

October 27, 2020

Price (as of close on
October 26, 2020)**\$4.80**Rating
BUY Long-termOld Target Price
\$7.00New Target Price
\$8.00

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Esports Entertainment (GMBL)

The \$43 million acquisition of Helix eSports and ggCircuit is a game-changer for Esports Entertainment. The company gains key esports infrastructure and a proprietary platform for skill-based player-vs-player wagering in gaming centers and eventually remotely. We increase our revenue estimates and price target and reiterate our Buy Long-term rating.

52-Week Range	\$2.40 – 9.75	Total Debt (million)	\$0
Shares Outstanding	11.2 million	Total Debt/Equity	0%
Insider/Institutional	5.6% / 1.04%	ROE (TTM)	NM%
Public Float	7.2 million	Book Value/Share	\$1.01
Market Capitalization	\$58.6 million	Daily Volume (90-day avg)	334.7k

FYE June EPS(\$)	2020A ACTUAL	2021E		2022E	
		CURRENT	PREVIOUS	CURRENT	PREVIOUS
Q1 Sept		\$(0.22) E	\$(0.22) E	\$(0.03) E	\$(0.09) E
Q2 Dec		(0.17) E	(0.13) E	(0.03) E	(0.07) E
Q3 March		(0.10) E	(0.08) E	0.03 E	(0.06) E
Q4 June		(0.07) E	(0.05) E	0.11 E	(0.02) E
Year*	\$(1.50) A	\$(0.57) E	\$(0.48) E	\$0.08 E	\$(0.24) E

FYE June Revenue (\$ mil.)	2020A ACTUAL	2021E		2022E	
		CURRENT	PREVIOUS	CURRENT	PREVIOUS
Q1 Sept		\$0.30 E	\$0.30 E	\$8.0E	\$5.0E
Q2 Dec		2.5 E	2.5 E	9.0E	6.0E
Q3 March		5.5 E	4.5 E	11.0E	6.5E
Q4 June		6.7 E	5.7 E	14.0E	7.5E
Year	\$0.0A	\$15.0E	\$13.0E	\$42.0E	\$25.0E
Change				180%	

- Numbers may not add up due to rounding.

Acquisition Highlights

- The purchase of software developer ggCircuit provides GMBL with cloud-based management for gaming centers and a tournament platform with 1.9 million unique users.
- With Helix eSports, GMBL acquires: 1) five esports centers, including two of the largest in the US; 2) Genji, a best-in-class esports analytics platform, and 3) LANdual, a proprietary player-vs-player wagering platform that enables skill-based wagering on third-party video games both in gaming centers and eventually remotely. LANdual has relationships with most major game publishers and a pilot program underway with the New Jersey Dept. of Gaming Enforcement.
- The acquired businesses create additional revenue streams for GMBL and position it as the technology infrastructure provider to the esports industry.
- LANdual will enable casinos to bring skill-based player-vs-player wagering into their facilities, tapping a new younger demographic a potentially large revenue stream.
- GMBL increased guidance for FY22 revenues by 68% to \$42 million. We increase our FY21 revenue estimate by 15% to \$15 million and our price target by 14% to \$8, which assigns a six-times multiple to FY:21 projected revenues.

Please refer to the end of this report to obtain important disclosure information.

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Rating Definitions

BUY, 30% or greater increase in the next 12 months.

BUY- Long-Term, near term EPS horizon is challenging, attractive long-term appreciation potential.

SELL, 30% or more declines in the next 12 months.

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Esports Entertainment (GMBL)
Quarterly Results & Estimates
\$ in Millions

	Fiscal 2020A	2021E				Fiscal 2021E	2022E				Fiscal 2022E
		1QE Sept	2QE Dec	3QE March	4QE June		1QE Sept	2QE Dec	3QE March	4QE June	
Total Revenues	\$ -	\$ 0.30	\$ 2.50	\$ 5.50	\$ 6.70	\$ 15.00	\$ 8.00	\$ 9.00	\$ 11.00	\$ 14.00	\$ 42.00
Revenue Growth	0.0%						2566.7%	260.0%	100.0%	109.0%	180.0%
Cost of Goods Sold	\$ -	\$ 0.60	\$ 1.50	\$ 3.30	\$ 4.02	\$ 9.42	\$ 4.40	\$ 4.95	\$ 6.05	\$ 7.70	\$ 23.10
Gross Profit	\$ -	\$ 0.40	\$ 1.00	\$ 2.20	\$ 2.68	\$ 6.28	\$ 3.60	\$ 4.05	\$ 4.95	\$ 6.30	\$ 18.90
Gross margin		40.0%	40.0%	40.0%	40.0%	41.9%	45.0%	45.0%	45.0%	45.0%	45.0%
General & Administrative	\$ 4.05	\$ 1.20	\$ 1.60	\$ 1.60	\$ 1.60	\$ 6.00	\$ 1.70	\$ 1.80	\$ 1.80	\$ 1.80	\$ 7.10
Sales & Marketing	\$ -	\$ 1.50	\$ 1.70	\$ 1.70	\$ 1.70	\$ 6.60	\$ 1.75	\$ 2.00	\$ 2.00	\$ 2.00	\$ 7.75
R&D Expense	\$ -	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 1.00	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 2.00
Total Operating Expense	\$ 4.05	\$ 2.95	\$ 3.55	\$ 3.55	\$ 3.55	\$ 13.60	\$ 3.95	\$ 4.30	\$ 4.30	\$ 4.30	\$ 16.85
SG&A Margin	0.0%	900.0%	132.0%	60.0%	49.3%	84.0%	43.1%	42.2%	34.5%	27.1%	35.4%
EBITDA	\$ (4.03)	\$ (3.25)	\$ (2.55)	\$ (1.35)	\$ (0.87)	\$ (8.02)	\$ (0.01)	\$ 0.09	\$ 0.99	\$ 2.34	\$ 3.41
Depreciation, Depletion, & Amortization	\$ 0.02	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 1.00
Operating Profit	\$ (4.05)	\$ (3.25)	\$ (2.55)	\$ (1.35)	\$ (0.87)	\$ (8.02)	\$ (0.35)	\$ (0.25)	\$ 0.65	\$ 2.00	\$ 2.05
Operating Margin	0.0%	-1083.3%	-102.0%	-24.5%	-13.0%	-53.5%	-4.4%	-2.8%	5.9%	14.3%	4.9%
Interest Expense	\$ -			\$ 0.19	\$ 0.19	\$ 0.38	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.80
Interest & Investment Income						\$ -					
Impairment of Goodwill											
Other Non-Operating Income (Expense)	\$ (6.30)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pretax Income	\$ (10.35)	\$ (3.25)	\$ (2.55)	\$ (1.54)	\$ (1.06)	\$ (8.40)	\$ (0.55)	\$ (0.45)	\$ 0.45	\$ 1.80	\$ 1.25
Total Income Taxes	\$ (0.00)	\$ (0.78)	\$ (0.61)	\$ (0.37)	\$ (0.25)	\$ (2.02)	\$ (0.12)	\$ (0.10)	\$ 0.10	\$ 0.40	\$ 0.28
Minority Interest											
Net Income	\$ (10.35)	\$ (2.47)	\$ (1.94)	\$ (1.17)	\$ (0.80)	\$ (6.38)	\$ (0.43)	\$ (0.35)	\$ 0.35	\$ 1.40	\$ 0.97
Shares for Basic EPS	6.880	11.200	11.211	11.222	11.234	11.234	11.245	11.256	11.267	11.279	11.279
Shares for Diluted EPS	6.880	11.200	11.211	11.222	11.234	11.234	12.400	12.412	12.425	12.437	12.437
EPS Diluted	\$ (1.50)	\$ (0.22)	\$ (0.17)	\$ (0.10)	\$ (0.07)	\$ (0.57)	\$ (0.03)	\$ (0.03)	\$ 0.03	\$ 0.11	\$ 0.08
Interest expense	\$ -					\$ -					\$ -
Depreciation and amortization	\$ -					\$ -					\$ -
Stock-based compensation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other adjustments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					\$ -
Adjusted EPS	\$ -	\$ (0.22)	\$ (0.17)	\$ (0.10)	\$ (0.07)	\$ (0.57)	\$ (0.03)	\$ (0.03)	\$ 0.03	\$ 0.11	\$ 0.08

