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February 14, 2023

Genius Brands International, Inc. (NASDAQ: GNUS)

Buy: Unique Assets at Discounted Price.

Genius Brands has a unique set of entertainment assets and the recent decline in the share price has resulted in the stock selling at a significant discount to the company's intrinsic value.

We reiterate our Buy recommendation on Genius Brands and view the recent share price decline in the wake of the company's share consolidation as an extraordinary opportunity to accumulate the shares. Our price target has been adjusted to reflect yesterday's 1:10 reverse stock split as well as other factors detailed in this report.

Over the past 12 months, Genius has transformed itself into a global developer, producer and distributor of animated children's content. A series of acquisitions including WOW Unlimited and Ameba TV and the investment in YFE has resulted in scaled-up content creation, access to independently created content from WOW's YouTube multi-channel network and global distribution capabilities contributed by YFE and Ameba TV. The company'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.

We estimate the company generated \$66 million in revenue in 2022, forecast \$86 million in 2023, and believe it has line-of-sight to \$100 million in 2024, absent additional acquisitions. At the end of Q3, the company had \$97 million in cash and marketable securities, and less obligations tied to its cash balances, with net cash of \$35 million. We believe this is adequate to fund the company's operational needs, which are declining, and fund \$20 million of annual content creation. We expect as operational cash needs decline, more will be spent on content creation and distribution to accelerate growth.

The company is unique among entertainment companies of its size with a global distribution reach enabled by its ownership of Cartoon Channel!, a children's video streaming service acquired with Ameba TV, YFE's distribution, which includes international linear TV channels on free and pay TV, AVOD and SVOD channels. YFE's reach is global, with children's channels in Europe, Asia, Latin America, Africa, and Australia.

The company is also unique among entertainment companies of its size with access to a large and popular library of children's content. The company, with its original creative team, plus the content team acquired with WOW, the content created on its YouTube channels, the library of assets from YFE and Ameba TV has a sizable amount of content to distribute through its global distribution channel and we expect this will be a key driver of revenue and cash flow growth over the coming years.

Valuation: A comparable group of entertainment companies has traded at 3x to 4x sales over the past few years. Using 4x sales and our \$100 million revenue estimate for 2024 results in a \$12.50 price target. Our prior price target of \$5, before the company's stock split, used a higher sales multiple when comparable multiples were higher as well as attributed value to the company's library, which we now include in our revenue projections.

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	\$3.60		
Price Target	\$12.50		
Estimates	F2021A	F2022E	F2023E
Revenues (\$Ms)	\$ 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)	\$ (20.3)	\$ (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	13.3 x	1.6 x	1.2 x
EV/EBITDA	(5.2) x	(8.3) x	(8.2) x
Stock Data			
52-Week Range	\$3.31	-	\$12.40
Shares Outstanding (mil.)	32.1		
Market Capitalization (mil.)	\$115		
Enterprise Value (mil.)	\$105		
Debt to Capital	40%		
Cash (mil.)	\$97.0		
Cash/Share	\$3.02		
Institutional Ownership	#N/A		
Short interest (mil.)	9.9%		
Dividend / Yield	\$0.00/0.0%		



Please find Important Disclosures beginning on Page 7.

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.

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.

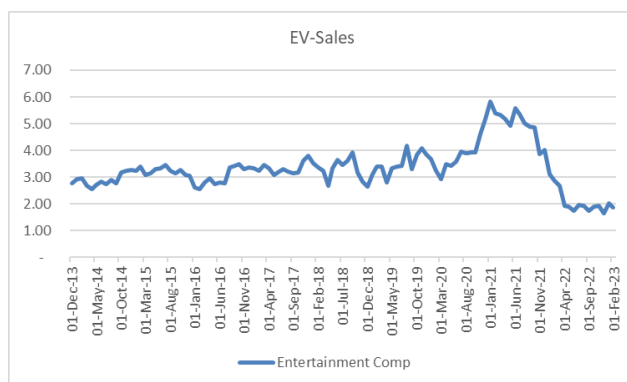
Valuation

A comparable group of media and entertainment companies trades on average at 1.8x FTM sales, but the range is wide, from 1.0x to almost 5.0x driven by growth and margins. Genius is trading at 1.2x FTM sales.

		Price	FTM EPS	P/E	Mkt Cap (M)	TEV (M)	FTM Sales (M)	EV/ Sales
CIDM-US	Cinedigm Corp	\$ 0.60	\$ (0.04)	(14.9)	\$ 106.9	\$ 103.0	\$ 69.9	1.47
DLPN-US	Dolphin Entertainment Inc	2.08	(0.10)	(20.8)	21.2	28.2	44.9	0.63
EDR-US	Endeavor Group Holdings, Inc. Class A	21.55	1.09	19.8	6,106.8	11,995.5	5,672.1	2.11
LGF.A-US	Lions Gate Entertainment Corp Class A	9.94	(0.10)	(98.1)	2,365.0	4,363.5	3,923.1	1.11
NFLX-US	Netflix, Inc.	358.57	11.33	31.7	154,695.7	167,633.2	34,263.8	4.89
ROKU-US	Roku, Inc. Class A	55.36	(5.04)	(11.0)	7,645.9	6,290.9	3,042.9	2.07
SALM-US	Salem Media Group, Inc. Class A	1.27	0.01	127.0	34.8	240.9	263.2	0.92
TBRD-CA	Thunderbird Entertainment Group Inc	C\$ 3.70			C\$ 187.9	C\$ 252.7		
PARA-US	Paramount Global Class B	22.31	1.21	18.4	14,015.7	28,916.5	30,537.5	0.95
DIS-US	Walt Disney Company	107.66	4.45	24.2	197,405.1	250,058.6	91,677.5	2.73
WILD-CA	WildBrain Ltd.	C\$ 2.49	C\$ 0.13	19.7	C\$ 420.9	C\$ 1,277.7	C\$ 569.1	2.24
	Mean			8.5				1.75
GNUS-US	Genius Brands International, Inc.	\$ 3.60	\$ (0.67)	(5.4)	\$ 115.4	\$ 105.1	\$ 87.5	1.20

Source: Factset and Dawson James Securities estimates

Prior to the pandemic, the comparable group of entertainment companies traded in a range of 3x to 4x estimated forward-twelve-months sales estimates.



Source: Factset and Dawson James Securities estimates

Our price target of \$12.50 assumes an EV/Sales multiple of 4x, at the high end of the range and reflects the company's content library, distribution reach and content creation capabilities. We believe the company is unique in the scope of its capabilities, and global reach of its distribution, and merits the high end of the comparable multiple range. Our price target has been adjusted from

our prior price target of \$5 (pre-split) for a recent stock split, an adjustment in expected multiples to reflect the market decline in 2022 and valuing the library as part of the company's revenue stream instead of on a stand-alone basis based on acquisition prices.

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	1,191	14,245	29,751	30,378	31,552	31,728	31,935	31,398	32,560
Diluted EPS	\$ (12.48)	\$ (28.20)	\$ (4.24)	\$ (0.15)	\$ (0.42)	\$ (0.35)	\$ (0.09)	\$ (1.02)	\$ (0.70)
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

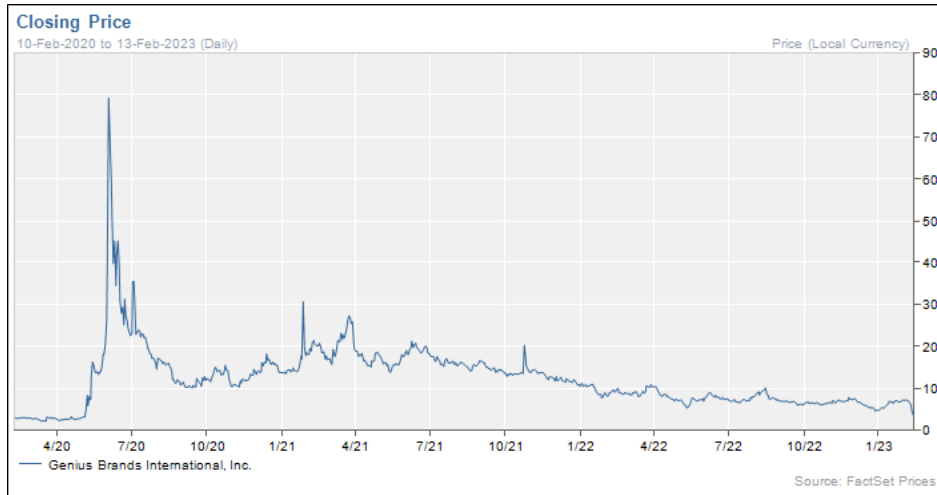
Exhibit 3. Cash Flow Statement

(\$ 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

Price Target Change – Buy – February 14, 2023 – Price Target \$12.50 (reflecting 1:10 reverse split and other factors)

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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 13-Feb-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	67%	1	5%
Market Perform (Neutral)	10	30%	2	20%
Market Underperform (Sell)	1	3%	0	0%
Total	33	100%	3	9%

Analyst Certification:

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