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November 15, 2022

Genius Brands International, Inc. (NASDAQ: GNUS)

Buy: Q3 Review. Revenue and EBITDA Better than Expected.

Q3 revenue and EBITDA for Genius Brands was better than expected. We reiterate our Buy recommendation and \$5 price target.

Genius Brands reported better-than-expected revenue and EBITDA for Q3. Revenue of \$19.7 million exceeded our \$18.9 million estimate and an EBITDA loss of \$3.5 million was better than our expectation of a \$4.5 million loss.

We have increased our estimates to reflect Q3 results. Q4 is typically the strongest quarter of the year for the production services and content distribution segments and we have modeled revenue of \$22.8 million. The top line will be impacted by delivery schedules on animated product as well as advertising revenues for the company's YouTube business.

Direct operating costs in Q3 were \$13.9 million down from \$14.6 million in Q2. Excluding amortization of film & TV assets, cash opex was \$11.0 million, down from \$12.2 million in Q2. G&A, excluding share-based compensation, was also lower; \$9.2 million in Q3 versus \$10.9 million in Q2.

The company continues to drive towards positive cash flow from operations. We have the company exiting 2023 close to cash flow break-even on total revenue of \$86 million. This assumes the company's contract animation business generates \$41 million in revenue in 2023, about flat with our pro forma 2022 estimate; Content Distribution is forecasted to generate \$39.0 million in revenue in 2023 and Media Advisory & Advertising Services are modeled to contribute \$4.8 million in revenue next year. Each of these estimates assumes modest growth from 2022 and we believe each can be exceeded.

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.

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Current Price	\$0.73		
Price Target	\$5.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$M's)	\$ 7.9	\$ 66.0 E	\$ 86.3
1Q March	\$ 1.1	\$ 1.4 A	\$ 18.8
2Q June	\$ 2.3	\$ 22.1 A	\$ 21.0
3Q September	\$ 1.9	\$ 19.7 A	\$ 21.5
4Q December	\$ 2.6	\$ 22.8 E	\$ 24.9
	F2021A	F2022E	F2023E
EBITDA (\$M's)	\$ 26.4	\$ (12.7) E	\$ (12.8)
1Q March	\$ (4.0)	\$ (5.2) A	\$ (5.6)
2Q June	\$ (4.3)	\$ (0.3) A	\$ (3.5)
3Q September	\$ (4.2)	\$ (3.5) A	\$ (2.9)
4Q December	\$ (7.7)	\$ (0.5) E	\$ (0.8)
EV/Sales	28.1 x	3.3 x	2.6 x
EV/EBITDA	8.4 x	(17.4) x	(17.3) x
Stock Data			
52-Week Range	\$0.51	-	\$1.41
Shares Outstanding (mil.)	318.3		
Market Capitalization (mil.)	\$231		
Enterprise Value (mil.)	\$221		
Debt to Capital	40%		
Cash (mil.)	\$97.0		
Cash/Share	\$0.30		
Average Three Months Trading Volume (K)	2,218		
Insider Ownership	6.3%		
Institutional Ownership	11.9%		
Short interest (mil.)	11.3%		
Dividend / Yield	\$0.00/0.0%		



Actual v. Estimates.

Q3 revenue of \$19.7 million exceeded our \$18.9 million estimate. Q3 revenue was down from \$22.1 million mostly due to the absence of about \$2 million in licensing fees from Marvel for the licensing of certain Stan Lee assets in future Marvel films and merchandise. This is high margin revenue and although we have not forecast additional revenue from licensing and royalties from the Stan Lee assets, the company has plans to launch a merchandise program to coincide with Stan Lee's 100th birthday on December 28.

Q3 22					
(\$ in 000's)					
(except per share data)					
	Actual	Estimates	Delta		
Production Services	9,095	9,100			
Content Distribution	9,106	8,700			
Licensing & Royalties	280	50			
Media & Advertising	1,198	1,082			
Revenue	\$ 19,679	\$ 18,932	\$ 747		3.9%
Operating Expense	25,118	28,577			
Operating Income	\$ (5,439)	\$ (9,645)	\$ 4,206		-43.6%
Finance and other	(5,802)	95			
Pretax Income	\$ (11,241)	\$ (9,550)			
Income Taxes		0			
Net Income	\$ (11,241)	\$ (9,550)			
Non-controlling interests	23	75			
Net to Common	\$ (11,218)	\$ (9,475)			
Diluted Shares	317,283	316,682			
Diluted EPS	\$ (0.04)	\$ (0.03)			
Operating Income	(5,439)	(9,645)			
D&A	754	914			
Stock Comp	1,182	4,245			
Other	0	0			
EBITDA	\$ (3,503)	\$ (4,487)	\$ 984		21.9%

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

Our new estimates reflect Q3 results and an expectation of continued cost control.

	2022E		2023E	
	Old	New	Old	New
Revenue (\$M)	\$ 64.9	\$ 66.0	\$ 84.9	\$ 86.3
EPS	\$ (0.11)	\$ (0.10)	\$ (0.10)	\$ (0.07)
EBITDA (\$M)	\$ (15.1)	\$ (12.7)	\$ (12.8)	\$ (12.8)

Source: Dawson James Securities estimates

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 the end of Q3, the company had over \$97 million in cash and marketable securities. This is offset by a \$62 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 \$8 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.

Valuation

A comparable group of media and entertainment companies trades on average at 1.9x FTM sales, but the range is wide, from 1.0x to almost 4.0x driven by growth and margins. Genius is trading at 2.6x FTM sales.

		Price	FTM EPS	P/E	Mkt Cap (M)	TEV (M)	FTM Sales (M)	EV/ Sales	FTM EBITDA	EV/ EBITDA
CIDM-US	Cinedigm Corp	\$ 0.60	\$ (0.06)	(10.0)	\$ 106.3	\$ 96.3			\$ 3.9	24.5
DLPN-US	Dolphin Entertainment Inc	3.07	0.21	14.6	29.9	33.1	44.4	0.75	4.7	7.0
EDR-US	Endeavor Group Holdings, Inc. Class	21.88	1.33	16.4	6,254.1	12,218.5	5,679.3	2.15	1,229.0	9.9
LGF.A-US	Lions Gate Entertainment Corp Class	7.55	0.04	185.6	1,726.8	6,149.5	3,800.6	1.62	413.2	14.9
NFLX-US	Netflix, Inc.	299.27	9.45	31.7	133,181.4	145,092.9	32,918.3	4.41	6,272.5	23.1
ROKU-US	Roku, Inc. Class A	58.53	(4.85)	(12.1)	8,151.5	6,793.9	3,093.9	2.20	(276.0)	(24.6)
SALM-US	Salem Media Group, Inc. Class A	1.48	0.26	5.7	40.3	246.4	275.4	0.89	36.9	6.7
TBRD-CA	Thunderbird Entertainment Group Inc	C\$ 3.45	C\$ 0.14	24.6	C\$ 170.3	C\$ 236.0	C\$ 158.0	1.49	C\$ 24.1	9.8
PARA-US	Paramount Global Class B	18.49	1.45	12.8	12,003.2	26,901.5	30,767.1	0.87	2,769.1	9.7
DIS-US	Walt Disney Company	94.28	4.22	22.4	171,878.1	222,373.6	90,889.1	2.45	14,981.4	14.8
WILD-CA	WildBrain Ltd.	C\$ 2.31	C\$ 0.11	20.4	C\$ 395.7	C\$ 1,289.4	C\$ 555.7	2.32	C\$ 99.7	12.9
	Mean			33.1				1.91		9.9
GNUS-US	Genius Brands International, Inc.	\$ 0.73	\$ (0.08)	(9.6)	\$ 231.2	\$ 220.9	\$ 83.7	2.64	\$ (12.8)	(17.3)

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 A	Q4 22 E	2022 E	2023 E
Revenue	\$ 5,908	\$ 2,482	\$ 7,873	\$ 1,441	\$ 22,124	\$ 19,679	\$ 22,796	\$ 66,040	\$ 86,262
Marketing & Sales	730	818	5,442	160	972	880	880	2,892	3,520
Direct Operating Costs	4,568	2,124	21,987	344	14,648	13,875	14,000	42,867	60,100
G&A	7,116	17,423	35,967	10,857	15,105	10,363	10,382	46,707	43,368
Impairment Loss	0	0	8,230	0	0	0	0	0	0
Operating Expense	12,414	20,364	71,626	11,361	30,725	25,118	25,262	92,466	106,988
Operating Income	\$ (6,506)	\$ (17,882)	\$ (63,753)	\$ (9,920)	\$ (8,601)	\$ (5,439)	\$ (2,466)	\$ (26,426)	\$ (20,726)
Finance and other	(4,975)	(383,787)	(62,614)	5,358	(3,549)	(5,802)	(600)	(4,593)	(2,400)
Net Income	\$ (11,481)	\$ (401,670)	\$ (126,367)	\$ (4,562)	\$ (12,150)	\$ (11,241)	\$ (3,066)	\$ (31,019)	\$ (23,126)
Beneficial Cv. Of Pfd.	(3,380)	0	0	0	0	0	0	0	0
Non-controlling interests	0	0	76	31	(1,193)	23	50	(1,089)	200
Net to Common	\$ (14,862)	\$ (401,670)	\$ (126,291)	\$ (4,531)	\$ (13,343)	\$ (11,218)	\$ (3,016)	\$ (32,108)	\$ (22,926)
Diluted Shares	11,907	142,452	297,513	303,779	315,520	317,283	318,222	313,701	318,847
Diluted EPS	\$ (1.25)	\$ (2.82)	\$ (0.42)	\$ (0.01)	\$ (0.04)	\$ (0.04)	\$ (0.01)	\$ (0.10)	\$ (0.07)
Operating Income	(\$6,506)	(\$17,882)	(\$63,753)	(\$9,920)	(\$8,601)	(\$5,439)	(\$2,466)	(\$26,426)	(\$20,726)
D&A	341	379	599	263	840	754	787	2,644	3,199
Stock Comp	184	8,929	16,451	4,491	4,245	1,182	1,182	11,100	4,728
Other	0	0	26,430	0	3,200	0	0	0	0
EBITDA	(\$5,981)	(\$8,573)	(\$20,273)	(\$5,166)	(\$316)	(\$3,503)	(\$497)	(\$12,682)	(\$12,799)

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

Exhibit 2. Balance Sheet

(\$ in 000's)	2019 A	2020 A	2021 A	2022 E	2023 E
Cash	\$ 305	\$ 100,456	\$ 2,058	\$ 11,458	\$ 3,001
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	10,132	11,084
Tax Credits Receivable	0	0	0	26,350	26,350
Note Receivable	0	0	1,276	0	0
Other Receivables	0	0	969	3,077	3,077
Prepaid Expenses & Other	239	6,378	3,725	5,958	6,518
Current Assets	\$ 4,646	\$ 108,566	\$ 136,185	\$ 141,974	\$ 120,030
PP&E, net	65	96	449	3,193	6,445
Right of Use Assets	4,010	1,972	2,785	10,822	10,822
Film & TV Costs	9,907	11,828	2,940	16,317	22,223
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	12,480	12,480
Intangibles	52	29	9,733	33,074	30,223
Goodwill	10,366	10,366	15,227	35,748	35,748
Other	0	0	0	247	247
Total Assets	\$ 29,413	\$ 134,201	\$ 174,083	\$ 253,855	\$ 238,219
Accounts Payable	946	786	7,192	5,624	6,153
Participations Payable	2,272	3,160	2,438	3,243	3,243
Accrued Expenses	125	408	535	2,077	2,272
Accrued Salaries & Wages	231	429	799	2,887	3,158
Deferred Revenue & Advances	665	684	432	10,794	10,794
Margin Loan	0	0	6,392	62,372	62,372
Production Facilities	0	0	0	19,283	19,283
Bank Indebtedness	0	0	0	2,092	2,092
Lease Liability	599	146	664	2,866	2,866
Derivative Valuation	0	1,197	855	421	421
Due to Related Party	1,084	2	63	37	37
Other	0	0	0	932	932
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	\$ 112,628	\$ 113,623
Deferred Revenue & Advances	4,444	3,748	3,492	3,369	3,369
Lease Liability	3,569	2,053	2,460	8,622	8,622
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	1,017	1,017
Notes Payable	0	0	82	0	0
Disputed Trade Payable	925	925	925	0	0
Equity	9,087	119,197	144,653	126,874	110,242
Total Liabilities & Equity	\$ 29,413	\$ 134,201	\$ 174,083	\$ 253,855	\$ 238,219

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

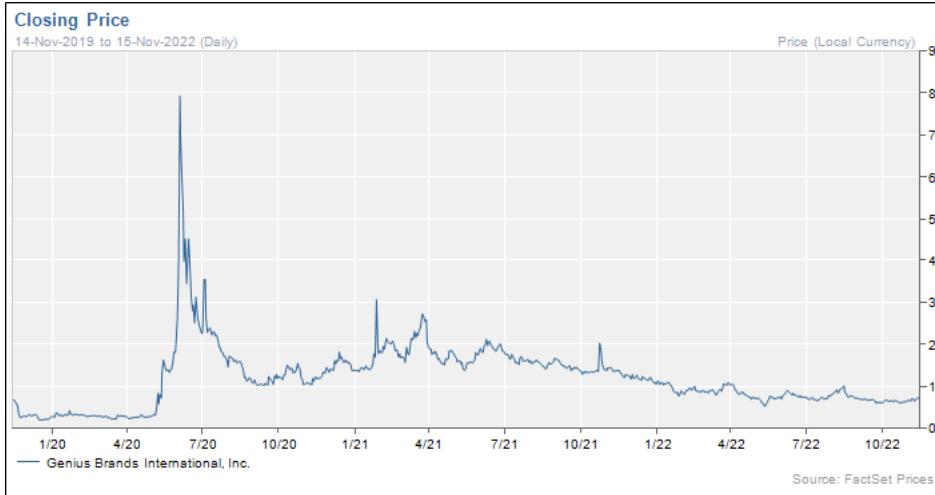
Exhibit 3. Cash Flow Statement

(\$ in 000's)	2019 A	2020 A	2021 A	2022 E	2023 E
Net Income	\$ (11,481)	\$ (401,670)	\$ (126,921)	\$ (32,108)	\$ (22,926)
D&A of Prop., Equip., Intangibles	341	379	599	2,644	3,199
Amort. of Film and TV Costs	2,230	980	19,538	8,215	12,460
Stock Comp	184	8,929	16,451	11,100	4,728
Other	5,053	384,476	72,350	2,757	(17,800)
Working Capital	(2,579)	(940)	(5,760)	(16,447)	(517)
Operating Cash Flow	\$ (6,251)	\$ (7,845)	\$ (23,743)	\$ (23,838)	\$ (20,857)
Investment in Intangibles	0	0	(1,008)	(21)	0
Investment in Marketable Securities	0	0	(114,971)	20,154	15,000
Investment in Fixed Assets	(27)	(76)	(302)	(1,359)	(3,600)
Acquisition/Other	0	(1,327)	(11,175)	(52,163)	0
Investing Activities	\$ (27)	\$ (1,403)	\$ (127,456)	\$ (33,389)	\$ 11,400
Equity	4,367	104,458	57,265	(953)	1,000
Debt	(869)	4,941	3,554	58,622	0
Financing Activities	\$ 3,498	\$ 109,399	\$ 60,819	\$ 57,669	\$ 1,000
Foreign Exchange	\$ -	\$ -	\$ (16)	\$ (187)	\$ -
Change in Cash	\$ (2,780)	\$ 100,152	\$ (90,396)	\$ 255	\$ (8,457)

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
 Update – Buy – October 18, 2022 – Price Target \$5.00
 Update – Buy – November 15, 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;
- 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 10-Nov-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	77%	3	13%
Market Perform (Neutral)	6	20%	1	17%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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