius Brands and C\$1.169 in cash for each share of Wow. As of September 30, there were 32 million common shares of Wow outstanding and an additional 10 million shares from a convertible debenture and in-the-money options. This will put the cash required for the transaction at C\$49 million (US\$39 million) and result in the issuance of 11.4 million Genius shares.

Wow Unlimited was formed by the combination of Rainmaker Entertainment Inc., Frederator Networks and Ezrin Hirsh Entertainment Inc. in late 2016. The combination brought together animation companies in LA and Vancouver Canada, a YouTube multi-channel network, company owned and produced content, and an experienced management team.

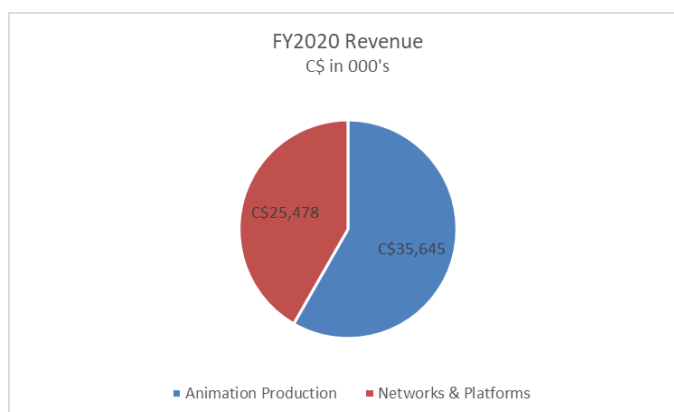
Revenue is generated from animation services provided to third parties, licensing internally developed films and television programs, advertising revenues (primarily YouTube), and merchandising and licensing sales. The company reports in two segments:

Animation Production which includes animation services for third parties and licensing of internally developed content and Networks and Platforms which includes advertising revenues, merchandising and licensing sales.



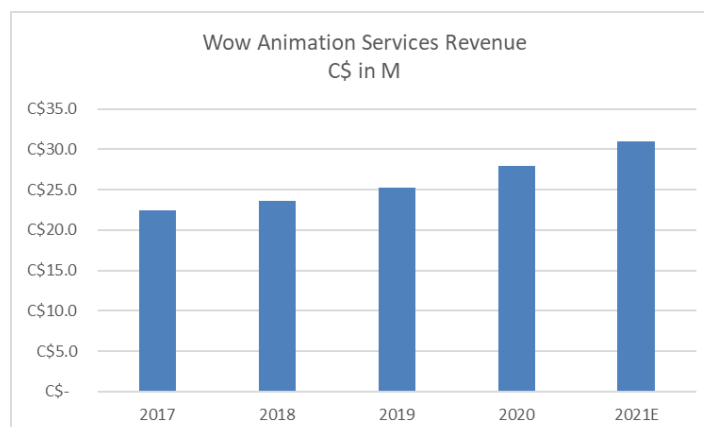
Source: Wow Unlimited and Dawson James Securities estimates

In 2020, almost 60% of the company's total revenue was generated from Animation Production and of that we estimate about 80% came from production of animation for third parties, with the remainder from licensing of content created by the company. Networks and Platforms revenue in 2020 was 40% of revenue and was almost solely derived from YouTube advertising on the Channel Frederator Network.



Source: Wow Unlimited

Over the past four years we estimate revenue from contract animation projects has grown from about C\$22 million annually and is on pace to exceed C\$30 million this year. The company's production services customers include Mattel, DreamWorks and Silvergate Media for programs including *Barbie's Dreamhouse Adventures*, *Barbie: Big City Big Dreams*, *Barbie & Chelsea Lost Birthday*, *Madagascar: A Little Wild*, and *The Octonauts*.



Source: Wow Unlimited and Dawson James Securities estimates

### Wow: Recent and Pending Production Services

Project Name	Customer	Production
Significant new project w/Spin Master	Spin Master	2020-2021+
Barbie: Big City, Big Dreams	Mattel	2020-2021
Ratchet & Clank: Life of Pie	Sony	2020-2021
The Octonauts (S5-8)	Silvergate	2019-2021+
Madagascar: A Little Wild	Dreamworks	2019-2021+
Barbie & Chelsea The Lost Birthday	Mattel	2019-2020
Octonauts 3 episode special	SilverGate	
The Caves of Sac Actun		2019-2020
The Great Barrier Reef		2019-2020
The Ring of Fire		2019-2020
Barbie Princess Adventure	Mattel	2019-2020
Barbie Dreamhouse Adventures	Mattel	2018-2020
Spy Kids: Mission Critical	Dimension TV	2018

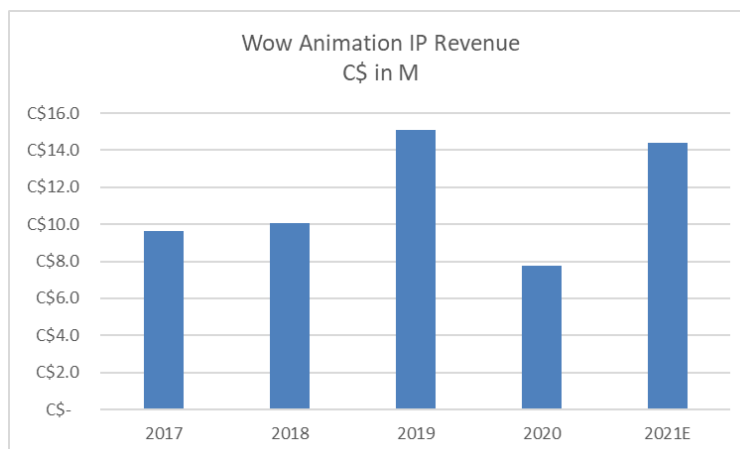
Source: Wow Unlimited.

Animation Production services provide a steady source of revenue with revenue recognized on a percentage of completion basis. We believe the typical production time for a project spans 12 to 18 months depending on the size and complexity of the project. This gives the company reasonable revenue visibility. We believe the majority of the company's C\$70 million backlog is associated with the production services business, in a similar ratio to its contribution to revenue, which varies between 60% and 80%.

Currently, Genius uses third-party animation studios for production of its content, but we believe the animation studios controlled by Wow will likely be used for future productions, enabling increased control over the end product, potentially lower costs and improved quality. This will also increase capacity utilization at the Wow studios and possibly lower average costs by amortizing fixed costs over a larger base of business.

In late 2016, Wow acquired Frederator Networks. Frederator operated a mature multi-channel network on YouTube, owned a library of animation titles and operated an animation studio in LA. Wow's company-created content business is a result of that acquisition and generates about C\$10 to C\$15 million in annual revenue. Revenue is recognized upon the completion and delivery. This creates an up-front cash requirement to develop and create the content. These up-front costs are financed with production loans, back-end fees and/or revenue and profit sharing with partners and government subsidies. To date, Wow has sought to secure 100% of the direct costs necessary to finance production prior to commencing production. The greater access to capital brought by the acquisition by Genius and its \$80 million in excess cash will enable the combined company greater flexibility and resources in development and producing new content.

Revenue for Wow's animation IP fluctuates, and it produces about 2 seasons of animated content per year. Over the past five years Wow has averaged a net investment of about C\$ 10 million annually in company developed and produced content. We believe the combined Genius/Wow development and production schedule could increase with the bigger combined balance sheet.



Source: Wow Unlimited and Dawson James Securities estimates

**Wow Recent and Pending Animated Intellectual Property**

Year	Programs	Additions to Investment in film and television programming, net of government assistance and third party contributions (C\$ M)
2021 YTD	Castlevania Season 4 Bee & Puppy Cat: Lazy in Space Ukulele U The Guava Juice Show Internally developed animated series	C\$ 11.8
2020	Castlevania Season 4 Internally developed animated series	C\$ 9.2
2019	Castlevania Season 3 Bee & Puppy Cat Season 2 Internally developed animated series	C\$ 11.0
2018	Castlevania Season 2 Bravest Warriors US distribution rights. Programming rights for Crave Castlevania Season 3 Bee & Puppy Cat Season 2	C\$ 12.4
2017	Reboot: The Guardian Code Castlevania Season 1 Castlevania Season 2	C\$ 10.5
2016	Reboot: The Guardian Code Ratchet & Clank	C\$ 1.7
2015	Ratchet & Clank Reboot: The Guardian Code	C\$ 1.2

Source: Wow Unlimited.

Wow has also acquired the rights to develop an original animated series based on the New York Times best-selling *Parasol Protectorate*, a steampunk urban fantasy novel series written by Gail Carriger. Wow has picked up exclusive global TV, digital, home video and licensing rights to *Maggie and the Ferocious Beast*, a reboot of the preschool series by Mickey Paraskevas. In August, the company announced it has optioned Black History-themed plays, *Hidden Heroes*, from historian Abigail McGrath. The company continues to work, in partnership with Dreamworks, on a new preschool show, *Team Zenko Go!* The show has been picked up by a global SVOD platform.

**Wow Networks and Platforms**

Wow's Networks and Platforms segment, which consists mostly of Frederator's multi-channel network (MCN) YouTube business generated C\$25 million in revenue in 2020 and is on a pace to generate C\$30 million in revenue this year. Wow manages over 2,500 third-party channels in its network as well as a handful of owned and operated channels. Networks and platform revenue peaked at C\$63 million in 2019 and declined to C\$25 million in 2020 after one of the company's key channel affiliates repatriated its channels. This was a very low-margin revenue and beginning in 2020, due to the loss of that low-margin revenue as well as other restructuring efforts, Networks and Platforms margins have improved meaningfully.

The segment operated at a loss through the middle of 2020. Since the restructuring of the segment, which included expense reduction and a pause in content creation for the company's owned and operated (O&O) channels (Channel Frederator, The Leaderboard, Get In The Robot, Cinematica and Cartoon Hangover) segment profit has improved. In the second half of 2020 the segment's profit margin was 5%, versus a segment margin loss of 6.6% in the first half of 2020. Segment margin has continued to improve in 2021, with a year-to-date margin of 6.7%. We expect segment margin will improve further in Q4 as the final quarter is typically the segment's strongest. Recently, the company has begun adding content again to two of its O&O channels, Channel Frederator and The Leaderboard, which should also drive margin expansion as O&O content garners higher margins than revenue from the MCN.

We believe the company's MCN and O&O channels are valuable assets for Wow and Genius. The company has a library of over 2,500 videos for digital platforms and it has begun adding to that library, focusing on the most in-demand genres. The affiliate channels provide a steady source of revenue and income. Frederator has also been a discovery engine for content. For instance, *Bee & Puppy Cat* originated as a web pilot in 2013. This was followed by a Kickstarter campaign to finance the first season and a company funded season 2. *Catbug* is a character from Frederator-produced *The Bravest Warriors* and the company is working on



development and partnership opportunities. Frederator's expertise in managing O&O YouTube channels can be valuable as a distribution source for company-created content, as the O&O Frederator Channel Networks have substantial subscriber bases. Currently Cartoon Hangover has 2.2 million subscribers, Channel Frederator 2.1 million, The Leaderboard 1.4 million, Get In The Robot 776 thousand and Cinematica 279 thousand subs.

### **Your Family Entertainment**

In early December, Genius announced it was purchasing a 28.6% interest in Munich-based Your Family Entertainment (YFE) from its major shareholder, F&M, for €6 million, (\$6.8 million), half in cash, half in Genius stocks. F&M owns 67% of the total YFE shares and has agreed to allow Genius to vote 51% of their combined YFE holdings. F&M is controlled by YFE's CEO, Stefan Piëch. Genius is obligated to make a mandatory tender offering (MTO) to YFE shareholders at €2 per share, and F&M has agreed to not tender its remaining shares. This puts the potential additional cash obligation at €6.9 million if all the remaining shares are tendered. Within two years of the MTO Genius can tender for the remaining shares, in an additional tender offer (ATO) at €4 per share. In all, purchase of YFE could cost €29 to €36 million, or \$33 to \$40 million, with €3 million (\$3.4 million) in shares and the balance in cash. Genius has also agreed to invest an additional €7 million (\$7.9 million) in a YFE convertible bond, equity or loan, make reasonable efforts to procure the financing for the production of at least two animated series in each of the first two years following the completion of the MTO and make reasonable efforts to procure a substantial acquisition by YFE in the European market within two years following the completion of the MTO. Genius has also agreed to make best efforts to release F&M from its guarantee of YFE's indebtedness with the Bank of Austria.

The acquisition of YFE brings a number of important assets and opportunities to Genius including the ability to distribute the Kartoon Channel! worldwide, establishes a European footprint, enables the company to meet local content requirements, and provides a library of over 4,000 episodes of high-quality family entertainment programs. YFE's library includes popular brands such as *Fix & Foxi*, *Crazy Chicken*, *Ric the Raven*, *Urmel*, *Enid Blyton* and American titles acquired for European and/or global broadcast such as *Fairly Odd Parents*. YFE broadcasts international linear TV channels on free TV and pay TV and operates its own AVOD and SVOD channels. YFE has children's channels in Europe, Asia, Latin America, Africa, and Australia all to be rebranded, Kartoon Channel! In addition to meeting local content requirements with YFE/Genius Brands co-produced product, the combination will qualify for EU tax credits and broadcast license fees.

For the past few years sales revenue has been about €3 million annually with EBITDA close to break-even in 2020, an improvement from the approximate €350 thousand EBITDA loss in both 2018 and 2019. The balance sheet has not been able to support a more aggressive growth strategy with minimal cash and debt of €8.2 million, which consists of a €4.4 million convertible bond and €3.8 million of bank debt. Because of its financial resources, Genius will be able to accelerate growth at YFE and leverage YFE's distribution network to deliver Genius and WOW created content globally.

### **Management**

The acquisition of WOW and YFE brings additional management talent to the company and we believe will enable the company to attract creative and management talent with its larger geographic footprint, a significant content library, global distribution, animation production capabilities and a strong balance sheet.

Andy Heyward is CEO of Genius Brands and he has a storied history in the animation industry. Mr. Heyward started as a writer at Hanna & Barbera (under the personal stewardship of Joe Barbera), writing for many classic animated shows including Scooby Doo, Flintstones, and Jetsons. In 1983 Mr. Heyward co-founded DIC Entertainment (DIC) and for 25 years produced more than 5,000 episodes of award-winning children's entertainment programs, including *Inspector Gadget*, *Strawberry Shortcake*, *Alvin and the Chipmunks*, *Care Bears*, *Super Mario Brothers*, *Hello Kitty*, *Sonic the Hedgehog*, *Captain Planet*, *G.I. Joe*, *Madeline*, *Sabrina the Teenage Witch*, *Liberty's Kids*, *Carmen Sandiego*, and *The Archies*.

Michael Hirsh, current CEO of Wow will join the Board of Directors of Genius Brands and will continue to manage Wow's production studios, Mainframe and Frederator Studios, and the YouTube MCN and O&O networks. Like Mr. Heyward, Mr. Hirsh has a long and impressive career in the children's entertainment industry. He founded Nelvana in the 1970's and sold it to Corus Entertainment in 2000 for C\$540 million. In 2004 he founded Cookie Jar Entertainment and merged with DIC Entertainment in 2008. Cookie Jar was acquired by DHX Entertainment, now operating as Wildbrain.

Simultaneous with the YFE announcement Genius announced the appointment of Paul Robinson as Managing Director of Kartoon Channel! Worldwide, responsible for the buildout and growth of the global Kartoon Channel! footprint from the existing YFE Channel System. Mr. Robinson was formerly with Walt Disney Television International as Managing Director and Senior VP of Disney Channel Worldwide.

## Financial model

We have modeled the YFE deal closing this year and have assumed consolidation of its results beginning Q1 22. We have assumed the acquisition of Wow is completed by the end of Q2 22 and modeled full contribution to results beginning in Q3. The table below shows our estimated revenue through 2023 for the Genius standalone business and the contributions from YFE and Wow.

We have assumed marginal growth for Genius in the coming years, but if the company is able to leverage the distribution capabilities of YFE, this could prove conservative. Also, we assume 10% growth in the Wow business in 2023 and 20% for YFE. We have kept opex mostly at current levels. Our assumption is cost reductions are likely, particularly in corporate overhead, but this will be offset by an increased pace of content and distribution activities and the expenses necessary to drive that growth.

**Genius Brands International Revenue by Segment**

Revenue (\$ in M)	2021E	2022E	2023E
Genius	\$ 7.1	\$ 7.5	\$ 7.7
WOW	--	\$ 39.1	\$ 75.7
YFE	--	\$ 3.4	\$ 4.1
Total Revenue	\$ 7.1	\$ 50.0	\$ 87.5
EBITDA (\$ in M)	\$ (16.7)	\$ (7.4)	\$ 1.3
Cash & Equivalents	\$ 126.2	\$ 68.6	\$ 59.4

Source: Dawson James Securities estimates

## Valuation

A comparable group of media and entertainment companies trade on average at 3.8x FTM sales, but the range is wide, from 1.2x to 9.0x driven by growth and margins. Genius is trading at 6.9x FTM sales, but this includes the contribution from Wow for only about half of the forecast period. Using our 2023 revenue estimate instead, which includes a full year of Wow, results in an EV/Sales ratio for Genius of 3.8x. We have adjusted enterprise value for the cash and shares needed to consummate the acquisition of both Wow and YFE.

		Price	FTM EPS	P/E	Mkt Cap (M)	TEV (M)	FTM Sales (M)	EV/ Sales	FTM EBITDA	EV/ EBITDA
CIDM	Cinedigm Corp	\$ 1.27	\$ (0.06)	(23.1)	\$ 225.6	\$ 206.7	\$ 47.8	4.32	\$ (2.6)	(81.0)
DLPN	Dolphin Entertainment Inc	8.00	0.18	44.4	64.0	65.7	43.1	1.52	3.4	19.5
EDR	Endeavor Group Holdings, Inc. Class A	30.03	1.01	29.7	7,853.0	13,161.0	5,403.4	2.44	1,063.3	12.4
IDW	IDW Media Holdings, Inc. Class B	2.35			31.1	15.8				
LGF.A	Lions Gate Entertainment Corp Class	15.50	1.04	14.9	3,518.4	7,070.3	4,083.9	1.73	489.0	14.5
NFLX	Netflix, Inc.	597.99	11.59	51.6	267,791.1	285,509.4	32,997.5	8.65	7,416.9	38.5
NTE-CA	Network Media Group Inc.	C\$ 0.22			C\$ 20.0	C\$ 18.8				
ROKU	Roku, Inc. Class A	221.55	1.02	216.8	29,817.7	29,916.7	3,450.6	8.67	438.3	68.3
SALM	Salem Media Group, Inc. Class A	2.87	0.26	11.3	78.5	316.1	261.7	1.21	38.3	8.3
TBRD-CA	Thunderbird Entertainment Group Inc	C\$ 4.50			C\$ 223.9	C\$ 276.5				
VIACA	ViacomCBS Inc. Class B	29.60	3.49	8.5	19,609.0	34,770.8	28,651.5	1.21	4,389.8	7.9
DIS	Walt Disney Company	149.10	4.21	35.4	273,430.6	331,008.0	82,649.8	4.00	14,744.4	22.4
WILD-CA	WildBrain Ltd.	C\$ 3.19	C\$ 0.03	106.3	C\$ 548.6	C\$ 1,327.3	C\$ 497.1	2.67	C\$ 93.6	14.2
WOW-CA	Wow Unlimited Media Inc.	C\$ 1.26			C\$ 43.3	C\$ 89.3				
	Mean			49.6				3.64		12.5
GNUS	Genius Brands International, Inc.	\$ 1.14	\$ (0.13)	(8.9)	\$ 352.1	\$ 321.6	\$ 48.0	6.71	\$ (5.0)	(63.8)

Source: Dawson James Securities estimates

We believe an EV/Sales ratio in the higher end of the comp range is appropriate because of the high-growth potential for Genius. The content from Genius and Wow will benefit greatly, we believe, from the ability to utilize the YFE network in Europe and the rest of the world. Genius's Cartoon Channel! will benefit from the addition of content from YFE's library and ChizComm's media buying power can leverage the stronger content with ad buyers. Results at Wow's MCN and O&O networks have been improving and with additional capital and expanded distribution we expect an acceleration in growth. Plus, the addition of two animation production studios should allow the entire Genius organization to produce higher-quality content at lower costs than it is currently capable of doing. All of these factors, we believe, suggest the shares should trade at the high-end of the comparable range or 7x to 9x 2023E sales. This puts the valuation for the revenue generated predominantly by the Genius and Wow content at around \$2.50 per share. We estimate the replacement value of the company's library of content, primarily from YFE, which has been under-utilized because of its weak balance sheet, is over \$800 million, or an additional \$2.50 per share. Combined, this results in a price target of \$5 per share.

**Risk Analysis**

Risks to achieving our price target include challenges in integrating the operation of Wow and YFE, competition from larger companies, ability to attract creative talent, attracting and retaining management necessary to manage a global organization and changes in consumer behavior and viewing patterns brought on by the COVID-19 pandemic.

**Exhibit 1. Income Statement**
**Genius Brands International, Inc. Income Statement**

(\$ in 000's) (except per share data)	2019	2020	2021 E	2022 E	2023 E
Genius Brands	5,908	2,482	7,149	7,486	7,759
WOW!	0	0	0	39,083	75,665
YFE	0	0	0	3,390	4,068
Revenue	\$ 5,908	\$ 2,482	\$ 7,149	\$ 49,959	\$ 87,492
Genius Opex	12,414	20,364	41,112	46,824	46,824
WOW Opex	0	0	0	33,992	65,321
YFE Opex	0	0	0	4,520	4,520
Operating Expense	12,414	20,364	41,112	85,335	116,665
Operating Income	\$ (6,506)	\$ (17,882)	\$ (33,963)	\$ (35,376)	\$ (29,173)
Genius finance and other	(4,975)	(383,787)	(68,673)	380	380
WOW finance and other	0	0	0	(720)	(1,440)
YFE Finance and other	0	0	0	(262)	(262)
Pretax Income	\$ (11,481)	\$ (401,670)	\$ (102,636)	\$ (35,978)	\$ (30,496)
Income Taxes	0	0	0	0	0
Net Income	\$ (11,481)	\$ (401,670)	\$ (102,636)	\$ (35,978)	\$ (30,496)
Beneficial Cv. Of Pfd.	(3,380)	0	0	0	0
Net to Common	\$ (14,862)	\$ (401,670)	\$ (102,636)	\$ (35,978)	\$ (30,496)
Basic Shares	11,907	142,452	297,266	307,155	314,553
Diluted Shares	11,907	142,452	297,266	307,155	314,553
Basic EPS	\$ (1.25)	\$ (2.82)	\$ (0.35)	\$ (0.12)	\$ (0.10)
Diluted EPS	\$ (1.25)	\$ (2.82)	\$ (0.35)	\$ (0.12)	\$ (0.10)
Operating Income	(6,506)	(17,882)	(33,963)	(35,376)	(29,173)
D&A	341	379	576	3,168	4,448
Stock Comp	184	8,929	16,673	24,780	26,060
EBITDA	(5,981)	(8,573)	(16,714)	(7,428)	1,335

Source: Genius Brands International, Inc. and Dawson James Securities estimates



**Exhibit 2. Balance Sheet & Cash Flow Statements**
**Genius Brands International, Inc. Balance Sheet & Cash Flow Statements**

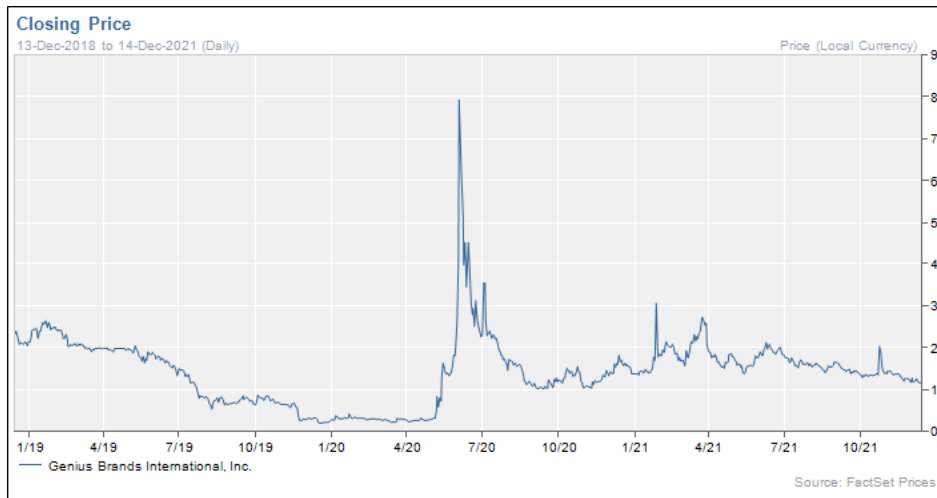
(\$ in 000's)	2019	2020	2021 E	2022 E	2023 E
Cash	\$ 305	\$ 100,456	\$ 4,884	\$ 8,884	\$ 8,884
Marketable Securities	0	0	120,024	45,343	21,176
A/R	4,102	1,731	4,991	45,785	50,298
Other Receivables	0	0	644	644	644
Prepaid Expenses & Other	239	6,378	7,266	15,204	16,703
Current Assets	\$ 4,646	\$ 108,566	\$ 137,808	\$ 115,860	\$ 97,705
PP&E, net	65	96	474	11,894	13,794
Right of Use Assets	4,010	1,972	2,221	2,221	2,221
Film & TV Costs	9,907	11,828	17,789	38,934	44,274
Lease Deposits	368	43	79	79	79
Investment in Chizcomm	0	301	0	0	0
Investment in Stan Lee	0	1,000	2,000	2,000	2,000
Intangibles	52	29	9,175	8,905	5,648
Goodwill	10,366	10,366	19,977	63,100	63,100
Total Assets	\$ 29,413	\$ 134,201	\$ 189,523	\$ 242,993	\$ 228,821
Accounts Payable	946	786	4,605	13,953	15,328
Accrued Expenses	125	408	155	1,995	2,192
Participations Payable	2,272	3,160	3,948	3,948	3,948
Deferred Revenue & Advances	665	684	750	19,150	19,150
Notes Payable	0	0	28	28	28
Sr. Secured Cv. Notes	2,374	0	0	0	0
Payroll Protection Program	0	366	0	0	0
Derivative Valuation	0	1,197	1,094	1,094	1,094
Lease Liability	599	146	568	568	568
Due to Related Party	1,084	2	231	231	231
Accrued Salaries & Wages	231	429	612	7,861	8,636
WOW Bank Debt				2,400	2,400
WOW ST Lease				2,400	2,400
WOW Production Financing				16,000	16,000
Current Liabilities	\$ 8,296	\$ 7,179	\$ 11,992	\$ 69,628	\$ 71,975
Deferred Revenue & Advances	4,444	3,748	3,573	3,573	3,573
Lease Liability	3,569	2,053	1,945	11,545	11,545
Production Facility Credit Line	3,092	1,100	0	0	0
Contingent Earn Out	0	0	7,210	7,210	7,210
Notes Payable	0	0	88	88	88
Disputed Trade Payable	925	925	925	925	925
YFE Convertible				4,944	4,944
YFE Bank Loan				3,944	3,944
Equity	9,087	119,197	163,790	150,024	133,505
Total Liabilities & Equity	\$ 29,413	\$ 134,201	\$ 189,523	\$ 242,993	\$ 228,821
	2019	2020	2021 E	2022 E	2023 E
Net Income	\$ (11,481)	\$ (401,670)	\$ (102,636)	\$ (35,978)	\$ (30,496)
D&A	341	379	586	3,558	8,806
Stock Comp	184	8,929	16,673	22,211	22,211
Other	5,053	384,476	68,065	(1,168)	(5,340)
Working Capital	(349)	40	(3,860)	(11,896)	(3,665)
Operating Cash Flow	\$ (6,251)	\$ (7,845)	\$ (21,171)	\$ (23,272)	\$ (8,484)
Investment in Fixed Assets	(27)	(76)	(309)	(1,840)	(3,600)
Acquisition/Other	0	(1,327)	0	(50,212)	0
Investing Activities	\$ (27)	\$ (1,403)	\$ (309)	\$ (52,052)	\$ (3,600)
Equity	4,367	104,458	57,265		
Debt	(869)	4,941	(1,350)	0	0
Financing Activities	\$ 3,498	\$ 109,399	\$ 55,915	\$ -	\$ -
Change in Cash	\$ (2,780)	\$ 100,152	\$ 34,434	\$ (75,324)	\$ (12,084)

Source: Genius Brands International, Inc. and Dawson James Securities estimates



**Important Disclosures:**

**Price Chart:**



**Price target and ratings changes over the past three years:**

Initiated – Buy – December 15, 2021 – Price Target \$5.00

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The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of... 14-Dec-21

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	68%	5	20%
Market Perform (Neutral)	12	32%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	37	100%	5	14%

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