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Kartoon Studios, Inc. (NYSE AM: TOON)

Buy: Shaq's Garage Available Across All Kartoon Channel Platforms.

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Shaq's Garage, the company's animated series starring Shaquille O'Neal, launched in June on Pluto TV. The launch exceeded company expectations and the program is now available on all Kartoon Channel platforms. Shaq's Garage and a licensing program for Bee and Puppycat should drive higher revenue in the second half.

Kartoon Studios (formerly Genius Brands) announced availability of Shaq's Garage across all Kartoon Channel platforms after an exclusive launch on Pluto TV in June. The first thirteen episodes of Shaq's Garage increased Kartoon Channel's weekly audience by over 50% and exceeded video-on-demand viewers of all other Kartoon Channel titles combined.

After a 30-day exclusive on Pluto TV, the program is now available on all other Kartoon Channel platforms including Amazon Prime Video, Roku and The Roku Channel, Apple, Google, Android, Amazon Fire, LG, Samsung, and Kartoonchannel.com.

Over the past 12 months, Kartoon has transformed itself into a global developer, producer and distributor of animated children's content. The acquisitions of WOW Unlimited and Ameba TV and the investment in YFE have 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. Kartoon also operates the largest marketing and media agency within the Kids 2-11 age group, with annual media spending exceeding \$100 million.

Cash and marketable securities at the end of Q1 was \$74 million. About \$49 million in debt is secured by the investment in marketable securities, so net cash is about \$25 million. Operating cash flow burn averaged \$3.6 million over the past three quarters, giving the company an 18-month runway at current expense levels. However, the company has implemented a comprehensive cost-reduction program that will improve cash needs for the rest of the year.

The company is unique among entertainment companies of its size with a global distribution reach enabled by its ownership of Kartoon 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.

Valuation: A comparable group of entertainment companies has traded at 3x to 5x sales over the past few years. Using 4.5x sales and our Q4 2024 run rate revenue estimate of \$72 million results in a \$10.00 price target, down from \$12.50 to reflect the lower revenue outlook.

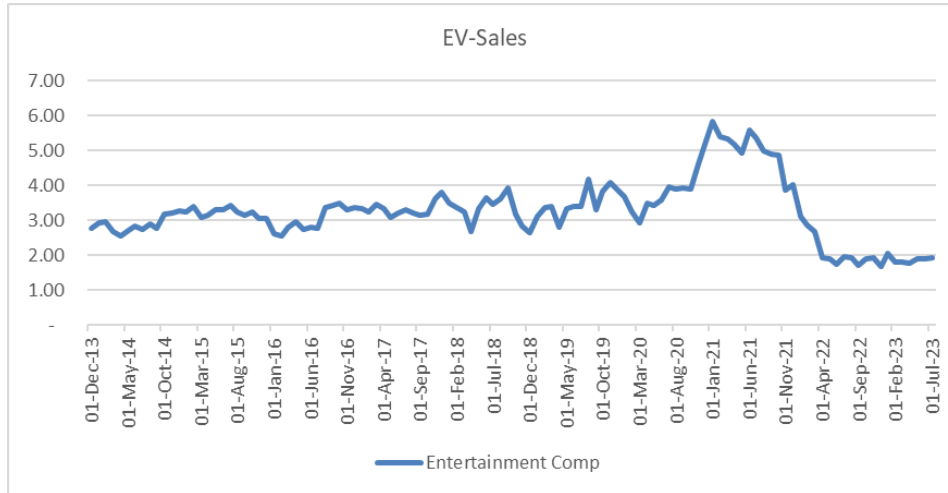
Risks: Risks to achieving our price target include challenges in integrating the operation of WOW! and YFE, competition from larger companies, ability to attract creative talent, attracting and retaining management necessary to manage a global organization and changes in consumer behavior and viewing patterns brought on by the COVID-19 pandemic.

Current Price	\$1.95		
Price Target	\$10.00		
Estimates	F2022A	F2023E	F2024E
Revenues (\$Ms)	\$ 62.3	\$ 59.8 E	\$ 65.8
1Q March	\$ 1.4	\$ 14.2 A	\$ 15.6
2Q June	\$ 22.1	\$ 15.0 E	\$ 16.5
3Q September	\$ 19.7	\$ 14.5 E	\$ 16.0
4Q December	\$ 19.1	\$ 16.1 E	\$ 17.7
	F2022A	F2023E	F2024E
EBITDA (\$M's)	\$ (11.1)	\$ (13.6)E	\$ (11.5)
1Q March	\$ (5.2)	\$ (5.0)A	\$ (4.4)
2Q June	\$ (0.3)	\$ (3.4)E	\$ (2.9)
3Q September	\$ (3.5)	\$ (3.4)E	\$ (2.9)
4Q December	\$ (2.2)	\$ (1.8)E	\$ (1.2)
EV/Sales	1.2 x	1.2 x	1.1 x
EV/EBITDA	(6.7) x	(5.5) x	(6.5) x
Stock Data			
52-Week Range	\$1.77	-	\$12.40
Shares Outstanding (mil.)	34.5		
Market Capitalization (mil.)	\$67		
Enterprise Value (mil.)	\$74		
Debt to Capital	47%		
Cash (mil.)	\$74.4		
Cash/Share	\$2.16		
Institutional Ownership	9.6%		
Short interest (mil.)	8.1%		
Dividend / Yield	\$0.00/0.0%		



Valuation

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



Source: Factset and Dawson James Securities estimates

Our price target of \$10.00 assumes an EV/Sales multiple of 4.5x our Q4 2024 run rate revenue estimate of \$72 million.

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)	2020 A	2021 A	2022 A	2023 E	2024 E
Revenue	\$ 2,482	\$ 7,873	\$ 62,299	\$ 59,776	\$ 65,754
Marketing & Sales	818	5,442	1,834	980	1,029
Direct Operating Costs	2,124	21,987	49,360	42,319	44,435
G&A	17,423	35,967	45,851	36,900	38,745
Impairment	0	8,230	8,974	15,430	0
Operating Expense	20,364	71,626	106,019	95,629	84,209
Operating Income	\$ (17,882)	\$ (63,753)	\$ (43,720)	\$ (35,853)	\$ (18,455)
Finance and other	(383,787)	(62,614)	(704)	(6,052)	(4,340)
Net Income	\$ (401,670)	\$ (126,367)	\$ (44,529)	\$ (41,905)	\$ (22,795)
Beneficial Cv. Of Pfd.	0	0	0	0	0
Non-controlling interests	0	76	(1,066)	124	124
Net to Common	\$ (401,670)	\$ (126,291)	\$ (45,595)	\$ (41,781)	\$ (22,671)
Diluted Shares	14,245	29,751	31,388	33,317	38,176
Diluted EPS	\$ (28.20)	\$ (4.24)	\$ (1.45)	\$ (1.25)	\$ (0.59)
Operating Income	(\$17,882)	(\$63,753)	(\$43,720)	(\$35,853)	(\$18,455)
D&A	379	599	2,711	3,208	3,337
Stock Comp	8,929	16,451	10,895	3,640	3,640
Other	0	26,430	18,974	15,430	0
EBITDA	(\$8,573)	(\$20,273)	(\$11,140)	(\$13,575)	(\$11,478)

Source: Cartoon Studios, Inc. and Dawson James Securities estimates

Exhibit 2. Balance Sheet

(\$ in 000's)	2020 A	2021 A	2022 A	2023 E	2024 E
Cash	\$ 100,456	\$ 2,058	\$ 7,432	\$ 4,807	\$ 4,324
Restricted Cash	0	8,002	0	0	0
Marketable Securities	0	112,523	83,706	69,650	69,650
A/R	1,731	7,632	15,558	7,138	7,851
Tax Credits Receivable	0	0	26,255	23,523	23,523
Note Receivable	0	1,276	2,844	2,896	2,896
Other Receivables	0	969	1,162	868	868
Prepaid Expenses & Other	6,378	3,725	2,568	2,476	2,724
Current Assets	\$ 108,566	\$ 136,185	\$ 139,525	\$ 111,358	\$ 111,837
PP&E, net	96	449	2,400	4,678	7,792
Right of Use Assets	1,972	2,785	10,844	11,313	11,313
Film & TV Costs	11,828	2,940	7,780	8,238	10,038
Investments	1,301	6,695	16,247	15,660	15,660
Intangibles	29	9,733	29,167	26,316	23,465
Goodwill	10,366	15,227	31,807	20,520	20,520
Other	43	69	148	149	149
Total Assets	\$ 134,201	\$ 174,083	\$ 237,918	\$ 198,232	\$ 200,774
Accounts Payable	786	7,192	11,436	6,341	6,975
Participations Payable	3,160	2,438	2,965	2,591	2,591
Accrued Expenses	408	2,268	895	1,158	1,274
Accrued Salaries & Wages	429	799	2,484	3,230	3,553
Deferred Revenue & Advances	684	432	9,065	6,316	6,316
Margin Loan	0	6,392	60,810	48,894	48,894
Production Facilities	0	0	18,282	16,711	16,711
Bank Indebtedness	0	0	1,741	3,865	3,865
Other Debt	366	28	0	0	0
Lease Liability	146	664	2,425	2,583	2,583
Derivative Valuation	1,197	855	548	159	159
Other	2	63	257	161	161
Current Liabilities	\$ 7,179	\$ 21,131	\$ 110,908	\$ 92,009	\$ 93,082
Deferred Revenue & Advances	3,748	3,492	3,369	3,369	3,369
Lease Liability	2,053	2,460	9,115	9,444	9,444
Production Facility Credit Line	1,100	0	0	0	0
Contingent Earn Out	0	1,340	0	0	0
Other	0	0	1,657	1,641	1,641
Notes Payable	0	82	0	0	0
Disputed Trade Payable	925	925	0	0	0
Equity	119,197	144,653	112,869	91,769	93,238
Total Liabilities & Equity	\$ 134,201	\$ 174,083	\$ 237,918	\$ 198,232	\$ 200,774

Source: Cartoon Studios, Inc. and Dawson James Securities estimates

Exhibit 3. Cash Flow Statement

(\$ in 000's)	2020 A	2021 A	2022 A	2023 E	2024 E
Net Income	\$ (401,670)	\$ (126,921)	\$ (44,529)	\$ (41,781)	\$ (22,671)
D&A of Prop., Equip., Intangibles	379	599	2,711	3,208	3,337
Amort. of Film and TV Costs	980	19,538	6,180	1,003	4,200
Stock Comp	8,929	16,451	10,895	3,640	3,640
Other	384,476	72,350	20,265	18,444	(6,000)
Working Capital	(940)	(5,760)	(19,175)	2,852	111
Operating Cash Flow	\$ (7,845)	\$ (23,743)	\$ (23,653)	\$ (12,634)	\$ (17,382)
Investment in Intangibles	0	(1,008)	(22)	0	0
Investment in Marketable Securities	0	(114,971)	21,988	14,717	0
Investment in Fixed Assets	(76)	(302)	(592)	(2,717)	(3,600)
Acquisition/Other	(1,327)	(11,175)	(52,311)	(52)	0
Investing Activities	\$ (1,403)	\$ (127,456)	\$ (30,937)	\$ 11,948	\$ (3,600)
Equity	104,458	57,265	(540)	10,391	20,500
Debt	4,941	3,554	52,714	(12,306)	0
Financing Activities	\$ 109,399	\$ 60,819	\$ 52,174	\$ (1,915)	\$ 20,500
Foreign Exchange	\$ -	\$ (16)	\$ (212)	\$ 7	\$ -
Change in Cash	\$ 100,152	\$ (90,396)	\$ (2,628)	\$ (2,594)	\$ (482)

Source: *Kartoon Studios, 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)
- Update – Buy – April 14, 2023 – Price Target \$12.50
- Price Target Change – Buy – May 24, 2023 – Price Target changed from \$12.50 to \$10.00
- Update – Buy – July 11, 2023 – Price Target \$10.00

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- 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 22-June-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	5.50%
Market Perform (Neutral)	10	28%	2	5.50%
Market Underperform (Sell)	0	0%	0	0.00%
Total	36	100%	4	11.00%

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