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Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

June 15, 2022

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

### Buy: \$125 million in Production Backlog.

*The \$125 million in contracted production provides good visibility for the company's production services business and suggests a major investment in the company's internally developed content. We reiterate our Buy recommendation and \$5 price target.*

Genius now has \$125 million in production orders, best thought of as 18-24 months in duration, across 15 animated series, of more than 400 episodes. These orders include production for third-parties as well as internally developed content. The level of production orders is far in excess of the production backlog and internal content investment of WOW! Unlimited before its acquisition by Genius. We think this provides solid revenue visibility for the company for the next twelve months.

The last reported third-party production backlog for WOW! Unlimited was about \$55 million at the end of Q3 2021. Orders and deliveries are lumpy and backlog averaged \$63 million prior to Q3. We believe the \$125 million in production orders probably includes about \$15 million of internally developed content from the WOW! operations and an additional \$10 to \$15 million from Genius Brands development. This suggests a sharp increase in third-party contracts and/or internal investment in company-owned content.

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 the end of Q1 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.

James McIlree, CFA

561-237-2709

jmcilree@dawsonjames.com

Current Price				\$0.81
Price Target				\$5.00
<b>Estimates</b>	<b>F2021A</b>	<b>F2022E</b>	<b>F2023E</b>	
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	
	<b>F2021A</b>	<b>F2022E</b>	<b>F2023E</b>	
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	26.0 x	3.3 x	2.5 x	
EV/EBITDA	(10.1) x	(11.3) x	(14.7) x	
<b>Stock Data</b>				
52-Week Range	\$0.51	-	\$2.32	
Shares Outstanding (mil.)				316.1
Market Capitalization (mil.)				\$256
Enterprise Value (mil.)				\$204
Debt to Capital				30%
Cash (mil.)				\$112.9
Cash/Share				\$0.36
Average Three Months Trading Volume (K)				2,878
Insider Ownership				5.2%
Institutional Ownership				18.5%
Short interest (mil.)				16.5%
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	\$ 0.57	\$ (0.05)	(12.7)	\$ 98.2	\$ 79.2	\$ 55.6	1.43	\$ (0.3)	(248.4)
DLPN	Dolphin Entertainment Inc	3.25	0.61	5.4	29.5	29.4	47.5	0.62	4.5	6.6
EDR	Endeavor Group Holdings, Inc. Class A	20.11	1.28	15.7	5,617.9	13,885.5	5,492.4	2.53	1,140.0	12.2
LGFA	Lions Gate Entertainment Corp Class A	9.16	0.61	15.0	2,128.7	6,370.8	3,954.7	1.61	404.3	15.8
NFLX	Netflix, Inc.	176.09	10.70	16.5	74,433.7	87,183.6	32,979.8	2.64	7,001.4	12.5
ROKU	Roku, Inc. Class A	80.33	(1.79)	(44.9)	10,157.8	8,410.1	3,940.4	2.13	173.9	48.4
SALM	Salem Media Group, Inc. Class A	2.57	0.31	8.4	68.0	291.0	273.9	1.06	36.7	7.9
TBRD-CA	Thunderbird Entertainment Group Inc	C\$ 3.22	C\$ 0.17	18.9	C\$ 160.4	C\$ 204.6	C\$ 153.5	1.33	C\$ 26.6	7.7
VIACA	Paramount Global Class B	25.77	2.49	10.4	16,493.6	30,585.9	31,120.4	0.98	3,568.6	8.6
DIS	Walt Disney Company	95.30	4.74	20.1	171,619.8	224,359.2	89,883.4	2.50	16,607.7	13.5
WILD-CA	WildBrain Ltd.	C\$ 2.64	C\$ 0.13	19.8	C\$ 411.8	C\$1,175.8			C\$ 93.0	12.6
	Mean			6.6				1.68		(9.3)
GNUS	Genius Brands International, Inc.	\$ 0.81	\$ (0.11)	(7.3)	\$ 249.6	\$ 204.5	\$ 71.1	2.88	\$ (16.2)	(12.6)

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
<b>Revenue</b>	<b>\$ 5,908</b>	<b>\$ 2,482</b>	<b>\$ 7,873</b>	<b>\$ 61,390</b>	<b>\$ 82,685</b>
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
<b>EBITDA</b>	<b>(\$5,981)</b>	<b>(\$8,573)</b>	<b>(\$20,273)</b>	<b>(\$18,101)</b>	<b>(\$13,920)</b>

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

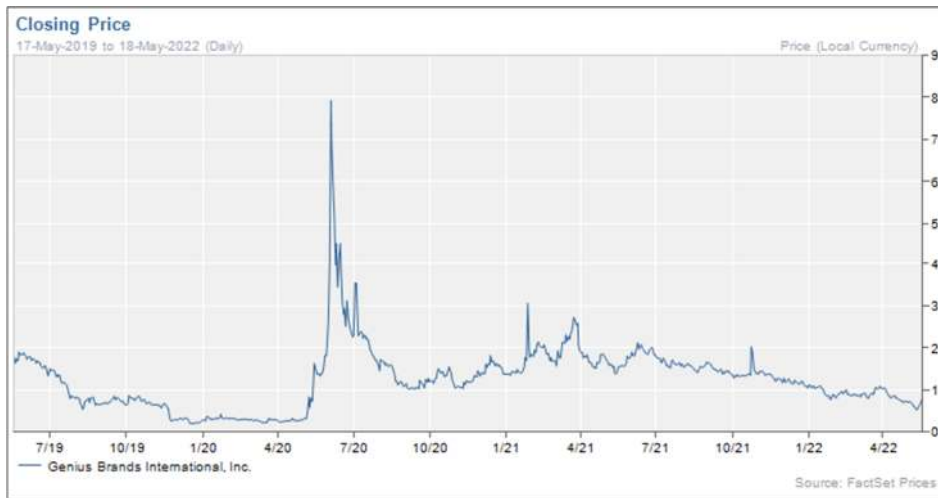
**Exhibit 2. Balance Sheet & Cash Flow Statements**

(\$ 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
<b>Current Assets</b>	<b>\$ 4,646</b>	<b>\$ 108,566</b>	<b>\$ 136,185</b>	<b>\$ 103,504</b>	<b>\$ 85,030</b>
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
<b>Total Assets</b>	<b>\$ 29,413</b>	<b>\$ 134,201</b>	<b>\$ 174,083</b>	<b>\$ 232,588</b>	<b>\$ 219,874</b>
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
<b>Current Liabilities</b>	<b>\$ 8,296</b>	<b>\$ 7,179</b>	<b>\$ 21,131</b>	<b>\$ 82,121</b>	<b>\$ 86,266</b>
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
<b>Equity</b>	<b>9,087</b>	<b>119,197</b>	<b>144,653</b>	<b>132,613</b>	<b>115,752</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 29,413</b>	<b>\$ 134,201</b>	<b>\$ 174,083</b>	<b>\$ 232,588</b>	<b>\$ 219,874</b>
	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
- Update – Buy – June 15, 2022 – Price Target \$5.00

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- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
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Current as of 16-May-22

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# 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%
<b>Total</b>	<b>43</b>	<b>100%</b>	<b>4</b>	<b>9%</b>

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