Feb 13, 2023

Consumer

NEGG

NASDAQ

Rating

Outperform

Current Price

$1.58

Target Price

$3.50

Market Capitalization

582M

Shares Outstanding

449.95M

Float

12.21M

Institutional Holdings

0.8%

12-Month Low/High

$1.16/$9.19

Average 90-Day Volume

2440000

Fiscal Year End

12/31/2023

Revenues ($ MIL)

Period	2021	2022	2023E
Q1	602.7	503.5	356.8
Q2	604.1	387.1	339.3
Q3	540.9	349.2	362.5
Q4	628.5	439.2E	462.9
	2376.2	1678.9E	1521.5

EPS ($)

Period	2021	2022	2023E
Q1	0.03	(0.02)	(0.03)
Q2	0.02	(0.03)	(0.03)
Q3	0.02	(0.02)	(0.02)
Q4	0.01	(0.02)E	(0.01)
	0.08	(0.10)E	(0.09)

Newegg Commerce, Inc.

A Growth Company Not Fully Hatched (Corrected Copy)

Initiating coverage with an Outperform rating. We believe Newegg has a platform that is positioned to benefit from a fast-growing e-commerce vertical, namely, electronics. The company's platforms serve both B2B and B2C customers on an international scale, reaching more than 20 countries. Moreover, the company has additional growth opportunities through expansion into other e-commerce verticals.

Growing e-commerce market. The global retail e-commerce market is expected to grow at 13.5% CAGR from 2019-2026. Notably, the North American technology e-commerce market, Newegg's area of focus, is expected to grow even faster, at 25% CAGR over the same period.

Improving operating environment. The company faced product oversupply, due to backlogs that built up during the global supply chain crisis. We believe the company will swing towards revenue and cash flow growth in 2024. In addition, the company recently initiated cost-cutting measures which should improve operational efficiency and operating margins.

Solid financial position. As of September 30, 2022, the company had $81.9 million in cash and modest long-term debt of $1.4 million. We believe this gives the company significant financial flexibility, which it could use to seek opportunistic acquisitions to enhance long-term revenue and cash flow growth.

Compelling stock valuation. Near current levels, the NEGG shares trade at 0.5 times enterprise value to our 2023 revenue forecast, well below peers, which trade near an average 1.0 times. We believe an improved revenue outlook and expanding margins will be key catalysts toward higher stock valuations. We rate the NEGG shares Outperform with $3.50 price target.

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Refer to the last two pages for Analyst Certification & Disclosures

Investment Appraisal

Newegg is a relatively new company to the public markets, with its initial public offering in May of 2021. As such, many investors may not be familiar with this e-commerce company, with a focus on technology, computers, and peripherals. The company has a long history, having been established in 2001. It sells technology products directly to consumers and also allows third-parties to sell on the platform for a commission. Additionally, Newegg provides various services such as logistics and other e-commerce related services. In 2020, the company began pivoting when Anthony Chow began his tenure as CEO, focusing on being a more streamlined, unified e-commerce platform. Since that time, the B2B business, which used to operate more as traditional brick and mortar business, has been integrated more fully with the rest of the company's e-commerce operations as management has taken steps to unify the company's platforms and drive for improved efficiencies. However, 2020 also brought challenges associated with the global pandemic.

With the COVID pandemic adversely affecting e-commerce companies due to disruptions to the global supply chain, a secondary effect also proved challenging to the company. Namely, as the supply chain issues abated, the company was adversely affected by oversupply of products and pressure on prices from a slowing economy and weakened demand. The oversupply issues, however, are beginning to be resolved, and as such, we anticipate pricing will stabilize later this year.

Our 2023 outlook anticipates a weakening economy. As such, total company revenues are expected to decline 9.4% from $1.68 billion to $1.52 billion. The company has cut costs to right size its business. As a result, we anticipate that margins will improve. Adj. EBITDA is expected to swing positive to $3.9 million in 2023 from an expected $4.3 million loss in 2022, reflecting modest margins of 0.3%. At this time, we are conservatively anticipating a sluggish recovery with 2024 revenue growth of 3.1% to $1.57 billion and Adj. EBITDA of $7.4 million, an 84% increase. We believe that revenue and Adj. EBITDA may offer upside surprise potential should the global economic conditions improve.

The company has a solid balance sheet to navigate through its current fundamental trough. As of September 30, 2022, the company had $81.9 million in cash and modest long-term debt of $1.4 million. We believe this gives the company significant financial flexibility, which it could use to seek opportunistic acquisitions to enhance long-term growth. We have assigned the company 3.5 checks for its fundamental analysis, which is above average, given the strength of its balance sheet and large and growing market opportunity.

As the New Egg on the block, the company has a number of hurdles. One, there is a lack of awareness of this largely underfollowed, undiscovered company. Two, the company's current fundamental environment appears cloudy given the challenged global economic conditions. We believe that investors willing to look beyond the challenged 2023 fundamentals will be rewarded. Near current levels, the NEGG shares trade at 0.5 times enterprise value to our 2023 revenue forecast, well below its peers, which trade near an average 1.0 times revenues. We are valuing the company based on a revenue multiple, due to the modest cash flow margins for Newegg as well as of many e-commerce peers. In our view, the stock appears to be near recessionary type valuations.

We are initiating coverage with an Outperform rating and a $3.50 per share price target, which reflects a target multiple of 1.0 times enterprise value to 2023 revenues. We believe the key catalysts for the stock achieving our price target include the successful rightsizing of the company's cost structure, improved margins, accretive acquisitions to enhance growth, and the successful execution of the company's revenue and cash flow growth initiatives. Risks to achieving our price target include: increased competition as more businesses move into the e-commerce vertical, sustained macroeconomic headwinds, such as inflation, and lower than expected consumer adoption of the company's expanding product offerings.

Investment Highlights

Growing market. According to Frost and Sullivan, the North American technology e-commerce market is expected to grow at 25% CAGR from 2019-2026.

Leading in its category. Newegg is the largest technology-focused player in the e-commerce space.

Expansive list of marketplace partners. Newegg Marketplace boasts more than 9,000 third-party sellers from more than 47 regions and countries.

Broad international reach. Newegg's platform sells to consumer in more than 20 countries.

B2C and B2B sales. The company serves a wide range of customers, including individual consumers, businesses, schools, and municipalities.

Widening product offerings. The company is widening its product offerings to include other peripheral technology categories such as smart home, health, e-sports, and emerging technology products to expand customer demographics and drive the next phase of growth.

Complementary business segments. The company's Services segment offers services to vendors and partners to reduce friction in the selling process, which allows Newegg to indirectly capture additional high-margin revenue from its e-commerce platforms.

Consumer friendly. In 2021, Newegg was listed by Newsweek as having one of the U.S.'s best loyalty programs.

Investment Risks

Competition. Increased competition from upstart e-commerce platforms and large established platforms (such as Amazon) could cause difficult pricing wars and hamper the company's ability to achieve its growth objectives.

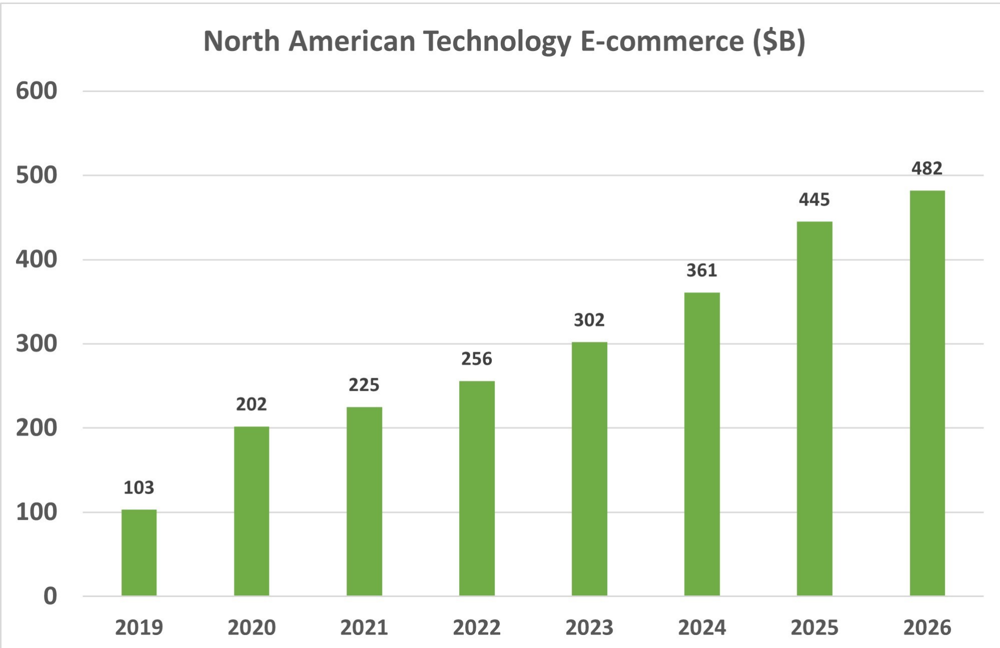
Macroeconomic headwinds. A sustained economic downturn could weaken demand for the platform's products as disposable income dwindles, leading to downward pressures on pricing. This could result in lower-than-expected revenue and weak margins.

Challenged rollout of expanded product offerings. One of the company's growth opportunities is the expansion of its product offerings to items such as tech-enabled health and beauty products with the goal of expanding the customer base. Lower than expected consumer adoption of the Newegg platform for purchasing such products could result in challenges to the company's revenue growth.

Industry Overview

The North American technology product marketplace appears to be one of the strongest opportunities in e-commerce, given that electronics are expected to continue to grow faster than the overall global e-commerce market. According to Frost and Sullivan, the North American technology product e-commerce market is expected to grow from $108 billion in 2019 to $482 billion in 2026, representing 25% CAGR, illustrated in Figure #1 - North American Electronics E-commerce Market. Notably, the 25% growth rate compares favorably to the aforementioned global retail e-commerce growth rate of 13.5% over a comparable timeframe.

Figure #1 - North American Electronics E-commerce Market



Source: Frost and Sullivan

The rise of internet commerce provided an alternative to shopping in brick-and-motor stores. This online shopping revolution began in the mid-1990s when secure online transactions first became possible. Sites like Amazon and the platform that eventually became known as eBay launched in 1995.

E-commerce quickly caught on, and, according to The Fulfillment Lab, the global e-commerce market reached $150 billion by 1999. Of course, many online retail companies went under when the Dotcom bubble broke, temporarily cooling the market growth. However, e-commerce quickly rebounded in the early 2000s, with Amazon's free shipping subscription "Prime" and Etsy both launching in 2005. In 2006, Shopify launched, providing a platform for retailers to customize online stores.

Global e-commerce revenues grew throughout the 2010s and was bolstered in 2020 when the COVID pandemic shifted the global economy further away from in-person activity. According to Statista, global retail e-commerce jumped 27% in 2020 compared with 12% growth in the prior year. Notably, the increased adoption of online retail in 2020 accelerated retail e-commerce trends by 5 years, according to IBM. Notably, e-commerce revenues continue to grow post COVID.

Retail e-commerce is expected to continue to grow rapidly with the total global market expected to reach $8.15 trillion by 2026, up from an estimated $5.7 trillion in 2022, according to Statista. That expectation assumes a compound annual growth rate (CAGR) of 13.5% from 2019-2026, as illustrated in Figure #2 - Global Retail E-commerce Market.

Figure #2 - Global Retail E-commerce Market

Source: Statista

Electronics have been one of the fastest growing e-commerce categories in recent years. According to the U.S. Dept. of Commerce, during the Pandemic, electronics was one of the three fastest growing e-commerce categories. E-commerce sales of electronics, along with furniture and building materials, grew an aggregate 201.4% from 2019 to 2021, as illustrated in Figure #3 - E-commerce Growth by Category.

Figure #3 - E-commerce Growth by Category

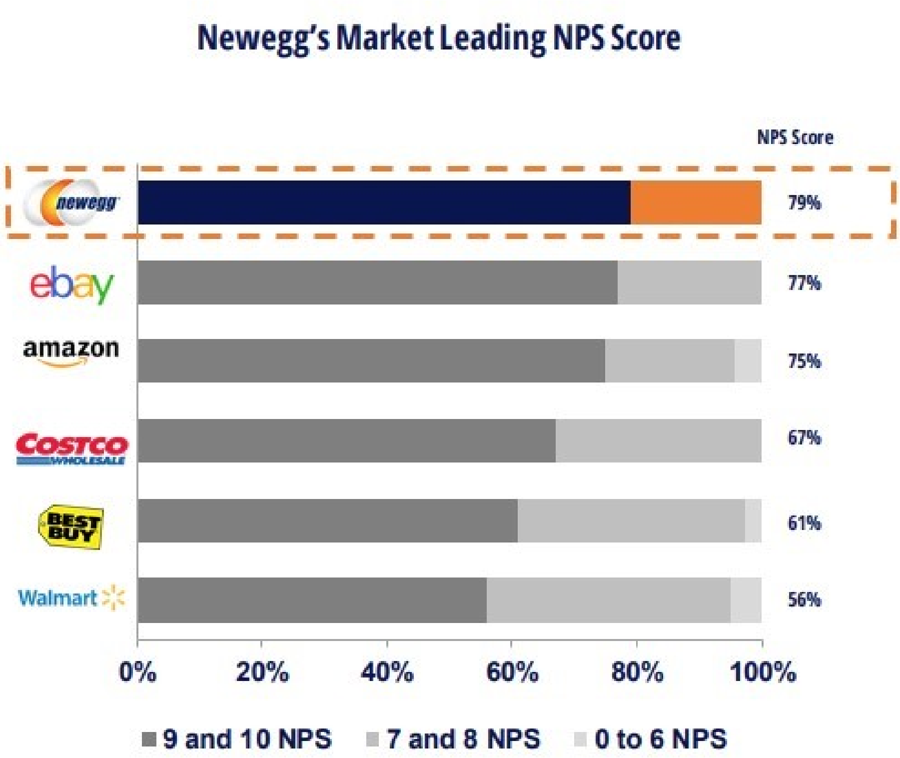
Source: Forbes

Company Overview

Newegg is an e-commerce company focused on electronics, such as PC components, gaming products, and other similar hardware. The company is headquartered in City of Industry, California and has facilities in California, Georgia, Indiana, New Jersey, Canada, and China.

Originally founded in 2001, Newegg has evolved over the past 20 years to become the highly ranked e-commerce platform it is today. Figure #4 - NPS Score highlights the platform’s standing among peers for customer experience. In its first 10 years, the company founded its in-house electronics brand, Rosewill, and launched its business-to-business (B2B) website. Newegg also founded its marketplace, which allows third-party vendors to reach consumers. Throughout the 2010s, the company expanded its reach to 20+ countries, including China and unified its platform to include both direct sales and marketplace, while achieving global scale.

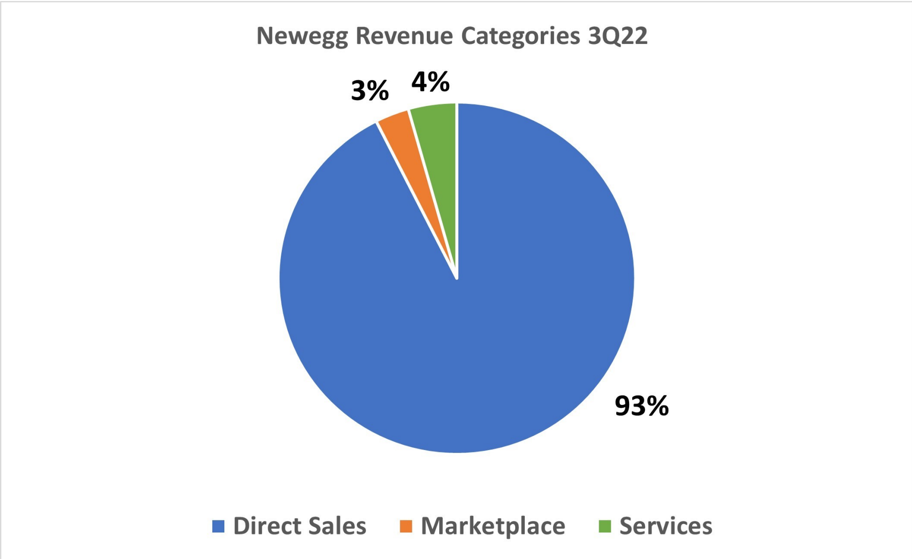
Figure #4 - NPS Score



Source: Newegg investor presentation

The company operates in both the B2B and direct to consumer (B2C) capacities. However, for the purposes of distinct operating segments, Newegg divides its operations into three categories: Direct Sales, Marketplace, and Services. The Direct Sales and Marketplace businesses are both integrated into Newegg's major platforms, Newegg.com and Newegg.ca. Direct Sales are Newegg's products which are purchased over its websites. Marketplace revenues are products sold by third parties over those same websites. Currently Direct Sales accounts for the greatest share of revenue, at 93%, while Marketplace and Services account for 3% and 4%, respectively, illustrated in Figure #5 - Revenue Categories.

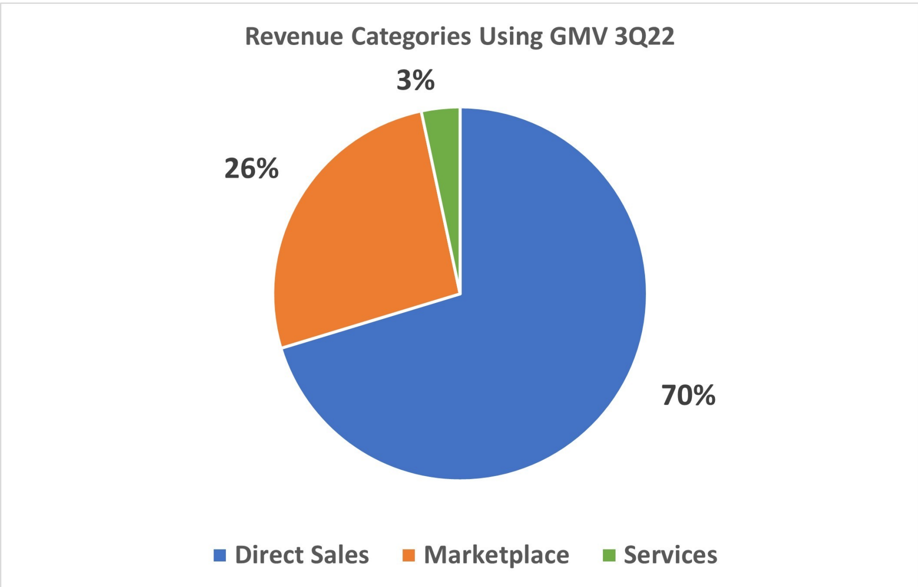
Figure #5 - Revenue Categories



Source: company filings

Although the company reports on a net revenue basis, as illustrated in Figure #5, another way to look at the business is on the basis of gross merchandise value (GMV). The key difference is that net Marketplace revenue represents the net commission received by the company, whereas GMV represents the total value of products sold. Figure #6 — GMV Revenue Categories illustrates the company's revenue mix on a gross basis.

Figure #6 — GMV Revenue Categories

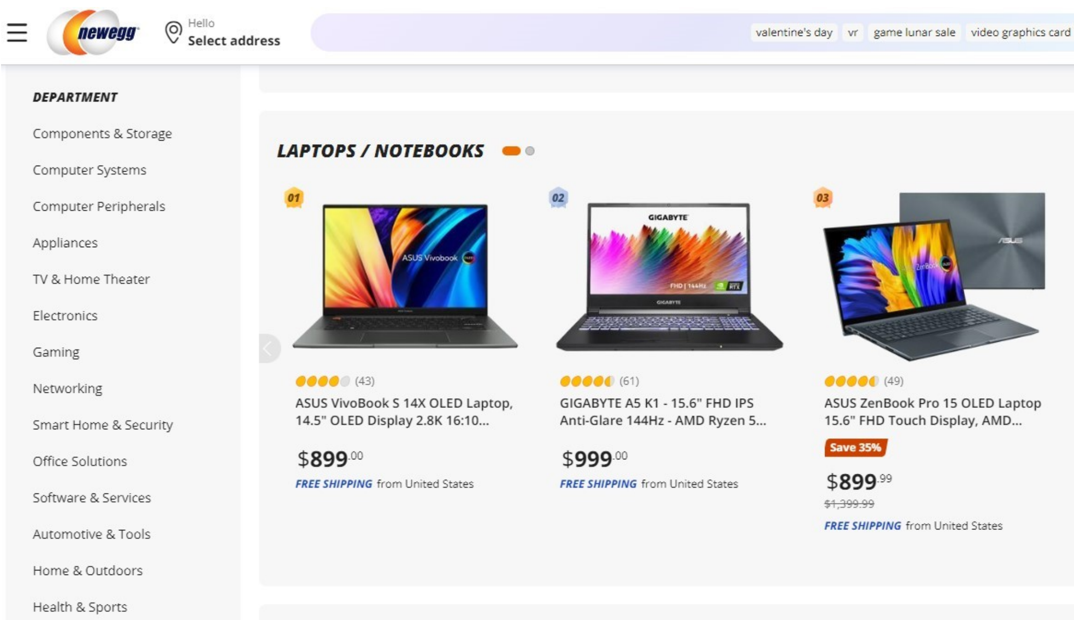


Source: company filings

Direct Sales Segment

Through its Direct Sales segment, Newegg partners with manufacturers and wholesalers to offer products to businesses, schools, and nonprofits (B2B) and direct to consumers (B2C). Figure #7 - Newegg.com illustrates the company's website and a small portion of its product offerings. The Direct Sales segment is the company's primary revenue source, currently accounting for 93% of revenue with gross margins of 13.6%.

Figure #7 - Newegg.com



Source: Newegg.com

In obtaining products from wholesalers and manufacturers, Newegg typically handles warehousing, packaging, shipping, payment processing, and customer service. However, in some cases, Newegg drop ships directly from partner warehouses. In order to obtain products at competitive costs, the company maintains deep relationships with established and emerging IT brands.

In the first half of 2023, we believe the Direct Sales segment will have lower year-over-year revenues and gross margins due to a challenging economic outlook. Figure #8 — Direct Sales Outlook illustrates our forecast for the segment through 2024. Our forecast calls for a return to revenue growth for the segment for the full year 2024 and improving gross margins of 10.1%. Notably, although Direct Sales will likely still account for the bulk of total company revenues in 2024, we believe Direct Sales will account for a reduced share in the future, as its other revenue segments are anticipated to accelerate revenue growth.

Figure #8 — Direct Sales Outlook

Newegg	2022E	Q1 23E	Q2 23E	Q3 23E	Q4 23E	2023E	2024E
Direct Sales							
Revenue	**1,561.244**	**329.055**	**309.858**	**331.709**	**424.227**	**1,394.849**	**1,419.982**
% Change YoY	*-30.4%*	*-30.6%*	*-13.6%*	*2.7%*	*4.7%*	*-10.7%*	*1.8%*
% of Total Company Revenue	*93.0%*	*92.2%*	*91.3%*	*91.5%*	*91.7%*	*91.7%*	*90.5%*
Cost of Revenue	**1,361.539**	**296.983**	**279.220**	**299.143**	**384.660**	**1,260.006**	**1,276.468**
% Change YoY	*-28.9%*	*-28.1%*	*-12.6%*	*7.1%*	*9.9%*	*-7.5%*	*1.3%*
% of revenue	*87.2%*	*90.3%*	*90.1%*	*90.2%*	*90.7%*	*90.3%*	*89.9%*
Gross Profit	**199.705**	**32.071**	**30.638**	**32.566**	**39.568**	**134.843**	**143.514**
% Change YoY	*-38.9%*	*-47.7%*	*-22.3%*	*-25.8%*	*-28.1%*	*-32.5%*	*6.4%*
% of revenue	*12.8%*	*9.7%*	*9.9%*	*9.8%*	*9.3%*	*9.7%*	*10.1%*

Source: Noble estimates

Marketplace Segment

Through Newegg's Marketplace segment, the company allows third-party vendors to sell direct to customers through Newegg's primary platforms, Newegg.com and Newegg.ca. Newegg Marketplace was initially launched in 2010 as a way for consumers to buy from third-party vendors (B2C). However, in 2014 the company broadened the platform to accommodate B2B sellers. The platform now serves both B2C and B2B markets, boasting more than 9,000 sellers from over 47 countries and territories. Newegg collects a commission on items sold by third party vendors on its platforms. As such, increasing the number of sellers is a key component to revenue growth.

The Marketplace platform features electronic items for which Newegg is traditionally known, as well as other peripheral technology product categories, such as health and beauty technology products. The Marketplace platform provides sellers with a portal for managing the day-to-day of selling to customers. Newegg also offers services to vendors, such as Shipped by Newegg for order fulfilment. Notably, Newegg carefully vets new sellers for its Marketplace platform based on service level, logistical capability, category focus, customer rating, reputation, and sales volume, to ensure optimal customer experience. Currently the Marketplace segment accounts for 3% of total revenue, when measured on a net commission basis. As such, there is essentially no cost of goods sold associated with Marketplace revenues as reported.

Services Segment

Through services such as Shipped by Newegg and Newegg Logistics, the company provides warehousing and fulfillment services, and end-to-end logistics services like packaging and shipping. These services are provided to both marketplace sellers, as well as manufacturing and wholesale partners. As such, Services revenue can tend to correlate with the growth of Marketplace third-party sellers. Figure #9 - Newegg Ecosystem illustrates how the company's logistics capabilities support the value chain, from venders and suppliers all the way to the end customer.

Figure #9 - Newegg Ecosystem

Source: Newegg investor presentation

Recently, the company launched Newegg Media, which works together with Marketplace sellers to help sell products. The Services segment also includes several other services such as Newegg Staffing, which helps to streamline the process of hiring logistics and manufacturing employees with offices in three states. Additionally, Newegg offers customers service, commercial facility cleaning, and PC assembly services. The Services segment currently accounts for 4% of total revenue.

Figure #10 — Marketplace & Services Outlook illustrates our forecast for the two segments. We model gross profit for the two segments together, since Marketplace revenues are booked on a net commission basis and do not carry a cost of goods sold. We are forecasting revenue growth for both segments in 2023 and for revenue growth to accelerate in 2024. Notably, the combined gross profit margin of the two segments is roughly 50%, well above the gross margins of the Direct Sales segment. As such, the prospect of revenue growth acceleration for these two segments is likely a key driver of expanding total company cash flow margins.

Figure #10 — Marketplace & Services Outlook

Newegg	2022E	Q1 23E	Q2 23E	Q3 23E	Q4 23E	2023E	2024E
Marketplace							
Market Place Revenue	**49.882**	**12.073**	**10.950**	**11.862**	**15.291**	**50.177**	**60.335**
% Change YoY	*-21.4%*	*-14.1%*	*-5.6%*	*10.6%*	*13.3%*	*0.6%*	*20.2%*
% of Total Company Revenue	*3.0%*	*3.4%*	*3.2%*	*3.3%*	*3.3%*	*3.3%*	*3.8%*
Service							
Service Revenue	**67.771**	**15.685**	**18.462**	**18.972**	**23.345**	**76.464**	**87.933**
% Change YoY	*-2.2%*	*4.3%*	*10.4%*	*23.9%*	*12.8%*	*12.8%*	*15.0%*
% of Total Company Revenue	*4.0%*	*4.4%*	*5.4%*	*5.2%*	*5.0%*	*5.0%*	*5.6%*
Cost of Revenue	**101.233**	**12.307**	**14.648**	**15.046**	**19.169**	**61.169**	**74.493**
% Change YoY	*-24.4%*	*-48.0%*	*-38.4%*	*-36.8%*	*-36.1%*	*-39.6%*	*21.8%*
% of revenue	*86.0%*	*44.3%*	*49.8%*	*48.8%*	*49.6%*	*48.3%*	*50.2%*
Gross Profit	**16.420**	**15.452**	**14.764**	**15.788**	**19.467**	**65.472**	**73.776**
% Change YoY	*-1541.6%*	*184.6%*	*224.1%*	*606.4%*	*363.5%*	*298.7%*	*12.7%*
% of revenue	*14.0%*	*55.7%*	*50.2%*	*51.2%*	*50.4%*	*51.7%*	*49.8%*

Source: Noble estimates

Recent Results and Outlook

Newegg reports its results on a calendar year basis, with the latest financial report its September 30, 2022 third quarter end. The company reported revenue of $349.2 million, a reduction of 35% compared with the prior year period. Figure #11 - 3Q22 Operating Results illustrates the most recent quarter compared with the year earlier quarter. The year-over-year decline was driven by industry oversupply, which led to discounted prices in the electronic component market. The oversupply of inventory resulted from a flood of inventory as the global supply chain crisis abated.

Figure #11 - 3Q22 Operating Results

Combined Statements of Operations (in millions of dollars, except were noted)	Q3 21	Q3 22	% Change
Direct Sales	**508.826**	**323.116**	-36.5%
% Change YoY	*0.0%*	*-36.5%*	
% of Total Company Revenue	*94.1%*	*92.5%*	
Marketplace & Service	**16.439**	**10.724**	-34.8%
% Change YoY	*0.0%*	*-34.8%*	
% of Total Company Revenue	*64.1%*	*3.1%*	
Marketplace & Service	**15.632**	**15.318**	-2.0%
% Change YoY	*0.0%*	*-2.0%*	
% of Total Company Revenue	*2.9%*	*4.4%*	
Total Revenue	**540.897**	**349.158**	-35.4%
% Change YoY	*0.0%*	*-35.4%*	
% of Year	*22.8%*	*20.8%*	
Cost of Revenue	**461.195**	**303.004**	**-34.3%**
% Change YoY	*0.0%*	*-34.3%*	
% of revenue	*85.3%*	*86.8%*	
Gross Profit	**79.702**	**46.154**	-42.1%
% Change YoY	*0.0%*	*-42.1%*	
% of revenue	*14.7%*	*13.2%*	
Salary & Compensation	**30.642**	**29.683**	**-3.1%**
% Change YoY	*0.0%*	*-3.1%*	
% of Revenues	*5.7%*	*8.5%*	
Merchant Processing fees	**14.366**	**8.707**	-39.4%
% Change YoY	*0.0%*	*-39.4%*	
% of Revenues	*2.7%*	*2.5%*	
Advertising & Marketing	**8.453**	**3.133**	*-62.9%*
% Change YoY	*0.0%*	*-62.9%*	
% of Revenues	*1.6%*	*0.9%*	
Other Expenses	**15.452**	**14.988**	*-3.0%*
% Change YoY	*0.0%*	*-3.0%*	
% of Revenues	*2.9%*	*4.3%*	
Total SGA Expenses	**71.718**	**59.429**	*-17.1%*
Depreciation and Amortization	2.805	2.918	
Stock Based Compensation	0.798	8.252	
Adjusted EBITDA	**11.447**	**(0.600)**	
% Change YoY	*0.0%*	*-105.2%*	
Adjusted EBITDA Margin	*2.12%*	*-0.17%*	

Source: Company filings

We expect the pricing challenges to continue in the soon-to-be reported fourth quarter. Our estimates anticipate revenue to decline 30.1% to $439.2 million, a sequential improvement from the 35.4% revenue decline in Q3. The company is expected to swing toward cash flow breakeven in Q4, the first time since Q1, with adj. EBITDA of $0.1 million. Our Q4 projections are illustrated in Figure #12 — 4Q22 Forecast.

Figure #12 — 4Q22 Forecast.

Combined Statements of Operations (in millions of dollars, except were noted)	Q4 22E	2022E
Direct Sales	**405.000**	**1,561.244**
% Change YoY	*-31.1%*	*-30.4%*
% of Total Company Revenue	*92.2%*	*93.0%*
Marketplace	**13.5**	**49.882**
% Change YoY	*-28.6%*	*-21.4%*
% of Total Company Revenue	*3.1%*	*3.0%*
Service	**20.7**	**67.771**
% Change YoY	*-4.2%*	*-2.2%*
% of Total Company Revenue	*4.7%*	
Total Revenue	**439.200**	**1,678.897**
% Change YoY	*-30.1%*	*-29.3%*
% of Year	*26.2%*	
Cost of Revenue	**380.000**	**1,462.772**
% Change YoY	*-30.8%*	*-28.7%*
% of revenue	*86.5%*	
Gross Profit	**59.200**	**216.125**
% Change YoY	*-25.4%*	*-33.7%*
% of revenue	*13.5%*	*12.9%*
Salary & Compensation	**38.000**	**139.084**
% Change YoY	*21.3%*	*9.8%*
% of Revenues	*8.7%*	*8.3%*
Merchant Processing fees	**10.980**	**41.767**
% Change YoY	*-34.1%*	*-29.6%*
% of Revenues	*2.5%*	*2.5%*
Advertising & Marketing	**4.392**	**16.103**
% Change YoY	*-51.6%*	*-50.9%*
% of Revenues	*1.0%*	*1.0%*
Other Expenses	**18.886**	**65.786**
% Change YoY	*14.1%*	*5.0%*
% of Revenues	*4.3%*	*3.9%*
Total SGA Expenses	**75.243**	**123.656**
Depreciation and Amortization	2.985	10.930
Stock Based Compensation	9.000	33.395
Adjusted EBITDA	**0.142**	**(4.295)**
% Change YoY	*-98.7%*	*-108.2%*
Adjusted EBITDA Margin	*0.03%*	*-0.3%*

Source: Noble estimates

We believe revenues will continue to decline year-over-year in the first half of 2023. Looking forward toward the second half of 2023, however, the oversupply issues should begin to abate, leading to a pricing recovery. In our view, the over supply should be worked through and discounts should become less needed to move inventory. We believe this will result in a revenue recovery and improved margins. Additionally, the company's recent cost-cutting measure and implementation of increased automation should contribute to enhanced margins in 2023, a trend that we believe will continue in 2024.

For the full year 2023, we anticipate that revenue will be $1.52 billion and that the company will swing towards positive cash flow with adj. EBITDA of $3.9 million. In 2024, we are forecasting positive revenue growth of 3.1% to $1.57 billion and improving adj. EBITDA of $7.4 million. Figure #13 - Financial Forecast illustrates our expectations for 2023 and 2024. Our complete forecast can be found later in this report. Note that we view the Marketplace and Services segments as primary revenue and cash flow growth engines for the company and believe that these segments will account for a greater portion of total revenue. In 2021 these segments, in total accounted for 5.6% of total company revenues, and we anticipate the combined segment revenue share to grow to 9.5% by 2024.

Figure #13 - Financial Forecast

Combined Statements of Operations (in millions of dollars, except were noted)	2023E	2024E
Direct Sales	**1,394.849**	**1,419.982**
% Change YoY	*-10.7%*	*1.8%*
% of Total Company Revenue	*91.7%*	*90.5%*
Marketplace	**50.177**	**60.335**
% Change YoY	*0.6%*	*20.2%*
% of Total Company Revenue	*3.3%*	*3.8%*
Service	**76.464**	**87.933**
% Change YoY	*12.8%*	*15.0%*
% of Total Company Revenue	*5.0%*	*5.6%*
Total Revenue	**1,521.490**	**1,568.251**
% Change YoY	*-9.4%*	*3.1%*
% of Year	*90.6%*	*93.4%*
Cost of Revenue	**1,321.175**	**1,350.961**
% Change YoY	*-9.7%*	*2.3%*
% of revenue	*86.8%*	*86.1%*
Gross Profit	**200.314**	**217.290**
% Change YoY	*-7.3%*	*8.5%*
% of revenue	*13.2%*	*13.9%*
Salary & Compensation	**95.025**	**99.776**
% Change YoY	*-31.7%*	*5.0%*
% of Revenues	*6.2%*	*6.4%*
Merchant Processing fees	**38.548**	**41.388**
% Change YoY	*-7.7%*	*7.4%*
% of Revenues	*2.5%*	*2.6%*
Advertising & Marketing	**14.202**	**17.426**
% Change YoY	*-11.8%*	*22.7%*
% of Revenues	*0.9%*	*1.1%*
Other Expenses	**51.645**	**54.345**
% Change YoY	*-21.5%*	*5.2%*
% of Revenues	*3.4%*	*3.5%*
Total SGA Expenses	**247.785**	**261.301**
Depreciation and Amortization	12.203	12.203
Stock Based Compensation	36.161	36.161
Adjusted EBITDA	**3.942**	**7.402**
% Change YoY	*-191.8%*	*87.8%*
Adjusted EBITDA Margin	*0.3%*	*0.5%*

Source: Noble estimates

Overall, we believe that, in the short term, the company is poised to improve its cost structure, becoming leaner while revenues recover from the challenges of 2022. Over the longer term, we believe the company has opportunities to ramp growth at a faster pace with initiatives like its expansion of its product offerings, which could drive a spike in third-party sellers and broaden the Newegg.com costumer base. Additionally, though it is currently a relatively small portion of total revenue, we believe that Services segment could be a significant driver of long-term revenue growth as it gains traction. Furthermore, any reversal of the current macroeconomic challenges could catalyze a faster revenue growth trajectory for the Newegg platform.

Financial Overview and Fundamental Assessment

As of September 30, 2022, the company had $81.9 million in cash and $1.4 million in long-term debt. The long-term debt consists of a term loan agreed upon in 2013 at an original principal amount of $4.1 million. Interest on the term loan is floating at the one-year savings account plus 0.61% with a floor of 1.8%. The loan matures in November of 2028. As of September 30, the effective interest rate was 1.8%. Figure #14 - Balance Sheet illustrates the company's financial position. We believe the company has significant financial flexibility and could seek opportunistic acquisitions to enhance its long-term revenue and cash flow growth. Management has not fully baked its acquisition strategy, but we believe that acquisitions are a part of its long term growth initiatives.

Figure #14 - Balance Sheet ($ in thousands)

Assets		Sept. 30, 2022		Dec. 31, 2021
Current assets:				
Cash and cash equivalents	$	81,887	$	99,993
Restricted cash	$	1,214	$	4,337
Accounts receivable, net	$	54,809	$	62,373
Inventories	$	146,684	$	245,078
Income taxes receivable	$	6,264	$	1,303
Prepaid expenses	$	12,162	$	17,946
Other current assets	$	4,569	$	7,931
Total current assets	$	307,589	$	438,961
Property and equipment, net	$	46,984	$	50,149
Noncurrent deferred tax assets	$	20,020	$	13,367
Investment at cost	$	11,250	$	15,000
Right of use assets	$	87,781	$	94,581
Other noncurrent assets	$	14,393	$	14,524
Total assets	**$**	**488,017**	**$**	**626,582**
Liabilities and Equity				
Current liabilities:				
Accounts payable	$	144,833	$	220,776
Accrued liabilities	$	42,911	$	74,689
Deferred revenue	$	24,320	$	39,767
Line of credit	$	5,940	$	6,182
Current portion of long-term debt	$	265	$	293
Lease liabilities – current	$	14,033	$	14,603
Total current liabilities	$	232,302	$	356,310
Long-term debt, less current portion	$	1,447	$	1,843
Income taxes payable	$	696	$	696
Lease liabilities – noncurrent	$	78,538	$	84,307
Other liabilities	$	165	$	1,144
Total liabilities	**$**	**313,148**	**$**	**444,300**
Stockholders' Equity				
Common Stock, unlimited shares authorized	$	8,199	$	8,078
375,266 and 369,719 outstanding as of 9/30/22 & 12/31/21, respectively				
Additional paid-in capital	$	224,253	$	197,613
Notes receivable – related party	$	(15,189)	$	(15,189)
Accumulated other comprehensive income (loss)	$	(757)	$	6,060
Accumulated deficit	$	(41,637)	$	(14,280)
Total stockholders' equity	**$**	**174,869**	**$**	**182,282**
Total liabilities and stockholders' equity	**$**	**488,017**	**$**	**626,582**

Source: Company filings

Management Overview

The company is lead by an experienced management team with varying tenures at Newegg. However, we believe the company has been headed in a new direction in recent years after Anthony Chow took over leadership of the company. Anthony Chow, who returned to Newegg as CEO in 2020, has been a business leader in the e-commerce industry for years. During his first stint with Newegg, he oversaw operations in both North America and China, before serving in leadership at other e-commerce companies during his time away from Newegg. Since returning to Newegg as CEO, Mr. Chow has unified the Newegg platform, bringing together the Direct Sales and Marketplace domains to simplify the customer interface. As CEO, he also led the effort to bring the company public on the Nasdaq in May of 2021.

Anthony Chow, Chief Executive Officer: Mr. Chow has been serving as CEO of Newegg since 2020. Prior to assuming the CEO position, he served as Vice President of the company's North American business, President of Newegg's China operation and OZZO Logistics, a subsidiary of Newegg. Mr. Chow left Newegg in 2011 to serve as CEO of OTTO Group China until 2015, then from 2015 to 2019 he served as Vice President of Haier group. In 2019 Mr. Chow returned to Newegg and was named CEO in 2020. In addition to serving as CEO, he also serves on the board of directors for the company. Mr. Chow Earned a bachelor's degree in electrical engineering from the University of Toledo, and an MBA from the University of California Los Angeles Anderson School of Management.

James Spannos, Chief Operational Officer: Mr. Spannos has been with the company since 2018 and is currently the COO. Prior to joining the company, Spannos was Senior Vice President of North American Fulfillment and Logistics at FTD.com. Prior to FTD.com, Spannos spent five years as head of distribution for Kraft Heinz. During his time at Kraft Heinz, he managed third party logistics and employees for over 100 distribution facilities. Before Kraft Heinz, Mr. Spannos spent 12 years at Home Depot and helped develop the foundation of its current supply chain. Notably, he was the youngest GM in company history during his tenure at Home Depot.

Robert Chang, Chief Financial Officer: Mr. Chang has been at the company for 20 years and has been CFO since 2013. Prior to becoming CFO, Mr. Chang held the positions of Controller and Vice President of Finance. Before his time at the company Mr. Chang spent five years as an operational analyst at Taiwan YFY Paper Manufacturers. He holds a bachelor's degree in Economics from Soochow University and a master's degree in Finance from University of La Verne.

Board of Directors

Fred Chang: Mr. Chang is the founder of Newegg and currently holds the position of chairman of the strategy committee and vice chairman of the board of directors. Mr. Chang has been back on the board of directors since 2019. He was previously on the board of directors from 2005 to 2018, and was CEO on three separate occasions from 2005 to 2008, 2013 to 2015 and from October 2019 to March 2020.

Fuya Zheng: Mr. Zheng has been an independent director since April 2020. Mr. Zheng was CFO of Cogo Group from January 2008 to November 2012, which was a publicly traded company at the time. Additionally, Mr. Zheng was a consultant at Yingde Gases Group, an industrial gas supplier in China from September 2017 to March 2020. Mr. Zheng earned a bachelor's degree in business administration with a specialization in Accounting from City University of New York in 1994.

Zhitao "Tom" He: Mr. He has been a board member since March of 2017 and chairman since March 2018. Mr. He founded Lianluo Interactive in 2007 and is current chairman of its board of directors. In addition to being chairman of the board of directors for Newegg and Lianluo, Tom serves on the board of directors for six other companies. Mr. He earned his master's degree from Beijing University of Posts and Telecommunications.

Yingmei Yang: Ms. Yang has been a board member since July 2018 and has served as Vice President of Hangzhou Lianluo Interactive since February 2018. Prior to her time at Hangzhou Lianluo, Ms. Yang was the CFO and VP of Lianluo Interactive from January 2015 to February 2018.

Paul Wu: Mr. Wu has been on the board of directors since February 2020. Paul currently sits as the chair of the compensation committee, and is a member of the audit, nominating and governance committees. In addition to his service on the board, Mr. Wu is the founder and current CEO of Carota. Mr. Wu also co-founded MOX mobile accelerator and previously held the position of CEO at Pocketnet Tech. Mr. Wu earned his bachelor's degree from the Department of Agricultural Economics at Taiwan University, before earning an MBA from RSM Rotterdam Business School.

Gregory Moore: Mr. Moore has served on the board of directors since 2011. He currently sits as the chair of the audit committee and nominating & governance committees, in addition to being a member of the compensation committee. Prior to joining Newegg, Mr. Moore was the Senior Vice President and Controller of Yum! Brands.

Anthony Chow: In addition to being the current CEO of Newegg Mr. Chow also serves on the board of directors.

Stock Overview and Valuation

Newegg went public in May of 2021 through a reverse merger with Lianluo Smart Limited (LLIT), a medical parts manufacturer. Upon the completion of the merger, Newegg became the company's wholly owned subsidiary, and the Newegg shareholders became the majority shareholders, at nearly 99% ownership. Additionally, the legacy medical parts business was disposed upon the completion of the merger and the remaining company began trading under the new symbol NEGG. As of September 30, there were 445.4 million fully diluted shares outstanding, inclusive of 374 million shares, 59.5 million stock options, 11.8 million restricted stock units, and 125,000 warrants. Figure #15 - Top 5 Ownership illustrates the key owners of the NEGG shares. Notably, there is a healthy public share float, estimated to be 23.6 million shares, but it is just 5.3% of total shares outstanding. The recent average daily trading volume is roughly 2 million shares.

Figure #15 - Top 5 Ownership

Company Ownership

Owner	Shares owned (M)	% of company owned
Hangzhou Lianluo Interactive	223.29	59.50%
Tekhill USA	92.11	24.55%
Fred Chang Partners Trust	23.62	6.30%
Nabal Spring	9.16	2.44%
Chang Trust	7.23	1.93%
Total	**355.410**	**94.72%**

Source: company filings

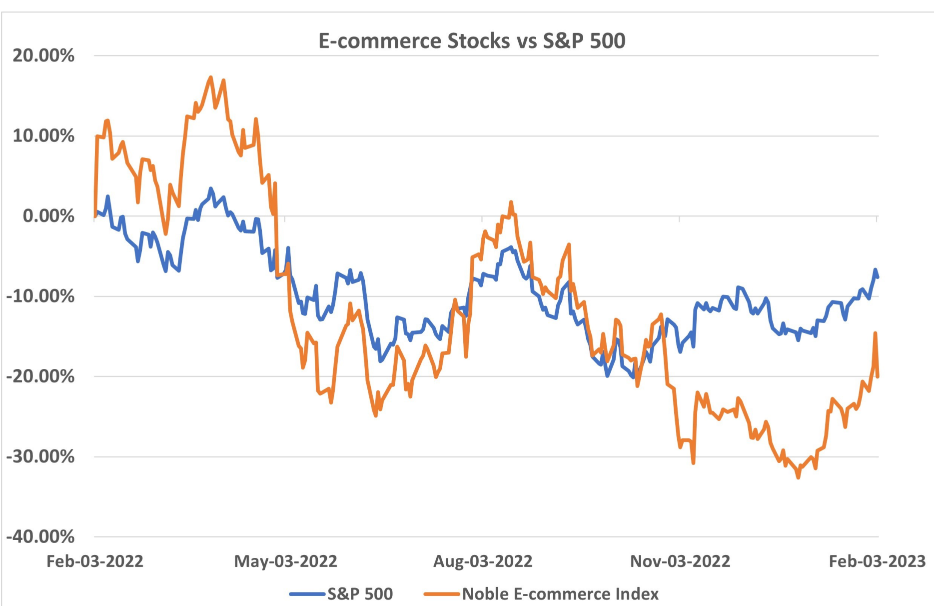
Over the last year, NEGG shares have been punished, down nearly 70%, as illustrated in Figure #16 - NEGG 1-Year Stock Performance. The NEGG shares performed well below the company's peer group averages as described later in this report. We believe that the under performance was likely a function of investors gravitating toward well-known players in the industry, a move toward more safe haven stocks in an uncertain general market environment.

Figure #16 - NEGG 1-Year Stock Performance

Source: Google Finance

Newegg's peer group fell 20% in the last 12 months compared with broader market's 7.6% drop, as measured by the S&P 500 Index. Figure #17 — E-commerce 1-Year Stock Performance illustrates the recent struggles of e-commerce stocks. Notably, as evident in the chart, the Noble E-commerce Index seemed to have bottomed in late December down 32% from the highs of nearly a year prior. Recently, the Noble E-commerce Index has recovered slightly. We believe that the NEGG shares should outperform its peer group as the e-commerce industry recovers. To that end, the NEGG shares increased 46% from its January 2, 2023 lows.

Figure #17 — E-commerce 1-Year Stock Performance



Source: Capital IQ

Newegg’s e-commerce peers are illustrated in Figure #18 - E-commerce Peer Group. The group is composed of companies that operate in the e-commerce vertical, some of which also share a focus on the electronic product group, similarly to Newegg. Given the lack of comparative data on the basis of EBITDA in the industry, our valuation methodology focuses on revenue multiples. In our view, the company is still in the early stage of its development and there is substantial growth in the e-commerce industry.

Near current levels, the NEGG shares trade at 0.5 times enterprise value to our 2023 revenue forecast, below the average of 1.0 times for its peer group. Our enterprise value calculation uses 445.4 million fully diluted shares outstanding. We believe there are several factors that could catalyze a higher valuation. These catalysts include favorable cash flow upside surprise due to its cost-cutting measures, recovering revenue on the heels of the recent oversupply issues, and robust revenue growth prospects associated with its Marketplace and Services segments. We believe these factors could lead toward better cash flow margins, justifying a revenue multiple more in line with peers. Notably, we anticipate the company will be adj. EBITDA positive in 2023 and grow its adj. EBITDA in 2024. Success in achieving favorable adj. EBITDA margins may allow a valuation methodology that focuses on adj. EBITDA.

Given the compelling stock valuation, the NEGG shares are rated Outperform with a $3.50 price target. Our price target is reflective of a target EV/2023 revenue multiple of 1.0 times, more in line with peers. Risks in achieving our price target include: increased competition as more businesses move into the e-commerce vertical, sustained macroeconomic headwinds, such as inflation, and lower than expected consumer adoption of the company's expanding product offerings.

Figure #18 - E-commerce Peer Group

e-commerce comparables

Market Data as of 02/01/2023

	Share Price	Shares Out	% of 52 Week High	Market Cap ($M)	Net Debt ($M)	Ent. Value ($M)	2021 Revenues ($M)	2021 EBITDA ($M)	Ent. Value / Revenues 2021	Ent. Value / Revenues 2022E	Ent. Value / Revenues 2023E	Ent. Value / EBITDA 2021	Ent. Value / EBITDA 2022E	Ent. Value / EBITDA 2023E
Amazon	$105.15	10201.7	61.6%	$1,072,703	$23,972.0	$1,096,675	$469,822	$71,994	2.3x	2.1x	2.0x	15.2x	15.5x	12.7x
Bestbuy	$89.65	221.3	79.4%	$19,836	$210.0	$20,046	$51,366.00	$3,846.00	0.4x	0.4x	0.4x	5.2x	6.8x	6.9x
eBay	$50.40	542.7	83.1%	$27,350	$4,542.0	$31,892	$10,420.00	$3,972.00	3.1x	3.3x	3.3x	8.0x	9.5x	9.7x
Office Depot	$51.99	45.8	98.6%	$2,382	-$298.0	$2,084	$8,465.00	$465.00	0.2x	0.2x	0.2x	4.5x	4.9x	5.1x
Walmart	$144.67	2696.8	90.0%	$390,146	$22,348.0	$412,494	$571,620.00	$25,744.00	0.7x	0.7x	0.7x	16.0x	17.0x	16.4x
Wayfair	$66.51	107.1	40.6%	$7,125	$2,735.0	$9,860	$13,708.00	$614.00	0.7x	0.8x	0.8x	16.1x	-23.6x	387.4x
Chewy	$47.02	423.3	86.8%	$19,906	-$378.2	$19,528	$8,745.00	$79.10	2.2x	1.9x	1.7x	246.9x	82.0x	59.2x
Carvana	$13.56	188.8	8.1%	$2,561	$6,300.0	$8,861	$12,814.00	-$5.00	0.7x	0.6x	0.6x	-1772.2x	-8.4x	-20.5x
Overstock.com	$24.38	45.7	41.0%	$1,115	-$392.1	$723	$623.90	$141.60	1.2x	0.4x	0.4x	5.1x	10.6x	11.7x
ATRenew	$2.84	334.3	42.3%	$949	-$187.2	$762	$1,147.00	NA	0.7x	0.5x	0.4x	NA	58.6x	10.7x
Liquidity Services	$15.09	31.7	66.8%	$478	-$96.1	$382	$263.16	$42.85	1.5x	1.3x	1.2x	8.9x	8.8x	8.0x
1-800-Flowers	$10.22	64.6	58.4%	$660.52	$128.73	$789	$2,122.00	$213.07	0.4x	0.4x	0.4x	3.7x	8.0x	11.5x
NewEgg	$1.98	445.4	21.5%	$881.89	-$80.44	$801.45	$2,376.23	$52.30	0.3x	0.5x	0.5x	15.3x	-186.4x	203.4x
								Mean	1.1x	1.0x	1.0x	31.4x	0.2x	55.5x
								Median	0.7x	0.6x	0.6x	8.9x	8.8x	11.5x

Source: Eikon & Noble estimates

Company Profile

Newegg is an e-commerce company focused on electronics, such as PC components, gaming products, and other similar hardware. The company is headquartered in City of Industry, California and operates distribution facilities throughout the U.S. and Canada. Originally founded in 2001, Newegg has evolved over the past 20 years to become a highly ranked e-commerce platform. During its first 10 years, the company founded its in-house electronics brand, Rosewill, and launched its business-to-business (B2B) website. During this period, Newegg also founded its marketplace, which allows third-party vendors to reach consumers. Over the next 10 years, throughout the 2010s, the company expanded its reach to 20+ countries, including China. During this period, the company unified its platform to include both direct sales and marketplace, while achieving global scale. It operates through three business segments, Direct Sales, Marketplace, and Services.

Fundamental Analysis - 3.5/5.0 Checks

We are initiating coverage with a fundamental score of 3.5. The ranking is based on several factors including Corporate Governance/Management, Market Opportunity, Competitive Position, Operating Leverage, and Financial Leverage. The company scores high on Market Opportunity, given the large and growing addressable market estimated to reach $482 billion in North America by 2026. The company received lower marks on Operating Leverage given that its margins are lower than its peer group, estimated to be 0.3% in 2023 versus its peer group at 7% on an adj. EBITDA basis. The company stated that it plans to decrease costs to improve its cash flow margins and to right size its business. Further efforts in that direction could lead us to upwardly revise our fundamental analysis. The company also scored high on Financial Leverage, given that the company currently has $81 million in cash and virtually no long term debt.

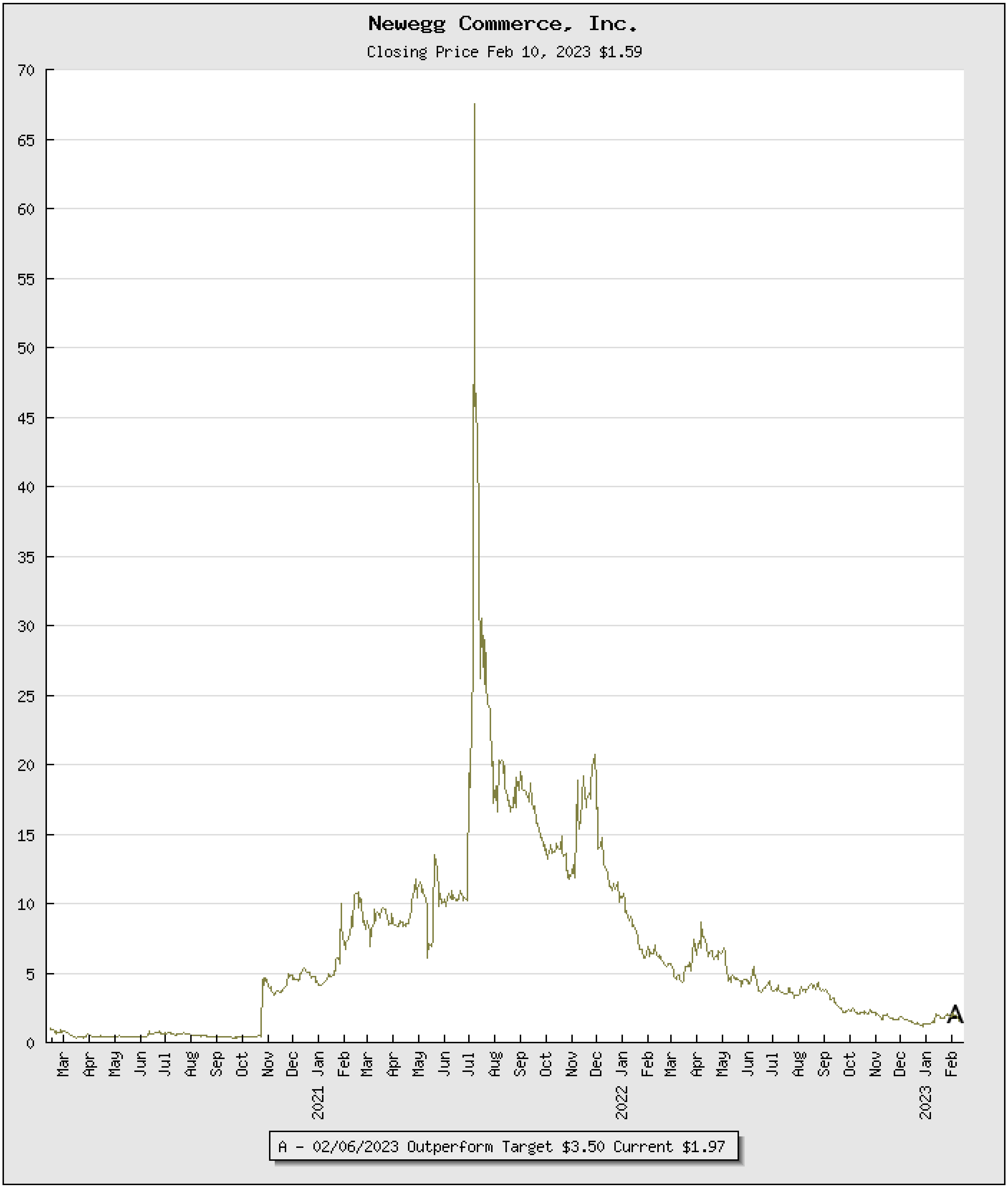
Valuation Summary

Near current levels, the NEGG shares trade at 0.5 times enterprise value to our 2023 revenue forecast, below its e-commerce peers, which trade near an average of 1.0 times. Our enterprise value calculation uses 445.4 million fully diluted shares outstanding. We believe there are several factors that could catalyze a higher valuation. These include the company’s cost-cutting measures, recovering revenue on the heels of the recent oversupply issues, and robust growth prospects associated with its Marketplace and Services segments. We believe these factors could lead to better cash flow margins, justifying a revenue multiple more in line with peers. Notably, we anticipate the company will be cash flow positive in 2023 and grow its cash flows in 2024. We rate the shares Outperform with a $3.50 price target, which is reflective of a target EV/2023 revenue multiple of 1.0 times, more in line with peers.

Risks in achieving our price target include: increased competition as more businesses move into the e-commerce vertical, sustained macroeconomic headwinds, such as inflation, and lower than expected consumer adoption of the company's expanding product offerings.

Newegg	2021	Q1 22	Q2 22	Q3 22	Q4 22E	2022E	Q1 23E	Q2 23E	Q3 23E	Q4 23E	2023E	2024E
Combined Statements of Operations (in millions of dollars, except were noted)												
Direct Sales	2,243.422	474.380	358.748	323.116	405.000	1,561.244	329.055	309.858	331.709	424.227	1,394.849	1,419.982
% Change YoY		-17.1%	-37.6%	-36.5%	-31.1%	-30.4%	-30.6%	-13.6%	2.7%	4.7%	-10.7%	1.8%
% of Total Company Revenue	94.4%	94.2%	92.7%	92.5%	92.2%	93.0%	92.2%	91.3%	91.5%	91.7%	91.7%	90.5%
Marketplace	63.492	14.062	11.596	10.724	13.500	49.882	12.073	10.950	11.862	15.291	50.177	60.335
% Change YoY		0.3%	-17.9%	-34.8%	-28.6%	-21.4%	-14.1%	-5.6%	10.6%	13.3%	0.6%	20.2%
% of Total Company Revenue	2.7%	2.8%	3.0%	3.1%	3.1%	3.0%	3.4%	3.2%	3.3%	3.3%	3.3%	3.8%
Service	69.311	15.033	16.720	15.318	20.7	67.771	15.685	18.462	18.972	23.345	76.464	87.933
% Change YoY		-9.1%	7.7%	-2.0%	-4.2%	-2.2%	4.3%	10.4%	23.9%	12.8%	12.8%	15.0%
% of Total Company Revenue	2.9%	3.0%	4.3%	4.4%	4.7%		4.4%	5.4%	5.2%	5.0%	5.0%	5.6%
Total Revenue	2,376.225	503.475	387.064	349.158	439.200	1,678.897	356.813	339.270	362.543	462.863	1,521.490	1,568.251
% Change YoY		-16.5%	-35.9%	-35.4%	-30.1%	-29.3%	-29.1%	-12.3%	3.8%	5.4%	-9.4%	3.1%
% of Year	100.0%	30.0%	23.1%	20.8%	26.2%		21.3%	20.2%	21.6%	27.6%	90.6%	93.4%
Cost of Revenue	2,050.249	436.691	343.077	303.004	380.000	1,462.772	309.290	293.868	314.189	403.828	1,321.175	1,350.961
% Change YoY		-16.0%	-34.1%	-34.3%	-30.8%	-28.7%	-29.2%	-14.3%	3.7%	6.3%	-9.7%	2.3%
% of revenue	86.3%	86.7%	88.6%	86.8%	86.5%		86.7%	86.6%	86.7%	87.2%	86.8%	86.1%
Gross Profit	325.976	66.784	43.987	46.154	59.200	216.125	47.523	45.402	48.354	59.035	200.314	217.290
% Change YoY		-19.7%	-47.5%	-42.1%	-25.4%	-33.7%	-28.8%	3.2%	4.8%	-0.3%	-7.3%	8.5%
% of revenue	13.7%	13.3%	11.4%	13.2%	13.5%	12.9%	13.3%	13.4%	13.3%	12.8%	13.2%	13.9%
Salary & Compensation	126.620	37.536	33.865	29.683	38.000	139.084	23.139	23.653	23.925	24.308	95.025	99.776
% Change YoY		14.2%	6.6%	-3.1%	21.3%	9.8%	-38.4%	-30.2%	-19.4%	-36.0%	-31.7%	5.0%
% of Revenues	5.3%	7.5%	8.7%	8.5%	8.7%	8.3%	6.5%	7.0%	6.6%	5.3%	6.2%	6.4%
Merchant Processing fees	59.332	12.509	9.571	8.707	10.980	41.767	9.099	8.550	9.167	11.732	38.548	41.388
% Change YoY		-9.3%	-34.0%	-39.4%	-34.1%	-29.6%	-27.3%	-10.7%	5.3%	6.8%	-7.7%	7.4%
% of Revenues	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.6%	2.5%	2.5%	2.5%	2.5%	2.6%
Advertising & Marketing	32.816	5.369	3.209	3.133	4.392	16.103	3.352	3.150	3.377	4.322	14.202	17.426
% Change YoY		-25.7%	-60.2%	-62.9%	-51.6%	-50.9%	-37.6%	-1.8%	7.8%	-1.6%	-11.8%	22.7%
% of Revenues	1.4%	1.1%	0.8%	0.9%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	1.1%
Other Expenses	62.632	16.255	15.657	14.988	18.886	65.786	14.827	12.286	12.025	12.507	51.645	54.345
% Change YoY		18.9%	-7.7%	-3.0%	14.1%	5.0%	-8.8%	-21.5%	-19.8%	-33.8%	-21.5%	5.2%
% of Revenues	2.6%	3.2%	4.0%	4.3%	4.3%	3.9%	4.2%	3.6%	3.3%	2.7%	3.4%	3.5%
Total SGA Expenses	292.464	74.104	64.894	59.429	75.243	123.656	62.508	59.730	60.586	64.961	247.785	261.301
Depreciation and Amortization	11.064	2.435	2.592	2.918	2.985	10.930	3.051	3.051	3.051	3.051	12.203	12.203
Stock Based Compensation	6.286	8.322	7.821	8.252	9.000	33.395	9.040	9.040	9.040	9.040	36.161	36.161
Adjusted EBITDA	52.394	4.338	(8.175)	(0.600)	0.142	(4.295)	(2.132)	(1.475)	0.622	6.927	3.942	7.402
% Change YoY		-73.8%	-160.2%	-105.2%	-98.7%	-108.2%	-149.1%	-82.0%	-203.7%	4764.5%	-191.8%	87.8%
Adjusted EBITDA Margin	2.2%	0.9%	-2.1%	-0.17%	0.03%	-0.3%	-0.6%	-0.4%	0.2%	1.5%	0.3%	0.5%
Total Operating Expenses	2,342.713	510.795	407.971	362.433	455.243	1,736.442	371.798	353.598	374.775	468.789	1,568.960	1,612.261
% Change YoY		-13.3%	-31.4%	-32.0%	-27.2%	-25.9%	-27.2%	-13.3%	3.4%	3.0%	-9.6%	2.8%
% of Revenues	98.6%	101%	105%	104%	104%	103.4%	104.2%	104.2%	103.4%	101.3%	103.1%	102.8%
Operating income (loss)	33.512	(7.320)	(20.907)	(13.275)	(16.043)	(57.545)	(14.985)	(14.328)	(12.231)	(5.926)	(47.470)	(44.011)
Operating Margin	1.4%	-1.5%	-5.4%	-3.8%	-3.7%	-3.4%	-4.2%	-4.2%	-3.4%	-1.3%	-3.1%	-2.8%
Other Income	1.758	0.901	2.319	1.525	3.200	7.945	0.762	0.762	0.762	0.762	3.048	3.048
Interest Expense	(0.612)	(0.138)	(0.201)	(0.235)	(0.265)	(0.839)	(0.111)	(0.111)	(0.111)	(0.111)	(0.445)	(0.445)
Interest Income	1.079	0.206	0.206	0.288	0.215	0.915	0.464	0.464	0.464	0.464	1.857	1.857
Equity income (loss) from equity method investment	(7.374)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Gain from sale of equity method investment	0.000	0.000	1.669	0.000	0.000	1.669	0.000	0.000	0.000	0.000	0.000	0.000
Gain from disposal of subsidiary	2.043	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Change in fair value of warrants liabilities	0.061	0.452	0.284	0.242	0.000	0.978	0.000	0.000	0.000	0.000	0.000	0.000
Income (Loss) before Income Tax	30.467	(5.899)	(16.630)	(11.455)	(12.893)	(46.877)	(13.870)	(13.213)	(11.116)	(4.811)	(43.011)	(39.551)
Income Tax (benefit)	(5.795)	0.262	(3.920)	(2.967)	(2.579)	(9.204)	(1.248)	(1.189)	(1.000)	(0.433)	(3.871)	(3.560)
Effective Tax Rate					20.0%	19.6%						
Net income (loss)	36.3	(6.161)	(12.710)	(8.488)	(10.314)	(37.673)	(12.622)	(12.024)	(10.116)	(4.378)	(39.140)	(35.992)
Net Income per share	$0.08	($0.02)	($0.03)	($0.02)	($0.02)	($0.10)	($0.03)	($0.03)	($0.02)	($0.01)	($0.09)	($0.08)
Fully Diluted shares	432.250	370.232	373.149	374.092	445.400	390.718	445.400	445.400	445.400	445.400	445.400	445.400

Source: Company reports and Noble Financial Estimates


Newegg Commerce, Inc.
Closing Price Feb 10, 2023 $1.59
70
65
60
55
50
45
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10
5
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Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb
2021
2022
2023
A
A - 02/06/2023 Outperform Target $3.50 Current $1.97

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or under-served needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicality, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

Director of Research. Senior Equity Analyst specializing in Media & Entertainment. 34 years of experience as an analyst. Member of the National Cable Television Society Foundation and the National Association of Broadcasters. BS in Management Science, Computer Science Certificate and MBA specializing in Finance from St. Louis University.
Named WSJ 'Best on the Street' Analyst six times.
FINRA licenses 7, 24, 66, 86, 87.

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Outperform: potential return is >15% above the current price	91%	25%
Market Perform: potential return is -15% to 15% of the current price	9%	1%
Underperform: potential return is >15% below the current price	0%	0%

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