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

August 18, 2022

Genius Brands International, Inc. (NASDAQ: GNUS)

Buy: Q2 Much Better than Expected.

Q2 results were much better than expected with record quarterly revenue of \$22 million driven by the acquisition of WOW Unlimited Media. Excluding acquisition costs, EBITDA was also much better than we had estimated. We reiterate our Buy recommendation and \$5 price target.

Q2 revenue of \$22 million was a company record. We estimate the acquired WOW Unlimited contributed \$10 million from production services and \$8.5 million from its YouTube channels (~\$5 to \$6 million) and proprietary content (~\$3 million). Licensing and royalty revenue was \$2.5 million, driven by the 20-year deal with Disney's Marvel to use Stan Lee's name and likeness in their film and TV productions. The remaining \$1 million came from media and advertising services.

Pro forma for the WOW and Ameba acquisitions, 1H revenue was \$42 million, 40% higher than the pro forma revenues from 1H 2021. WOW was the main driver of growth. WOW's Q1 revenue of \$18.2 million was 54% higher than Q1 21 and its Q2 revenue was 21% higher than Q2 21.

Reported operating expenses of \$30.7 million were \$2 million higher than forecast, but this was driven by \$3.2 million of acquisition costs. Even including these one-time costs, operating income was better than expected, and excluding these costs operating income and EBITDA were much better than forecast, driven by the higher-than-expected revenue.

For Q3 we expect a sequential decline in revenue primarily from the absence of the license payment received from Disney in Q2. We also expect a normal seasonal decline in production services revenue in Q3 and a typical seasonal increase in production services and content distribution in Q4. This results in full-year revenue of \$65 million, and pro forma revenue of \$83 million.

The acquisition of WOW brings scale and the ability to invest more aggressively in proprietary content. The average \$5 million investment in content prior to WOW we expect to quadruple, to upwards of \$20 million annually providing much greater opportunity for success and by using the WOW production studios, much higher quality content.

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	\$0.86		
Price Target	\$5.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 7,873	\$ 64,947 E	\$ 84,901
1Q March	\$ 1,064	\$ 1,441 A	\$ 18,616
2Q June	\$ 2,342	\$ 22,124 A	\$ 20,734
3Q September	\$ 1,871	\$ 18,932 E	\$ 20,840
4Q December	\$ 2,595	\$ 22,450 E	\$ 24,710
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ (20,273)	\$ (15,137)E	\$ (12,776)
1Q March	\$ (4,041)	\$ (5,166)A	\$ (5,303)
2Q June	\$ (4,293)	\$ (316)A	\$ (3,185)
3Q September	\$ (4,249)	\$ (4,487)E	\$ (3,079)
4Q December	\$ (7,691)	\$ (1,968)E	\$ (1,209)
EV/Sales	32.2 x	3.9 x	3.0 x
EV/EBITDA	(12.5) x	(16.7) x	(19.8) x
Stock Data			
52-Week Range	\$0.51	-	\$2.32
Shares Outstanding (mil.)	317.2		
Market Capitalization (mil.)	\$273		
Enterprise Value (mil.)	\$253		
Debt to Capital	38%		
Cash (mil.)	\$105.2		
Cash/Share	\$0.33		
Average Three Months Trading Volume (K)	3,525		
Insider Ownership	6.3%		
Institutional Ownership	11.8%		
Short interest (mil.)	12.5%		
Dividend / Yield	\$0.00/0.0%		



As of early June, Genius had \$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.

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.

At quarter end, the company had over \$105 million in cash and marketable securities. This is offset by a \$61 million loan against the securities. The company invested about 75% of its cash in fixed income instruments with a maturity of 1 to 5 years in late 2021. As interest rates moved up an unrealized loss of almost \$6 million was created. Rather than book this loss, the company borrowed against its portfolio to fund the purchase of WOW. We believe cash is adequate to fund operations into 2024 although the loan against the securities and the path of interest rates could have an impact on cash needs.

Genius Q2 Results: Actual v Estimates

Q2 22					
(\$ in 000's)					
(except per share data)					
	Actual	Estimates	Delta		
Revenue	\$ 22,124	\$ 17,983	\$ 4,141		23.0%
Operating Expense	30,725	28,537			
Operating Income	\$ (8,601)	\$ (10,553)	\$ 1,952		-18.5%
Finance and other	(3,549)	(265)			
Pretax Income	\$ (12,150)	\$ (10,818)			
Income Taxes	0	0			
Net Income	\$ (12,150)	\$ (10,818)			
Non-controlling interests	(1,193)	75			
Net to Common	\$ (13,343)	\$ (10,743)			
Diluted Shares	315,520	310,249			
Diluted EPS	\$ (0.04)	\$ (0.03)			
Operating Income	(8,601)	(10,553)			
D&A	840	795			
Stock Comp	4,245	4,491			
Other	3,200	0			
EBITDA	\$ (316)	\$ (5,267)	\$ 4,951		94.0%

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

We have adjusted our estimates to reflect Q2 results. For this year and next we have increased our revenue estimates based on reported backlog and our EBITDA estimates have improved based on consolidated results post the acquisition of WOW.

Estimates: Old v new

	2022E		2023E	
	Old	New	Old	New
Revenue (\$M)	\$ 61.4	\$ 64.9	\$ 82.7	\$ 84.9
EPS	\$ (0.11)	\$ (0.11)	\$ (0.11)	\$ (0.10)
EBITDA (\$M)	\$ (18.1)	\$ (15.1)	\$ (13.9)	\$ (12.8)

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

Valuation

A comparable group of media and entertainment companies trades on average at 2.1x FTM sales, but the range is wide, from 1.0x to almost 4.0x driven by growth and margins. Genius is trading at 3.3x FTM sales but at 2.8x 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	\$ 0.63	\$ (0.08)	(7.9)	\$ 111.7	\$ 102.3			\$ (0.3)	(311.5)
DLPN	Dolphin Entertainment Inc	4.33	(0.23)	(18.8)	46.6	50.6	44.8	1.13	0.4	133.6
EDR	Endeavor Group Holdings, Inc. Class A	23.83	1.37	17.4	6,904.5	16,097.2	5,659.5	2.84	1,175.4	13.7
LGF.A	Lions Gate Entertainment Corp Class A	10.39	0.70	14.8	2,449.7	6,709.0	3,895.6	1.72	457.9	14.7
NFLX	Netflix, Inc.	241.15	9.40	25.7	109,259.8	121,691.6	32,410.2	3.75	6,274.0	19.4
ROKU	Roku, Inc. Class A	78.42	(3.48)	(22.5)	11,602.6	10,182.6	3,432.8	2.97	(53.5)	(190.3)
SALM	Salem Media Group, Inc. Class A	2.45	0.26	9.4	65.9	271.3	279.8	0.97	36.9	7.4
TBRD-CA	Thunderbird Entertainment Group Inc	C\$ 3.36	C\$ 0.17	19.8	C\$ 167.4	C\$ 212.0	C\$ 153.5	1.38	C\$ 26.6	8.0
VIACA	Paramount Global Class B	26.30	2.04	12.9	17,656.2	31,875.0	31,234.8	1.02	3,272.8	9.7
DIS	Walt Disney Company	122.81	4.90	25.1	227,612.1	280,050.0	91,765.4	3.05	16,828.5	16.6
WILD-CA	WildBrain Ltd.	C\$ 2.84	C\$ 0.13	21.3	C\$ 467.1	C\$1,231.2			C\$ 91.3	13.5
	Mean			8.8				2.09		(24.1)
GNUS	Genius Brands International, Inc.	\$ 0.86	\$ (0.11)	(8.2)	\$ 272.7	\$ 253.5	\$ 77.5	3.27	\$ (13.7)	(18.6)

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	Q1 22 A	Q2 22 A	Q3 22 E	Q4 22 E	2022 E	2023 E
Production Services	\$ -	\$ -	\$ -	\$ -	\$ 10,018	\$ 9,100	\$ 10,319	\$ 29,437	\$ 41,344
Content Distribution	0	0	0	0	8,529	8,700	10,999	28,228	38,517
Licensing & Royalties	864	762	1,605	41	2,495	50	50	2,636	200
Media & Advertising		0	5,166	986	1,082	1,082	1,082	4,232	4,840
TV & Home Entertainment	4,817	1,465	825	414	0	0	0	414	0
Advertising Sales	224	253	277	0	0	0	0	0	0
Product Sales	3	3	0	0	0	0	0	0	0
Revenue	\$ 5,908	\$ 2,482	\$ 7,873	\$ 1,441	\$ 22,124	\$ 18,932	\$ 22,450	\$ 64,947	\$ 84,901
Marketing & Sales	730	818	5,442	160	972	972	972	3,076	3,888
Direct Operating Costs	4,568	2,124	21,987	344	14,648	15,000	16,000	45,992	64,000
G&A	7,116	17,423	35,967	10,857	15,105	12,605	12,605	51,172	50,420
Impairment Loss			8,230					0	0
Operating Expense	12,414	20,364	71,626	11,361	30,725	28,577	29,577	100,240	118,308
Operating Income	\$ (6,506)	\$ (17,882)	\$ (63,753)	\$ (9,920)	\$ (8,601)	\$ (9,645)	\$ (7,127)	\$ (35,293)	\$ (33,407)
Other Income	15	145	0	5,413	(3,131)	100	100	2,482	400
Interest Expense	(807)	(1,180)	(20)	(55)	(418)	(5)	(5)	(483)	(20)
Other	(4,183)	(382,753)	(62,594)	0	0	0	0	0	0
Finance and other	(4,975)	(383,787)	(62,614)	5,358	(3,549)	95	95	1,999	380
Pretax Income	\$ (11,481)	\$ (401,670)	\$ (126,367)	\$ (4,562)	\$ (12,150)	\$ (9,550)	\$ (7,032)	\$ (33,294)	\$ (33,027)
Income Taxes	0	0	0					0	0
Net Income	\$ (11,481)	\$ (401,670)	\$ (126,367)	\$ (4,562)	\$ (12,150)	\$ (9,550)	\$ (7,032)	\$ (33,294)	\$ (33,027)
Beneficial Cv. Of Pfd.	(3,380)	0	0					0	0
Non-controlling interests	0	0	76	31	(1,193)	75	75	(1,012)	300
Net to Common	\$ (14,862)	\$ (401,670)	\$ (126,291)	\$ (4,531)	\$ (13,343)	\$ (9,475)	\$ (6,957)	\$ (34,306)	\$ (32,727)
Basic Shares	11,907	142,452	297,513	303,779	315,520	316,682	317,360	313,335	317,985
Diluted Shares	11,907	142,452	297,513	303,779	315,520	316,682	317,360	313,335	317,985
Basic EPS	\$ (1.25)	\$ (2.82)	\$ (0.42)	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.11)	\$ (0.10)
Diluted EPS	\$ (1.25)	\$ (2.82)	\$ (0.42)	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.11)	\$ (0.10)
Operating Income	(\$6,506)	(\$17,882)	(\$63,753)	(\$9,920)	(\$8,601)	(\$9,645)	(\$7,127)	(\$35,293)	(\$33,407)
D&A	341	379	599	263	840	914	914	2,930	3,651
Stock Comp	184	8,929	16,451	4,491	4,245	4,245	4,245	17,226	16,980
Other	0	0	26,430	0	3,200	0	0	0	0
EBITDA	(\$5,981)	(\$8,573)	(\$20,273)	(\$5,166)	(\$316)	(\$4,487)	(\$1,968)	(\$15,137)	(\$12,776)

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

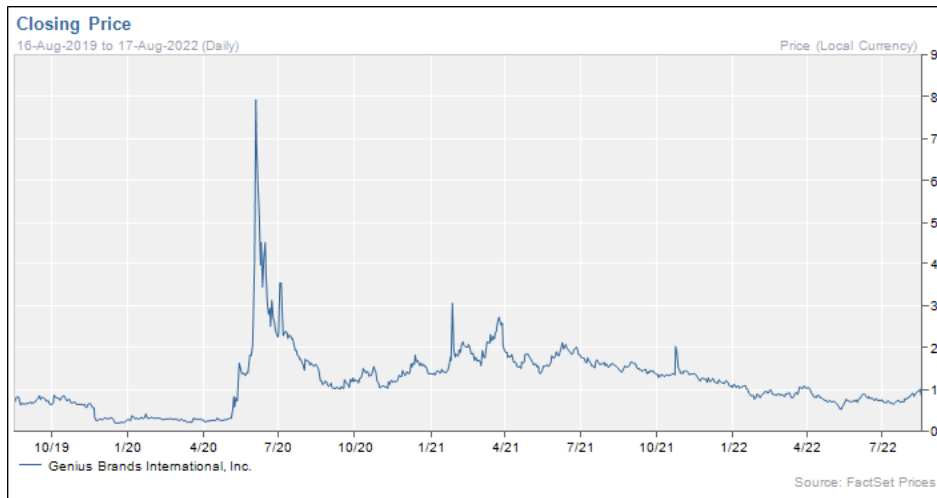
Exhibit 2. Balance Sheet & Cash Flow Statements

(\$ in 000's)	2019 A	2020 A	2021 A	2022 E	2023 E
Cash	\$ 305	\$ 100,456	\$ 2,058	\$ 10,083	\$ 4,325
Restricted Cash	0	0	8,002	0	0
Marketable Securities	0	0	112,523	85,000	70,000
A/R	4,102	1,731	7,632	9,978	10,982
Tax Credits Receivable	0	0	0	25,892	25,892
Note Receivable	0	0	1,276	0	0
Other Receivables	0	0	969	2,932	2,932
Prepaid Expenses & Other	239	6,378	3,725	5,421	5,966
Current Assets	\$ 4,646	\$ 108,566	\$ 136,185	\$ 139,306	\$ 120,098
PP&E, net	65	96	449	3,964	6,764
Right of Use Assets	4,010	1,972	2,785	12,014	12,014
Film & TV Costs	9,907	11,828	2,940	19,570	24,910
Lease Deposits	368	43	69	0	0
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	17,840	17,840
Intangibles	52	29	9,733	34,234	31,383
Goodwill	10,366	10,366	15,227	36,720	36,720
Other	0	0	0	320	320
Total Assets	\$ 29,413	\$ 134,201	\$ 174,083	\$ 263,968	\$ 250,049
Accounts Payable	946	786	7,192	4,342	4,779
Participations Payable	2,272	3,160	2,438	4,571	4,571
Accrued Expenses	125	408	535	1,138	1,252
Accrued Salaries & Wages	231	429	799	2,752	3,029
Deferred Revenue & Advances	665	684	432	13,396	13,396
Margin Loan	0	0	6,392	60,000	60,000
Production Facilities	0	0	0	19,115	19,115
Bank Indebtedness	0	0	0	2,718	2,718
Lease Liability	599	146	664	3,098	3,098
Derivative Valuation	0	1,197	855	586	586
Due to Related Party	1,084	2	63	0	0
Other	0	0	0	100	100
Accrued Production Costs	0	0	1,733	0	0
Notes Payable	0	0	28	0	0
Sr. Secured Cv. Notes	2,374	0	0	0	0
Payroll Protection Program	0	366	0	0	0
Current Liabilities	\$ 8,296	\$ 7,179	\$ 21,131	\$ 111,816	\$ 112,644
Deferred Revenue & Advances	4,444	3,748	3,492	4,564	4,564
Lease Liability	3,569	2,053	2,460	9,579	9,579
Production Facility Credit Line	3,092	1,100	0	0	0
Contingent Earn Out	0	0	1,340	1,345	1,345
Other	0	0	0	1,019	1,019
Notes Payable	0	0	82	0	0
Disputed Trade Payable	925	925	925	0	0
Equity	9,087	119,197	144,653	135,645	120,898
Total Liabilities & Equity	\$ 29,413	\$ 134,201	\$ 174,083	\$ 263,968	\$ 250,049
	2019 A	2020 A	2021 A	2022 E	2023 E
Net Income	\$ (11,481)	\$ (401,670)	\$ (126,921)	\$ (34,306)	\$ (32,727)
D&A of Prop., Equip., Intangibles	341	379	599	2,930	3,651
Amort. of Film and TV Costs	2,230	980	19,538	8,483	12,460
Stock Comp	184	8,929	16,451	17,226	16,980
Other	5,053	384,476	72,350	(8,621)	(17,800)
Working Capital	(2,579)	(940)	(5,760)	(12,357)	(721)
Operating Cash Flow	\$ (6,251)	\$ (7,845)	\$ (23,743)	\$ (26,645)	\$ (18,158)
Investment in Intangibles	0	0	(1,008)	(22)	0
Investment in Marketable Securities	0	0	(114,971)	22,384	15,000
Investment in Fixed Assets	(27)	(76)	(302)	(2,201)	(3,600)
Acquisition/Other	0	(1,327)	(11,175)	(50,744)	0
Investing Activities	\$ (27)	\$ (1,403)	\$ (127,456)	\$ (30,583)	\$ 11,400
Equity	4,367	104,458	57,265	500	1,000
Debt	(869)	4,941	3,554	56,741	0
Financing Activities	\$ 3,498	\$ 109,399	\$ 60,819	\$ 57,241	\$ 1,000
Foreign Exchange	\$ -	\$ -	\$ (16)	\$ 46	\$ -
Change in Cash	\$ (2,780)	\$ 100,152	\$ (90,396)	\$ 59	\$ (5,758)

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
 Update – Buy – June 23, 2022 – Price Target \$5.00
 Update – Buy – August 18, 2022 – Price Target \$5.00

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Information about valuation methods and risks can be found in the "Valuation" and "Risk Analysis" sections of this report.

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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;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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 16-Aug-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	27	90%	4	15%
Market Perform (Neutral)	2	7%	0	0%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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