



May 02, 2023

Consumer

NEGG

NCM

Rating

Outperform

Unchanged

Current Price

\$1.04

Target Price

\$3.00

Market Capitalization

390.98m

Shares Outstanding

375.94m

Float

12.21m

Institutional Holdings

0.7%

12-Month Low/High

\$1.00/\$7.40

Average 90-Day Volume

406780

Fiscal Year End

2023-12-31

Newegg Commerce, Inc.

Compelling Valuation For An Early Cycle Stock

Solid Q4 results. The company reported better-than-expected Q4 results. Total revenue of \$480.6 million beat our estimate of \$439.2 million by 9%, and adj. EBITDA of \$5.1 million was significantly better than our forecast of \$0.1 million.

Still a challenging sales environment. Following a difficult 2022, persistent macroeconomic concerns appear to be putting pressure on the consumer electronics market. As such, management noted that 2023 could face similar challenges to 2022. The company initiated cost-cutting measures with the aim of offsetting some of the adverse revenue impacts on cash flow.

Lowering forecast. We are taking a more cautious view of the economy and lowering our forecast for 2023 and tweaking down our 2024 forecast to reflect a more modest revenue growth rate. For 2023, we are largely maintaining our revenue forecast at \$1.518 billion but lowering our adj. EBITDA forecast from \$3.9 million to a loss of \$1.0 million, at the mid point of the company's guidance range. The EBITDA adjustment reflects a change in forecasted revenue mix to include less, higher margin Marketplace revenue.

Ample liquidity. As of December 31, the company had \$122.6 million in cash and \$1.4 million in long-term debt. In our view, there is sufficient financial flexibility to weather the current economic turbulence and challenging selling environment.

Lowering price target. Near current levels, the NEGG shares trade at 0.2 times enterprise value to our 2024 revenue forecast, well below peers, which trade near an average 0.8 times. We are lowering our price target from \$3.50 to \$3, to reflect our lowered 2024 forecast. Our price target reflects a target multiple more in line with the company's peers. The NEGG shares are rated Outperform given the favorabel risk/reward relationship.

Equity Research

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**Refer to the last two pages for
Analyst Certification & Disclosures**

Revenues (\$ MIL)

Period	2021	2022	2023E
Q1	602.7	503.5	356.5E
Q2	604.1	387.1	338.8E
Q3	540.9	349.2	361.7E
Q4	628.5	480.6	461.5E
	2376.2	1720.3	1518.6E

EPS (\$)

Period	2021	2022	2023E
Q1	0.03	(0.02)	(0.03)E
Q2	0.02	(0.03)	(0.03)E
Q3	0.02	(0.02)	(0.06)E
Q4	0.01	(0.08)	(0.02)E
	0.08	(0.15)	(0.11)E

Investment Appraisal

While the company reported better-than-expected Q4 results, unfortunately, it does not indicate an improved operating environment. Total revenue of \$480.6 million beat our estimate of \$439.2 million by 9%, and adj. EBITDA of \$5.1 million was significantly better than our forecast of \$0.1 million, illustrated in Figure #1 Q4 Results. The strong results were driven by the Direct Sales segment, which beat our revenue outlook by 11% in the quarter and made up the largest component of total company revenues. Additionally, SG&A expenses were 10% below our forecast, resulting in better-than-expected cash flow. Although 2022 ended with encouraging results, we are still cautious about the operating environment the company will contend with in 2023.

The economic difficulties of 2022 appear to be persisting so far in 2023, be putting pressure on the consumer electronics market. As such, management is taking a cautious view of 2023, which could face similar challenges to the prior year. In particular, the company's Marketplace and Services segments face headwinds. Of late, the Marketplace business has had trouble onboarding new vendors, due to compliance issues. As for Services, the poor economy is negatively impacting demand for the company's services, such as the company's staffing business.

Yet despite the uncertainty surrounding the economy, there are reasons for optimism. Notably, the company has initiated cost-cutting measures with the aim of offsetting some of the negative impacts on cash flow from potentially lower-than-anticipated Marketplace and Services revenue, which has very high margins. Moreover, there could be upside for the company's Direct Sales segment, due to oversupply of products. Importantly, the oversupply is on the part of the company's suppliers, it is not an oversupply of Newegg's owned inventory. As a result, it is Newegg's suppliers that will potentially be obliged to sponsor discounts, in order to move inventory via Newegg's platform. This could bolster sales, without sacrificing margins.

We are taking a more cautious view of the economy and lowering our revenue and adj. EBITDA forecast for 2023 and tweaking down our 2024 forecast to reflect a modest growth rate. For 2023, we are largely maintaining our revenue forecast at \$1.518 billion but lowering our adj. EBITDA forecast from \$3.9 million to a loss of \$1.0 million, illustrated in Figure #2 Forecast Revisions. For the first half of 2023, which is the company's next reporting period, we are lowering our adj. EBITDA forecast from a loss of \$3.6 million to a loss of \$4.5 million. By Q4, we expect the company to generate positive adj. EBITDA, as the company's cost cutting measure take greater effect. Our 2023 revisions largely reflect a change in our forecasted revenue mix. We are slightly raising our Direct Sales revenue forecast and lowering our Marketplace and Services revenue forecasts. Notably, Marketplace revenue is reported on a net basis. As such, although it accounts for a small minority of total company revenue, it has a significant impact on margins. In 2024, we anticipate revenue to grow at 2.5% to \$1.556 billion and adj. EBITDA to be positive, at \$3.9 million.

As of December 31, the company had \$122.6 million in cash and \$1.4 million in long-term debt. In our view, this gives the company the necessary financial flexibility to weather the current economic turbulence and challenging selling environment. Additionally, the company could use its cash position to seek opportunistic acquisitions to enhance long-term revenue and cash flow growth.

We believe that the weakness in the NEGG shares reflect the current uncertain economic environment. The shares are down significantly from highs of \$4.50 in August 2022 to near current levels. In our view, the stock valuation appears compelling for investors willing to await for a turn in economic prospects and improved fundamentals. Near current levels, the NEGG shares trade at 0.2 times enterprise value to our 2024 revenue forecast, below peers, which trade at an average of 0.8 times. The peer group is illustrated in Figure #3 e-Commerce Comparables.

We are lowering our price target from \$3.5 to \$3, to reflect our lowered cash flow outlook for the company. Despite our lowered price target, we believe there is encouraging upside potential for the NEGG shares, which appear to be trading near recessionary type valuations. Given the uncertain economic outlook, investors should consider taking an accumulation approach to the shares. Our price target reflects a target multiple of 0.8 times our 2024 adj. EBITDA forecast, more in line with peers. We believe there could be opportunities for additional multiple expansion should the company demonstrate the ability to generate consistent positive cash flow in an improved operating environment. Notably, we anticipate the company will be adj. EBITDA positive in 2024. WE believe that the shares offer a favorable risk/reward relationship and rate the shares Outperform.

Figure #1 Q4 Results

New Egg	Q4 22E	Q4 22	% Change
Direct Sales			
Revenue	405,000	450,783	11.3%
% Change YoY	-31.1%	-23.3%	
% of Total Company Revenue	92.2%	93.8%	
Cost of Revenue	350,000	393,461	12.4%
% Change YoY	-31.2%	-22.7%	
% of revenue	86.4%	87.3%	
Gross Profit	55,000	57,322	4.2%
% Change YoY	-30.3%	-27.3%	
% of revenue	13.6%	12.7%	
Marketplace & Service			
Market Place Revenue	13,500	10,623	-21.3%
% Change YoY	-28.6%	-43.8%	
% of Total Company Revenue	3.1%	2.2%	
Marketplace & Service			
Service Revenue	20,70	19,17	-7.4%
% Change YoY	-4.2%	-11.3%	
% of Total Company Revenue	4.7%	4.0%	
Cost of Revenue	30,000	27,414	-8.6%
% Change YoY	-25.1%	-31.5%	
% of revenue	87.7%	92.0%	
Gross Profit	4,200	2,379	-43.4%
% Change YoY	793.6%	406.2%	
% of revenue	12.3%	8.0%	
Combined Statements of Operations (in millions of dollars, except were noted)	Q4 22E	Q4 22	% Change
Direct Sales	405,000	450,783	11.3%
% Change YoY	-31.1%	-23.3%	
% of Total Company Revenue	92.2%	93.8%	
Marketplace	13,500	10,623	-21.3%
% Change YoY	-28.6%	-43.8%	
% of Total Company Revenue	3.1%	2.2%	
Service	20,70	19,17	-7.4%
% Change YoY	-4.2%	-11.3%	
% of Total Company Revenue	4.7%	4.0%	
Revenue	439,200	480,576	9.4%
% Change YoY	-30.1%	-23.5%	
% of Year	26.2%	27.9%	
Cost of Revenue	380,000	420,875	10.8%
% Change YoY	-30.8%	-23.4%	
% of revenue	86.5%	87.6%	
Gross Profit	59,20	59,70	0.8%
% Change YoY	-25.4%	-24.8%	
% of revenue	13.5%	12.4%	
Salary & Compensation	38,000	33,416	-12.1%
% Change YoY	21.3%	6.6%	
% of Revenues	8.7%	7.0%	
Merchant Processing fees	10,980	11,913	8.5%
% Change YoY	-34.1%	-28.5%	
% of Revenues	2.5%	2.5%	
Advertising & Marketing	4,39	2,99	-31.9%
% Change YoY	-51.6%	-67.0%	
% of Revenues	1.0%	0.6%	
Other Expenses	18,89	16,40	-13.2%
% Change YoY	14.1%	-0.9%	
% of Revenues	4.3%	3.4%	
Total SGA Expenses	75,24	67,74	-10.0%
Depreciation and Amortization	2,985	3,076	
Stock Based Compensation	9,000	9,544	
Adjusted EBITDA	0,142	5,119	3494.8%
% Change YoY	-98.7%	-52.7%	
Adjusted EBITDA Margin	0.03%	1.07%	

Source: Company filings

Figure #2 Forecast Revisions

New Egg	6-month E	6-month E	% Change	2023E	2023E	% Change
Direct Sales						
Revenue	638.913	640.100	0.2%	1,394.849	1,403.050	0.6%
% Change YoY	-23.3%	-23.2%		-10.7%	-12.7%	
% of Total Company Revenue	91.8%	92.1%		91.7%	92.4%	
Cost of Revenue	576.204	577.070	0.2%	1,260.006	1,266.620	0.5%
% Change YoY	-21.3%	-21.2%		-7.5%	-9.8%	
% of revenue	90.2%	90.2%		90.3%	90.3%	
Gross Profit	62.709	63.030	0.5%	134.843	136.430	1.2%
% Change YoY	-37.8%	-37.5%		-32.5%	-32.5%	
% of revenue	9.8%	9.8%		9.7%	9.7%	
	0.0%	0.0%				
Marketplace & Service						
Market Place Revenue	23.024	21.800	-5.3%	50.177	44.800	-10.7%
% Change YoY	-10.3%	-15.0%		0.6%	-4.7%	
% of Total Company Revenue	3.3%	3.1%		3.3%	3.0%	
Marketplace & Service						
Service Revenue	34.15	33.40	-2.2%	76.46	70.70	-7.5%
% Change YoY	7.5%	5.2%		12.8%	6.7%	
% of Total Company Revenue	4.9%	4.8%		5.0%	4.7%	
Cost of Revenue	26.954	26.200	-2.8%	61.169	56.600	-7.5%
% Change YoY	-43.2%	-44.8%		-39.6%	-42.6%	
% of revenue	47.1%	47.5%		48.3%	49.0%	
Gross Profit	3021.6%	2900.0%	-4.0%	65.472	58.900	-10.0%
% Change YoY	202.6%	190.5%		298.7%	303.5%	
% of revenue	52.9%	52.5%		51.7%	51.0%	
	0.0%	0.0%				
Combined Statements of Operations						
(in millions of dollars, except where noted)	6-month E	6-month E	% Change	2023E	2023E	
Direct Sales	638.913	640.100	0.2%	1,394.849	1,403.050	0.6%
% Change YoY	-23.3%	-23.2%		-10.7%	-12.7%	
% of Total Company Revenue	91.8%	92.1%		91.7%	92.4%	
Marketplace	23.024	21.800	-5.3%	50.177	44.800	-10.7%
% Change YoY	-10.3%	-15.0%		0.6%	-4.7%	
% of Total Company Revenue	3.3%	3.1%		3.3%	3.0%	
Service	34.15	33.40	-2.2%	76.46	70.70	-7.5%
% Change YoY	7.5%	5.2%		12.8%	6.7%	
% of Total Company Revenue	4.9%	4.8%		5.0%	4.7%	
Revenue	696.083	695.300	-0.1%	1,521.490	1,518.550	-0.2%
% Change YoY	-21.8%	-21.9%		-9.4%	-11.7%	
% of Year	40.5%	40.4%		90.6%	88.3%	
Cost of Revenue	603.158	603.270	0.0%	1,321.175	1,323.220	0.2%
% Change YoY	-22.6%	-22.6%		-9.7%	-12.0%	
% of revenue	86.7%	86.8%		86.8%	87.1%	
Gross Profit	92.93	92.03	-1.0%	200.31	195.33	-2.5%
% Change YoY	-16.1%	-16.9%		-7.3%	-9.8%	
% of revenue	13.3%	13.2%		13.2%	12.9%	
Salary & Compensation	46.792	46.792	0.0%	95.025	95.025	
% Change YoY	-34.5%	-34.5%		-31.7%	-29.3%	
% of Revenues	6.7%	6.7%		6.2%	6.3%	
Merchant Processing fees	17.649	17.649	0.0%	38.548	38.548	
% Change YoY	-20.1%	-20.1%		-7.7%	-9.7%	
% of Revenues	2.5%	2.5%		2.5%	2.5%	
Advertising & Marketing	6.50	6.50	0.0%	14.20	14.20	
% Change YoY	-24.2%	-24.2%		-11.8%	-3.4%	
% of Revenues	0.9%	0.9%		0.9%	0.9%	
Other Expenses	27.11	27.11	0.0%	51.65	51.65	
% Change YoY	-15.0%	-15.0%		-21.5%	-18.4%	
% of Revenues	3.9%	3.9%		3.4%	3.4%	
Total SGA Expenses	122.24	122.24	0.0%	247.78	247.78	0.0%
Depreciation and Amortization	6.102	6.102		12.203	12.203	
Stock Based Compensation	18.081	18.081		35.151	36.161	
Adjusted EBITDA	(3.607)	(4.502)	24.8%	3.942	(1.042)	-126.4%
% Change YoY	-6.0%	17.4%		-191.8%	-273.7%	
Adjusted EBITDA Margin	-0.52%	-0.65%		0.26%	-0.07%	

Source: Noble estimates

Figure #3 e-Commerce Comparables

Company	Share Price	Shares Out	Ent. Value (\$M)	Ent. Value /					
				Revenues			EBITDA		
				2022E	2023E	2024E	2022E	2023E	2024E
Amazon	\$102.05	10258.0	\$1,064,570	2.1x	1.9x	1.7x	14.2x	11.9x	9.9x
Bestbuy	\$73.65	218.0	\$15,345	0.3x	0.3x	0.3x	5.2x	5.5x	5.3x
Walmart	\$151.58	2697.3	\$434,888	0.7x	0.7x	0.7x	12.2x	11.9x	11.1x
Chewy	\$31.43	426.9	\$13,088	1.3x	1.2x	1.1x	45.6x	40.9x	30.3x
Liquidity Services	\$13.19	31.6	\$340	1.2x	1.1x	1.0x	8.1x	8.1x	6.5x
1-800-Flowers	\$8.66	64.8	\$504	0.2x	0.2x	0.2x	5.1x	6.2x	6.1x
NewEgg	\$1.04	445.0	\$341.60	0.2x	0.2x	0.2x	569.3x	-327.8x	86.7x
Mean				1.0x	0.9x	0.8x	15.1x	14.1x	12.6x
Median				1.0x	0.9x	0.8x	10.2x	10.0x	8.2x

Source: Eikon and 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.

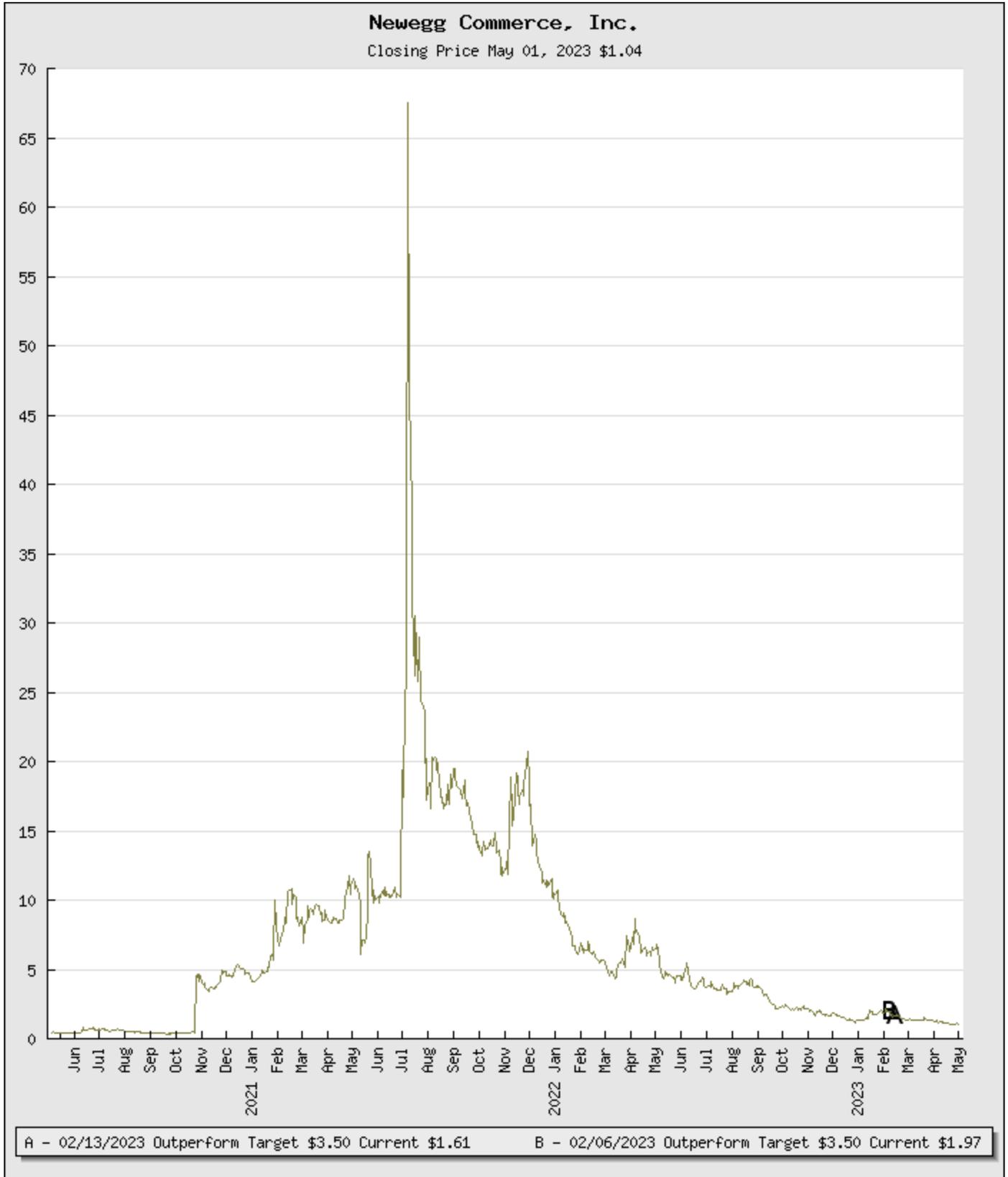
Valuation Summary

Near current levels, the NEGG shares trade at 0.2 times enterprise value to our 2024 revenue forecast, below peers, which trade at an average of 0.8 times. Our enterprise value calculation uses 445 million fully diluted shares outstanding. We are lowering our price target from \$3.5 to \$3, to reflect our lowered cash flow outlook for the company. Our price target reflects a target multiple of 0.8 times our 2024 adj. EBITDA forecast, more in line with peers. We believe there could be opportunities for additional multiple expansion should the company demonstrate the ability to generate consistent positive cash flow in the future. Notably, we anticipate the company will be adj. EBITDA positive in 2024. Success in achieving favorable adj. EBITDA margins may allow a valuation methodology that focuses on adj. EBITDA.

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.

New Egg	2021	Q1 22	Q2 22	6-month A	Q1 22	Q4 22	2022	Q1 22E	Q2 22E	6-month E	Q3 22E	Q4 22E	2022E	2024E
Combined Statements of Operations														
<i>(in millions of dollars, except where noted)</i>														
Direct Sales	2,243,422	474,380	358,748	833,128	323,116	450,783	1,607,027	329,600	310,500	640,100	332,950	430,000	1,403,050	1,418,000
% Change YoY	-17.1%	-37.6%	-27.3%	-36.5%	-23.3%	-23.3%	-28.4%	-30.5%	-13.4%	-23.2%	3.0%	-4.6%	-12.7%	1.1%
% of Total Company Revenue	84.4%	84.2%	82.7%	83.6%	82.5%	83.6%	83.4%	82.5%	81.6%	82.1%	82.0%	83.2%	82.4%	81.1%
Marketplace	63,492	14,062	11,596	25,658	10,724	10,623	47,005	11,500	10,300	21,800	11,000	12,000	44,800	58,300
% Change YoY	0.3%	-17.9%	-8.8%	-34.8%	-43.8%	-28.0%	-28.0%	-18.2%	-11.2%	-15.0%	2.6%	13.0%	-4.7%	30.1%
% of Total Company Revenue	2.7%	2.8%	3.0%	2.9%	3.1%	2.2%	2.7%	3.2%	3.0%	3.1%	3.0%	2.8%	3.0%	3.7%
Service	69,311	15,033	16,720	31,753	15,318	19,179	66,241	15,400	18,000	33,400	17,800	19,500	70,700	80,000
% Change YoY	-9.1%	7.7%	-1.0%	-2.0%	-11.3%	-4.4%	-4.4%	2.4%	7.7%	5.2%	16.2%	1.7%	6.7%	13.2%
% of Total Company Revenue	2.9%	3.0%	4.3%	3.6%	4.4%	4.0%	3.9%	4.3%	5.3%	4.8%	4.9%	4.2%	4.7%	5.1%
Total Revenue	2,376,225	503,475	387,064	890,540	349,158	480,576	1,720,274	356,500	338,800	695,300	361,750	461,500	1,518,550	1,556,300
% Change YoY	-16.5%	-35.9%	-26.2%	-35.4%	-23.5%	-27.6%	-27.6%	-29.2%	-12.5%	-21.9%	3.6%	-4.0%	-11.7%	2.5%
% of Year	100.0%	29.3%	22.5%	51.8%	20.3%	27.9%	20.7%	19.7%	17.4%	40.4%	21.0%	26.8%	88.3%	90.5%
Cost of Revenue	2,050,249	436,031	343,727	779,769	303,004	420,875	1,503,647	309,650	293,620	603,270	314,250	405,700	1,323,220	1,342,470
% Change YoY	-16.0%	-34.1%	-25.0%	-34.3%	-23.4%	-26.7%	-26.7%	-29.1%	-14.4%	-22.6%	3.7%	-3.6%	-12.0%	1.5%
% of revenue	86.3%	86.7%	88.6%	87.5%	86.8%	87.6%	87.4%	86.9%	86.7%	86.8%	86.9%	87.9%	87.1%	86.3%
Gross Profit	325,976	66,784	43,987	110,771	46,154	59,701	216,626	46,850	45,180	92,030	47,500	55,800	195,330	213,830
% Change YoY	-19.7%	-47.5%	-32.6%	-42.1%	-28.5%	-33.5%	-33.5%	-29.8%	-2.7%	-16.9%	2.9%	-6.5%	-9.6%	9.5%
% of revenue	13.7%	13.3%	11.4%	12.4%	13.2%	12.4%	12.6%	13.1%	13.3%	13.2%	13.1%	12.1%	12.9%	13.7%
Salary & Compensation	126,620	37,536	33,865	71,401	29,683	33,416	134,500	23,139	23,653	46,792	23,925	24,308	96,025	99,776
% Change YoY	14.2%	6.4%	10.5%	-3.1%	6.6%	6.2%	-38.4%	-30.2%	-34.5%	-19.4%	-27.3%	-29.3%	-29.3%	5.0%
% of Revenue	5.3%	7.5%	8.7%	8.0%	8.5%	7.0%	7.8%	6.5%	7.0%	6.7%	6.6%	5.3%	6.3%	6.4%
Merchant Processing fees	59,332	12,509	9,571	22,080	8,707	11,913	42,700	9,099	8,550	17,649	5,167	11,732	38,548	41,388
% Change YoY	-4.3%	-34.0%	-22.0%	-39.4%	-28.5%	-28.0%	-28.0%	-27.3%	-10.7%	-20.1%	-1.5%	-1.5%	-9.7%	7.4%
% of Revenue	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.7%
Advertising & Marketing	32,816	5,369	3,209	8,578	3,133	2,989	14,700	3,352	3,150	6,502	3,377	4,322	14,202	17,426
% Change YoY	-25.7%	-60.2%	-43.9%	-62.9%	-67.0%	-55.2%	-37.6%	-1.8%	-24.2%	7.8%	-44.6%	-3.4%	-22.7%	2.7%
% of Revenue	1.4%	1.1%	0.8%	1.0%	0.9%	0.6%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	1.1%
Other Expenses	62,632	16,255	15,657	31,912	14,988	16,400	63,300	14,827	12,286	27,113	12,025	12,507	51,645	54,345
% Change YoY	18.9%	-7.7%	4.2%	-3.0%	-0.9%	1.1%	-8.8%	-21.5%	-15.0%	-19.8%	-23.7%	-16.4%	-23.7%	5.2%
% of Revenue	2.6%	3.2%	4.0%	3.6%	4.3%	3.4%	3.7%	4.2%	3.6%	3.9%	3.3%	2.7%	3.4%	3.5%
Total SGA Expenses	292,464	74,104	64,894	138,996	59,429	67,737	266,164	62,508	59,730	122,238	60,586	64,961	247,785	261,301
Depreciation and Amortization	11,964	2,436	2,592	5,027	2,318	3,076	11,021	3,051	3,051	6,192	3,051	3,051	12,203	12,203
Stock Based Compensation	6,296	8,322	7,821	16,143	8,252	9,544	33,939	9,540	9,040	18,081	9,540	9,040	36,161	36,161
Adjusted EBITDA	52,394	4,338	(8,175)	(3,835)	(6,600)	5,119	0,600	(2,805)	(1,697)	(4,502)	(0,232)	3,693	(1,042)	3,942
% Change YoY	-73.8%	-160.2%	-112.7%	-105.2%	-52.7%	-98.9%	-164.7%	-79.2%	17.4%	-61.3%	-27.9%	-273.7%	-478.2%	-478.2%
Adjusted EBITDA Margin	2.2%	0.9%	-2.1%	-0.43%	-0.17%	1.07%	0.03%	-0.8%	-0.5%	-0.6%	-0.1%	0.8%	-0.1%	0.3%
Total Operating Expenses	2,342,713	510,795	407,971	918,765	362,433	488,612	1,769,811	372,158	353,350	725,508	374,836	470,661	1,671,005	1,603,771
% Change YoY	-13.3%	-31.4%	-22.4%	-32.0%	-21.9%	-24.5%	-27.1%	-27.1%	-13.4%	-21.0%	3.4%	-3.7%	-11.2%	2.1%
% of Revenue	98.6%	101%	105%	103%	104%	102%	103%	104%	104%	104%	103%	102%	103%	103%
Operating Income (loss)	33,512	(7,320)	(20,907)	(28,225)	(13,275)	(8,036)	(49,538)	(15,658)	(14,550)	(30,208)	(13,086)	(9,161)	(52,455)	(47,471)
Operating Margin	1.4%	-1.5%	-5.4%	-3.2%	-3.8%	-1.7%	-2.9%	-4.4%	-4.3%	-4.3%	-3.6%	-2.0%	-3.5%	-3.1%
Other Income	1,758	0,901	2,319	3,220	1,525	0,535	5,290	0,762	0,762	1,524	0,762	0,762	3,048	3,048
Interest Expense	(0,612)	(0,138)	(0,201)	(0,339)	(0,235)	(0,111)	(0,685)	(0,100)	(0,100)	(0,200)	(0,100)	(0,100)	(0,400)	(0,400)
Interest Income	1,079	0,206	0,206	0,412	0,288	0,464	1,164	0,464	0,464	0,928	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	(2,281)	(2,281)	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	1,669	0,000	0,000	1,669	0,000	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	0,000	0,000
Change in fair value of warrants liabilities	0,061	0,452	0,294	0,736	0,242	0,085	1,063	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Income (Loss) before Income Tax	30,467	(5,899)	(16,630)	(22,527)	(11,455)	(9,344)	(43,328)	(14,532)	(13,424)	(27,956)	(11,960)	(8,035)	(47,950)	(42,964)
Income Tax (benefit)	(5,795)	0,262	(3,920)	(3,658)	(2,967)	20,729	14,101	(1,248)	(1,189)	(2,437)	(1,000)	(0,433)	(3,871)	(3,560)
Effective Tax Rate	-19.0%	-4.5%	23.5%	16.4%	25.9%	-22.3%	34.7%	7.5%	8.8%	8.7%	8.4%	5.3%	8.6%	8.0%
Net Income (loss)	36.3	(6,161)	(12,710)	(18,869)	(8,488)	(30,070)	(57,429)	(13,284)	(12,235)	(25,519)	(10,969)	(7,602)	(44,079)	(39,407)
Net Income per share	\$0.08	(\$0.02)	(\$0.03)	(\$0.05)	(\$0.02)	(\$0.08)	(\$0.15)	(\$0.03)	(\$0.03)	(\$0.06)	(\$0.03)	(\$0.02)	(\$0.11)	(\$0.10)
Fully Diluted shares	432,250	370,232	373,149	371,123	374,092	373,067	373,067	413,000	413,000	413,000	413,000	413,000	413,000	414,000

Source: Company reports and Noble Financial Estimates



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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 underserved 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 cyclical, 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.

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Outperform: potential return is >15% above the current price	92%	24%
Market Perform: potential return is -15% to 15% of the current price	8%	1%
Underperform: potential return is >15% below the current price	0%	0%

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