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May 19, 2022

Genius Brands International, Inc. (NASDAQ: GNUS)

Buy: Q1 Review. Stan Lee Deal with Disney.

Genius Brands announced a 20-year licensing deal with Disney's Marvel Studios to allow Marvel the use of the name and likeness of Stan Lee in its film and TV productions. The license also includes use of the name and likeness in Disney's theme parks and merchandise. Genius also announced Q1 results which were broadly as expected. We reiterate our Buy recommendation and \$5 price target.

Genius Brands announced a 20-year licensing deal between Stan Lee Universe and Disney's Marvel Studios to use the name and likeness of Stan Lee in Marvel's film and TV productions. The license includes use of the name and likeness in Disney's theme parks and merchandise. Stan Lee Universe is a JV created in 2021 with Genius contributing \$2 million in exchange for 50% ownership. POW! Inc. owns the remaining 50%. Financial terms of the agreement were not disclosed but upfront payments are common and could exceed \$1 million. This could become a high margin source of revenue for Genius over the coming years.

Q1 revenue was a bit lower than we forecast, but EBITDA a bit better. Summary Q1 results of WOW! Unlimited were also released with revenue and EBITDA much better than we had anticipated. Pro forma results for the quarter were \$19.6 million in revenue and and EBITDA loss of \$3.1 million. The acquisition of WOW! closed in early April and will result in very large improvements in revenue and EBITDA.

With the consummation of the WOW! Unlimited acquisition, Genius now has in-house content creation from Genius Brands, talent acquired from WOW!, independently created content from WOW!'s YouTube multi-channel network and global distribution capabilities contributed by YFE and AmebaTV. WOW!'s animation studio produces in-house content and for customers such as Dreamworks and Mattel. Genius also operates the largest marketing and media agency within the Kids 2-11 age group, with annual media spending exceeding \$100 million. In a very short period of time Genius has transformed itself into a global developer, producer and distributor of animated children's content. We expect the company to continue adding to its portfolio of assets and capabilities over the coming years.

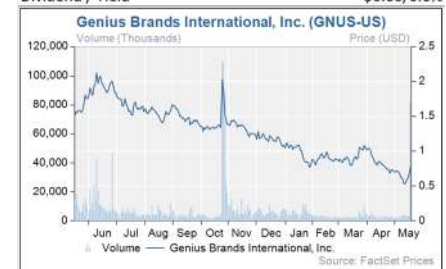
Net cash at quarter end was \$93 million, and subsequent to quarter end the company paid \$38.3 million for WOW! and \$2.9 million for additional shares of YFE. This brings the company's net cash balance to \$51.8 million, which we estimate is adequate to fund operations beyond 2023. However, accelerating production of company-owned properties and additional acquisitions could strain cash balances.

Valuation: We believe the shares should trade at the high-end of the historical range of a comparable group of media companies, or 7x to 8x 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	\$0.78		
Price Target	\$5.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 7,873	\$ 61,390 E	\$ 82,685
1Q March	\$ 1,064	\$ 1,441 A	\$ 16,232
2Q June	\$ 2,342	\$ 17,983 E	\$ 19,952
3Q September	\$ 1,871	\$ 19,206 E	\$ 21,297
4Q December	\$ 2,595	\$ 22,759 E	\$ 25,205
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ (20,273)	\$ (18,101)E	\$ (13,920)
1Q March	\$ (4,041)	\$ (5,166)A	\$ (5,105)
2Q June	\$ (4,293)	\$ (5,267)E	\$ (3,989)
3Q September	\$ (4,249)	\$ (4,900)E	\$ (3,585)
4Q December	\$ (7,691)	\$ (2,768)E	\$ (1,240)
EV/Sales	24.6 x	3.2 x	2.3 x
EV/EBITDA	(9.6) x	(10.7) x	(13.9) x
Stock Data			
52-Week Range	\$0.51	-	\$2.32
Shares Outstanding (mil.)	316.1		
Market Capitalization (mil.)	\$245		
Enterprise Value (mil.)	\$194		
Debt to Capital	30%		
Cash (mil.)	\$112.9		
Cash/Share	\$0.36		
Average Three Months Trading Volume (K)	2,966		
Insider Ownership	5.6%		
Institutional Ownership	19.2%		
Short interest (mil.)	15.9%		
Dividend / Yield	\$0.00/0.0%		



Valuation

A comparable group of media and entertainment companies trades on average at 1.9x FTM sales, but the range is wide, from 0.7x to almost 3.0x driven by growth and margins. Genius is trading at 2.8x FTM sales but at 2.3x our 2023 revenue estimate, which includes a full year of WOW!

		Price	FTM EPS	P/E	Mkt Cap (M)	TEV (M)	FTM Sales (M)	EV/ Sales	FTM EBITDA	EV/ EBITDA
CIDM	Cinedigm Corp	\$ 0.62	\$ (0.05)	(13.9)	\$ 120.0	\$ 100.8	\$ 55.6	1.81	\$ (0.3)	(316.0)
DLPN	Dolphin Entertainment Inc	3.57	0.40	8.9	29.5	31.1	45.0	0.69	2.1	15.0
EDR	Endeavor Group Holdings, Inc. Class A	19.53	1.44	13.6	5,237.8	10,606.6	5,492.4	1.93	1,140.0	9.3
LGFA	Lions Gate Entertainment Corp Class A	12.79	0.68	18.7	2,842.0	6,594.1	3,958.3	1.67	439.4	15.0
NFLX	Netflix, Inc.	177.19	10.72	16.5	84,660.9	97,611.3	32,986.4	2.96	6,997.7	13.9
ROKU	Roku, Inc. Class A	94.84	(1.77)	(53.6)	13,353.1	11,577.7	3,992.3	2.90	173.8	66.6
SALM	Salem Media Group, Inc. Class A	2.79	0.31	9.1	76.9	297.0	273.9	1.08	37.7	7.9
TBRD-CA	Thunderbird Entertainment Group Inc	C\$ 3.51	C\$ 0.17	20.6	C\$ 172.8	C\$ 216.5	C\$ 153.5	1.41	C\$ 26.6	8.1
VIACA	Paramount Global Class B	31.55	2.53	12.5	20,978.4	35,084.3	30,961.8	1.13	3,606.7	9.7
DIS	Walt Disney Company	104.30	4.83	21.6	197,793.3	250,718.9	90,120.5	2.78	16,700.3	15.0
WILD-CA	WildBrain Ltd.	C\$ 2.78	C\$ 0.13	21.8	C\$ 491.4	C\$1,255.4	C\$ 510.0	2.46	C\$ 93.0	13.5
	Mean			6.9				1.89		(12.9)
GNUS	Genius Brands International, Inc.	\$ 0.78	\$ (0.11)	(7.0)	\$ 216.2	\$ 191.1	\$ 69.4	2.75	\$ (16.5)	(11.6)

Source: Factset and Dawson James Securities estimates

We believe an EV/Sales ratio at the higher end of the historical comp range, which has reached 8x sales, 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 Kartoon Channel! will benefit from the addition of content from YFE's library and the company's media buying power can leverage the stronger content with ad buyers. Results at WOW!'s MCN (multi-channel network) and O&O (owned and operated) 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 historical comparable range or 7x to 8x 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

(\$ in 000's) (except per share data)	2019 A	2020 A	2021 A	2022 E	2023 E
Genius Brands	5,908	2,482	7,873	5,764	7,020
WOW!	0	0	0	55,626	75,665
Revenue	\$ 5,908	\$ 2,482	\$ 7,873	\$ 61,390	\$ 82,685
Genius Opex	12,414	20,364	71,626	50,682	52,428
WOW Opex	0	0	0	49,421	65,321
Operating Expense	12,414	20,364	71,626	100,103	117,749
Operating Income	\$ (6,506)	\$ (17,882)	\$ (63,753)	\$ (38,713)	\$ (35,064)
Genius finance and other	(4,975)	(383,787)	(62,614)	5,643	380
WOW finance and other	0	0	0	(1,080)	(1,440)
Pretax Income	\$ (11,481)	\$ (401,670)	\$ (126,367)	\$ (34,150)	\$ (36,124)
Income Taxes	0	0	0	0	0
Net Income	\$ (11,481)	\$ (401,670)	\$ (126,367)	\$ (34,150)	\$ (36,124)
Beneficial Cv. Of Pfd.	(3,380)	0	0	0	0
Non-controlling interests	0	0	76	256	300
Net to Common	\$ (14,862)	\$ (401,670)	\$ (126,291)	\$ (33,894)	\$ (35,824)
Basic Shares	11,907	142,452	297,513	311,697	317,129
Diluted Shares	11,907	142,452	297,513	311,697	317,129
Basic EPS	\$ (1.25)	\$ (2.82)	\$ (0.42)	\$ (0.11)	\$ (0.11)
Diluted EPS	\$ (1.25)	\$ (2.82)	\$ (0.42)	\$ (0.11)	\$ (0.11)
Operating Income	(\$6,506)	(\$17,882)	(\$63,753)	(\$38,713)	(\$35,064)
D&A	341	379	599	2,649	3,181
Stock Comp	184	8,929	16,451	17,964	17,964
Other	0	0	26,430	0	0
EBITDA	(\$5,981)	(\$8,573)	(\$20,273)	(\$18,101)	(\$13,920)

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

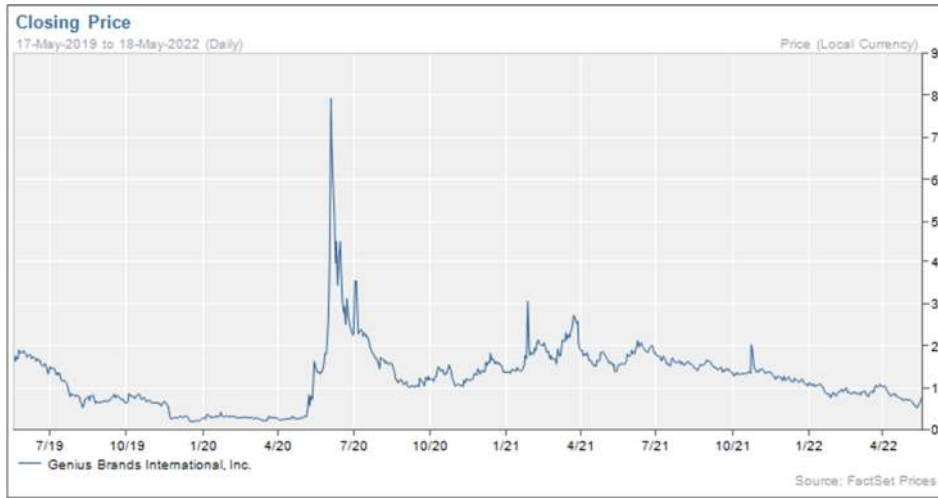
Exhibit 2. Balance Sheet & Cash Flow Statements

(\$ in 000's)	2019 A	2020 A	2021 A	2022 E	2023 E
Cash	\$ 305	\$ 100,456	\$ 2,058	\$ 47,540	\$ 23,447
Marketable Securities	0	0	112,523	0	0
Restricted Cash	0	0	8,002	3,000	3,000
A/R	4,102	1,731	7,632	43,351	48,010
Note Receivable	0	0	1,276	0	0
Other Receivables	0	0	969	675	675
Prepaid Expenses & Other	239	6,378	3,725	8,939	9,899
Current Assets	\$ 4,646	\$ 108,566	\$ 136,185	\$ 103,504	\$ 85,030
PP&E, net	65	96	449	12,377	14,597
Right of Use Assets	4,010	1,972	2,785	2,699	2,699
Film & TV Costs	9,907	11,828	2,940	25,638	30,978
Lease Deposits	368	43	69	69	69
Investment in Chizcomm	0	301	0	0	0
Investment in Stan Lee	0	1,000	0	0	0
Investment in YFE	0	0	6,695	18,533	18,533
Intangibles	52	29	9,733	11,856	10,056
Goodwill	10,366	10,366	15,227	57,911	57,911
Total Assets	\$ 29,413	\$ 134,201	\$ 174,083	\$ 232,588	\$ 219,874
Accounts Payable	946	786	7,192	13,167	14,582
Accrued Production Costs	0	0	1,733	181	181
Accrued Expenses	125	408	535	12,019	13,311
Participations Payable	2,272	3,160	2,438	2,324	2,324
Deferred Revenue & Advances	665	684	432	18,769	18,769
Margin Loan	0	0	6,392	0	0
Notes Payable	0	0	28	29	29
Sr. Secured Cv. Notes	2,374	0	0	0	0
Payroll Protection Program	0	366	0	0	0
Derivative Valuation	0	1,197	855	814	814
Lease Liability	599	146	664	612	612
Due to Related Party	1,084	2	63	12	12
Accrued Salaries & Wages	231	429	799	13,393	14,833
WOW Bank Debt	0	0	0	2,400	2,400
WOW ST Lease	0	0	0	2,400	2,400
WOW Production Financing	0	0	0	16,000	16,000
Current Liabilities	\$ 8,296	\$ 7,179	\$ 21,131	\$ 82,121	\$ 86,266
Deferred Revenue & Advances	4,444	3,748	3,492	3,482	3,482
Lease Liability	3,569	2,053	2,460	12,025	12,025
Production Facility Credit Line	3,092	1,100	0	0	0
Contingent Earn Out	0	0	1,340	1,345	1,345
Notes Payable	0	0	82	78	78
Disputed Trade Payable	925	925	925	925	925
Equity	9,087	119,197	144,653	132,613	115,752
Total Liabilities & Equity	\$ 29,413	\$ 134,201	\$ 174,083	\$ 232,588	\$ 219,874
	2019 A	2020 A	2021 A	2022 E	2023 E
Net Income	\$ (11,481)	\$ (401,670)	\$ (126,921)	\$ (33,894)	\$ (35,824)
D&A of Prop., Equip., Intangibles	341	379	599	2,649	3,181
Amort. of Film and TV Costs	2,230	980	19,538		
Stock Comp	184	8,929	16,451	17,964	17,964
Other	5,053	384,476	72,350	(8,076)	(5,340)
Working Capital	(2,579)	(940)	(5,760)	6,097	(1,473)
Operating Cash Flow	\$ (6,251)	\$ (7,845)	\$ (23,743)	\$ (15,261)	\$ (21,493)
Investment in Fixed Assets	(27)	(76)	(302)	(2,601)	(3,600)
Acquisition/Other	0	(1,327)	(11,175)	(41,384)	0
Investing Activities	\$ (27)	\$ (1,403)	\$ (127,456)	\$ (43,985)	\$ (3,600)
Equity	4,367	104,458	57,265	719	1,000
Debt	(869)	4,941	3,554	(6,502)	0
Financing Activities	\$ 3,498	\$ 109,399	\$ 60,819	\$ (5,783)	\$ 1,000
Foreign Exchange	\$ -	\$ -	\$ (16)	\$ 8	\$ -
Change in Cash	\$ (2,780)	\$ 100,152	\$ (90,396)	\$ (65,021)	\$ (24,093)

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
- Update – Buy – January 14, 2022 – Price Target \$5.00
- Update – Buy – April 8, 2022 – Price Target \$5.00
- Update – Buy – May 19, 2022 – Price Target \$5.00

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- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
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Current as of 16-May-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	72%	4	13%
Market Perform (Neutral)	12	28%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	4	9%

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