Feb 17, 2021

Consumer

GMBL

Nasdaq

Rating

Outperform

Unchanged

Current Price

$15.72

Target Price

$20.00

Market Capitalization
244.58M

Shares Outstanding
15.56M

Float
11.11M

Institutional Holdings
2.1%

12-Month Low/High
$2.40/$20.74

Average 90-Day Volume
816744

Fiscal Year End
06/30/2020

Revenues ($ MIL)

Period	2020A	2021E	2022E
Q1		0.22A	15.0E
Q2		2.4A	17.0E
Q3		4.9E	18.0E
Q4		10.5E	20.0E
	0	18.0E	70.0E

EPS ($)

Period	2020	2021E	2022E
Q1		(0.15)A	(0.08)E
Q2		(0.57)A	(0.04)E
Q3		(0.19)E	(0.03)E
Q4		(0.14)E	0.01E
	(1.50)	(1.00)E	(0.14)E

eSports Entertainment Group, Inc.

Putting The Pieces Together

Fiscal Q2 in line. Total revenues of $2.36 million was in line with out estimate of $2.2 million. Adjusted EBITDA of a loss of $3.4 million was slightly better than our $3.8 million loss estimate. The quarter had a lot of noise with a significant amount of professional fees related to recent acquisitions and funding.

Raise fiscal 2021 revenue estimate. The company plans to close on the Lucky Dino acquisition in late February. As such, it increased full year fiscal 2021 revenue guidance from $13 million to $18 million. Notably, we believe that there is upside surprise potential to that guidance. We are maintaining our fiscal 2022 revenue estimate of $70 million, which is in line with management's guidance.

Financial boost. The company had $7.5 million in cash as of December 31, 2020, which included proceeds from the exercise of warrants. The company closed on its registered direct offering, which was priced at $15 per share for proceeds of $30 million. As such, the company has sufficient financial flexibility to close on the $30 million acquisition of Lucky Dino, expected by the end of February.

Less dilution than expected. The shares have risen 250% since lows achieved in November 2020. The increase in shares price has substantially increased the company's financial flexibility to complete acquisitions with fewer shares than we originally expected. In addition, the rise in the share price improves the company's ability to use its equity for future acquisitions.

Rating Outperform. We are raising our price target from $11 to $20 to reflect the favorable environment for funding its announced acquisitions and without the prospect of significant debt. Near current levels, the shares trade at 4.9 times Enterprise Value to our fiscal 2022 revenue estimate, or roughly 50% below average M&A transaction multiples. Our price target reflects a target multiple 6.5 times, which is more in line with its peer group multiples.

Equity Research
Michael Kupinski, Director of Research
(561) 994-5734, mkupinski@noblefinancialgroup.com

Noble Capital Markets, Inc.
Trading: (561) 998-5489 Sales: (561) 998-5491
www.noblecapitalmarkets.com

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Investment Appraisal

The fiscal second quarter was the first substantial revenue quarter for the company, with total revenues of $2.36 million, largely reflecting the operations of Argyll Entertainment, and online betting and gaming operator. The acquisition of Argyll closed late July 2020, but was adversely affected by additional customer disclosure requirements by the UK. The company adjusted its software and complied with the new rules and was back up and running in the latest quarter. Figure #1 illustrates the fiscal second quarter results versus our estimates. Notably, revenues are expected to accelerate in future quarters as the company completes the announced acquisitions of Lucky Dino, expected in late February, and ggCircuit and Helix, expected in the fall.

Most importantly, the company had $7.5 million in cash and restricted cash as of December 31, 2020. Combined with the completion of a registered direct offering that brought in roughly $30 million, the company has the finances to complete the $30 million acquisition of Lucky Dino and ability to invest in its growth oriented businesses. Following the exercise of 2 million warrants in the last quarter, there are roughly 3 million warrants remaining at an average price of $5. As such, the proceeds from the exercise of warrants may bring in roughly $15 million. The recent favorable move in the stock has substantially improved the company's financing capability of the announced acquisitions. We anticipated that the company would have had as much as 1.5 million more shares outstanding at this point. We believe that the rise in the share price also provides financial flexibility for future acquisitions as well.

Given the likelihood of the Lucky Dino acquisition in February, the company increased its fiscal 2021 revenue expectation from $13 million to $18 million. Figure #2 illustrates our full year fiscal 2021 estimates. We believe that there is potential upside to that revenue guidance, especially given the Lucky Dino contributions. Lucky Dino generated $21 million in revenue and $3.8 million in EBITDA in fiscal 2020. We have revised upward our fiscal 2021 revenue expectation, while largely maintaining our expected adj. EBITDA loss. Notably, given the positive contributions from Lucky Dino in cash flow, the company's cash burn is expected to lessen throughout the year from roughly $850,000 a month to $650,000 a month. As such, we anticipate that the adjusted EBITDA loss of $3.1 million will decrease to $2.1 million loss in the fiscal fourth quarter.

In our view, the pieces of all of the company's recent planned and announced acquisitions appear to be falling in place, forming a sizable revenue generating company with the prospect of generating positive cash flow. We believe that without the prospect of investment spending for growth, the company will generate positive cash flow in fiscal 2022. Our current estimate anticipates positive adjusted EBITDA in fiscal 2022 of $2.3 million.

We are raising our price target from $11 to $20. Our revision reflects the recent rise in the stock price, which has enabled funding the company's recent and planned acquisitions with fewer shares than expected. In addition, the stock price has created a favorable currency for future acquisitions as well. Near current levels, the GMBL shares trade at 4.9 time Enterprise Value to our fiscal 2022 revenue estimate, which is nearly 50% below recent transactions in the space. Our price target of $20 is based on 6.5 times Enterprise Value to our fiscal 2022 revenue estimate or below recent transaction multiples that have averaged 10 times. Our Enterprise Value reflects the prospect of 22 million shares outstanding.

Figure #1

Esports Entertainment (in millions, except per share data)	Q2 E Dec	Q2 A Dec	% Change
Revenue	2.200	2.362	7.4%
% Change			
Cost of goods	1.100	1.334	21.2%
% Change			
Gross profit	1.100	1.029	-6.5%
% Change			
% of Revenues	*50%*	*44%*	
Operating Exenses:			
General & Administrative	4.900	4.909	0.2%
% Change			
% of revenues	*223%*	*208%*	
Sales & Marketing	1.700	1.888	11.1%
% Change			
% of revenues	*77%*	*80%*	
Research & Development	0.000	0.000	#DIV/0!
% Change			
% of revenues	*0%*	*0%*	
Total Operating Expenses	6.600	6.798	3.0%
% Change			
% of revenues	*300%*	*288%*	
Stock-based compensation	1.258	1.600	27.2%
% Change			
Percent of Revenues	*57.2%*	*67.7%*	
Depreciation & amortization	0.345	0.700	102.9%
% Change			
Percent of Revenues	*15.7%*	*29.6%*	
Adjusted EBITDA	**(3.897)**	**(3.469)**	**-11.0%**
% Change			
Cash flow Margin	*-177.2%*	*-146.9%*	
Operating Income (Loss)	(5.500)	(5.769)	4.9%
% Change			
Interest Expense	(0.050)	-	-100.0%
Net amort of debt discount		0.000	
Change in fair market value		0.000	
Loss on extinguishment of debt		0.000	
Gain on warrant exchange		(1.473)	
Impairment of intangible asset		0.000	
Gain on settlement of debt		0.000	
Foreign exchange gain (loss)		-0.049	
Loss before income taxes	(5.550)	(7.291)	31.4%
Income taxes	(1.499)	(1.968)	31.4%
Tax rate	*27%*	*27%*	
Net loss & comprehensive loss	(4.052)	(7.291)	79.9%
Basic & diluted loss per common share	$ (0.27)	$ (0.57)	$ 1.10
Weighted avg. shares outstanding	15.000	12.877	-14.2%

Figure #2

Esports Entertainment (in millions, except per share data)	2021E	2021 R	% Change
Revenue	12.422	17.960	44.6%
% Change			
Cost of goods	6.320	10.354	63.8%
% Change			
Gross profit	6.102	7.606	24.6%
% Change			
% of Revenues	*49%*	*42%*	
Operating Exenses:			
General & Administrative	17.006	18.115	6.5%
% Change			
% of revenues	*137%*	*101%*	
Sales & Marketing	5.804	6.792	17.0%
% Change			
% of revenues	*47%*	*38%*	
Total Operating Expenses	22.810	24.908	9.2%
% Change			
% of revenues	*184%*	*139%*	
Stock-based compensation	3.215	4.108	27.8%
% Change			
Percent of Revenues	*25.9%*	*22.9%*	
Depreciation & amortization	1.351	1.916	41.8%
% Change			
Percent of Revenues	*10.9%*	*10.7%*	
Adjusted EBITDA	**(12.141)**	**(11.278)**	**-7.1%**
% Change			
Cash flow Margin	*-97.7%*	*-62.8%*	
Operating Income (Loss)	(16.708)	(17.302)	3.6%
% Change			
Interest Expense	(0.150)	(0.000)	-100.0%
Net amort of debt discount			
Change in fair market value			
Loss on extinguishment of debt			
Gain on warrant exchange			
Impairment of intangible asset			
Gain on settlement of debt			
Foreign exchange gain (loss)			
Loss before income taxes	(14.808)	(16.774)	13.3%
Income taxes	(3.510)	(2.072)	-41.0%
Tax rate			
Net loss & comprehensive loss	(11.298)	(14.702)	30.1%
Basic & diluted loss per common sha	$ (0.75)	$ (1.00)	$ 0.32
Weighted avg. shares outstanding	15.000	14.763	-1.6%

Company Profile

Esports Entertainment Group, Inc. is a NASDAQ listed, developmental company that plans to build businesses in the esports and gaming industry. Through recent and planned acquisitions, the company offers online and land based gaming and tournament play, analytics and scouting information, clound based B2B technology platform for game hosting (ggCircuit), esports wagering, and sports book and casino betting. Its esports betting business is in a licensed, regulated and secure platform at Vie.gg. In addition, Esports Entertainment intends to offer users from around the world the ability to participate in multiplayer mobile and PC video game tournaments for cash prizes. The Company holds a license to conduct online gambling and 18+ gaming on a global basis in the UK, Ireland, Malta and Curacao. The Company maintains offices in New Jersey, the UK and Malta.

Fundamental Analysis - 2.0/ 5.0 Checks

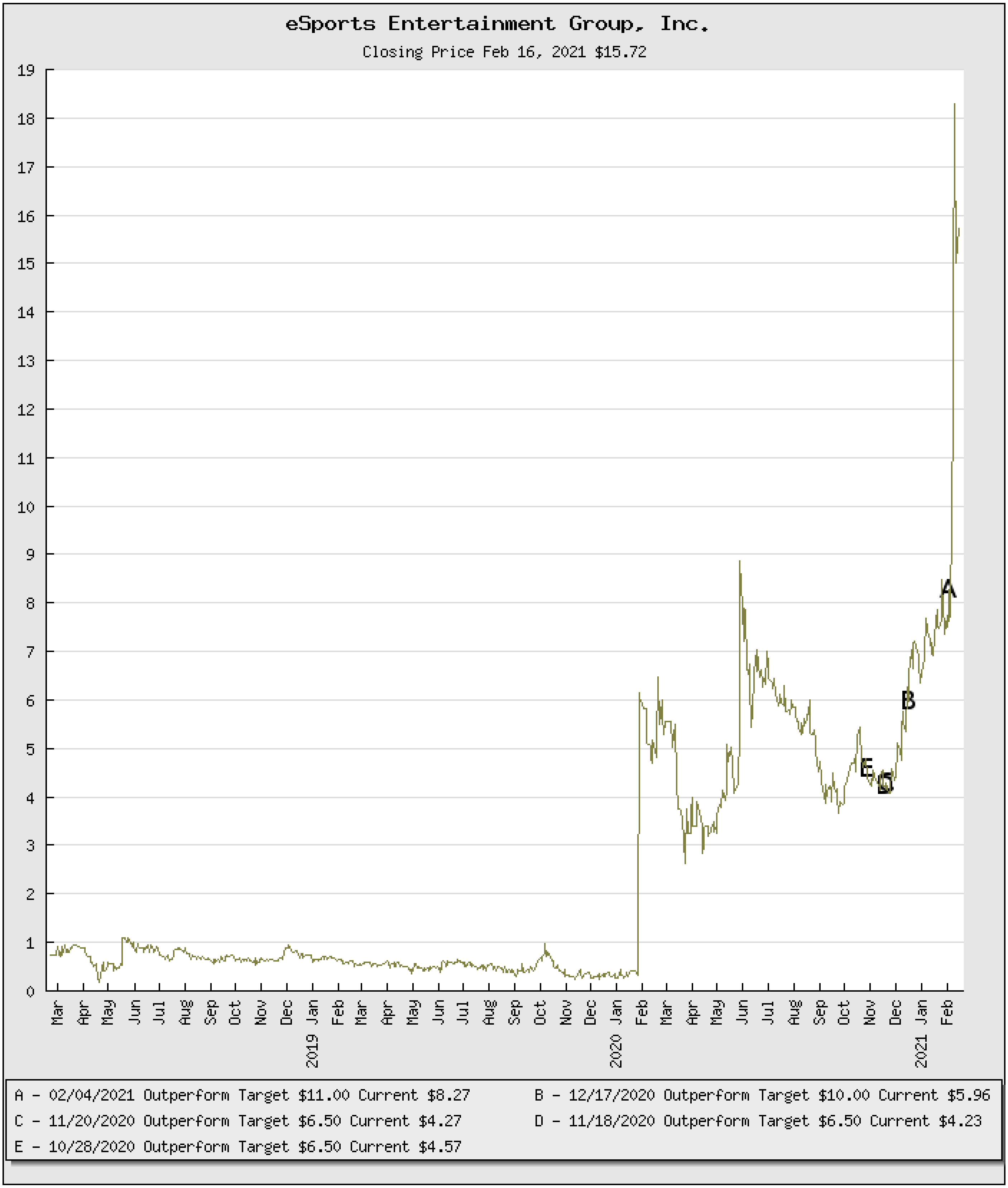
We have assigned the company 2.0 checks out of 5.0 in our fundamental analysis, which is below average and reflects the developmental nature of the company. The company scores high on corporate governance and management given the independence of its board and managements experience in the industry. In addition, the company scores high on the market opportunity in the esports sector, which is large and growing rapidly. Given the prospect of larger, and more well financed players in the industry, the company scores low in its competitive position, even though it enjoys first mover advantage on its wagering platform. The company is not cash flow positive and is expected to incur losses for at least the next few quarters. In addition, it is in an acquisition mode to build its business and to gain market share, and, as such, its financial position is likely to change over time. While the fundamental analysis is below average, the risk/reward relationship appears favorable given the sizable market opportunity.

Valuation Summary

Near current levels, the GMBL shares trade at 2.8 times Enterprise Value to our estimated fiscal 2022 revenue, or below the average for its esports peer group, as well as the gambling peer group. Notably, the multiple is 70% below recent M&A transaction multiples that have averaged 10 times revenues. Based on proforma estimates from announced acquisitions, we are raising our price target from $10 to $11. Our $11 price target is based on an Enterprise Value to Revenue multiple of 3.5 times, which is based on the average of current multiples of public esports and gambling companies.

We view an investment in eSports Entertainment as speculative given its early stage development and the likelihood of future acquisitions, which may be dilutive. There are companies that are larger with far greater financial resources. In addition, there are risks associated with the gambling industry.

Esports Entertainment (in millions, except per share data)	2020	Q1 Sept	Q2 Dec	Q3 E Mar	Q4 E Jun	2021E	Q1 E Sept	Q2 E Dec	Q3 E Mar	Q4 E Jun	2022E
Revenue		0.222	2.362	4.875	10.500	17.960	15.000	17.000	18.000	20.000	70.000
% Change							*6645%*	*620%*	*269%*	*90%*	*290%*
Cost of goods		0.420	1.334	2.750	5.850	10.354	8.500	8.800	9.100	9.400	35.800
% Change							*1923%*	*560%*	*231%*	*61%*	*246%*
Gross profit		-0.198	1.029	2.125	4.650	7.606	6.500	8.200	8.900	10.600	34.200
% Change							*-3388%*	*697%*	*319%*	*128%*	*350%*
% of Revenues		*-89%*	*44%*	*44%*	*44%*	*42%*	*43%*	*48%*	*49%*	*53%*	*49%*
Operating Expenses:											
General & Administrative	4.050	3.056	4.909	4.650	5.500	18.115	4.800	5.000	5.300	5.500	20.600
% Change							*57%*	*2%*	*14%*	*0%*	*14%*
% of revenues		*1374%*	*208%*	*95%*	*52%*	*101%*	*32%*	*29%*	*29%*	*28%*	*29%*
Sales & Marketing		0.604	1.888	1.800	2.500	6.792	3.500	3.600	3.800	4.000	14.900
% Change							*479%*	*91%*	*111%*	*60%*	*119%*
% of revenues		*272%*	*80%*	*37%*	*24%*	*38%*					
Total Operating Expenses		3.660	6.798	6.450	8.000	24.908	8.300	8.600	9.100	9.500	35.500
% Change							*127%*	*27%*	*41%*	*19%*	*43%*
% of revenues		*1646%*	*288%*	*132%*	*76%*	*139%*	*55%*	*51%*	*51%*	*48%*	
Stock-based compensation	1.614	1.008	1.600	0.750	0.750	4.108	0.500	0.500	0.500	0.500	2.000
% Change							*-50%*	*-69%*	*-33%*	*-33%*	*-51%*
Percent of Revenues		*453.1%*	*67.7%*	*15.4%*	*7.1%*	*22.9%*					
Depreciation & amortization	0.020	0.266	0.700	0.450	0.500	1.916	0.400	0.400	0.400	0.400	1.600
% Change							*50%*	*-43%*	*-11%*	*-20%*	*-17%*
Percent of Revenues		*119.8%*	*29.6%*	*9.2%*	*4.8%*	*10.7%*					
Adjusted EBITDA	**-4.030**	**(2.583)**	**(3.469)**	**(3.125)**	**(2.100)**	**(11.278)**	**(0.900)**	**0.500**	**0.700**	**2.000**	**2.300**
% Change							*-65%*	*-114%*	*-122%*	*-195%*	*-120%*
Cash flow Margin		*-1161.7%*	*-146.9%*	*-64.1%*	*-20.0%*	*-62.8%*	*-6.0%*	*2.9%*	*3.9%*	*10.0%*	*3.3%*
Operating Income (Loss)	(4.050)	(3.858)	(5.769)	(4.325)	(3.350)	(17.302)	(1.800)	(0.400)	(0.200)	1.100	(1.300)
% Change							*-53%*	*-93%*	*-95%*	*-133%*	*-92%*
Interest Expense	(1.995)	(0.000)	-	-	-	(0.000)	(0.750)	(0.750)	(0.750)	(0.750)	(3.000)
Other income		0.003	0.000								
Net amort of debt discount	(1.157)										
Change in fair market value	(2.432)	2.101									
Loss on extinguishment of debt	(2.796)										
Gain on warrant exchange	1.894		(1.473)								
Impairment of intangible asset	(0.067)										
Gain on settlement of debt	0.254										
Foreign exchange gain (loss)	0.042	(0.054)	(0.049)								
Loss before income taxes	(10.349)	(1.808)	(7.291)	(4.325)	(3.350)	(16.774)	(2.550)	(1.150)	(0.950)	0.350	(4.300)
Income taxes	(0.002)	-	-	(1.168)	(0.905)	(2.072)	(0.689)	(0.311)	(0.257)	0.094	(1.161)
Tax rate		*27%*	*27%*	*27%*	*27%*		*27%*	*27%*	*27%*	*27%*	
Net loss & comprehensive loss	(10.351)	(1.808)	(7.291)	(3.157)	(2.446)	(14.702)	(1.862)	(0.840)	(0.693)	0.256	(3.139)
Basic & diluted loss per common sha	$ (1.50)	$ (0.15)	$ (0.57)	$ (0.19)	$ (0.14)	$ (1.00)	$ (0.08)	$ (0.04)	$ (0.03)	$ 0.01	$ (0.14)
Weighted avg. shares outstanding	6.880	12.173	12.877	17.000	17.000	14.763	22.000	22.000	22.000	22.000	22.000


eSports Entertainment Group, Inc.
Closing Price Feb 16, 2021 $15.72
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D
E
A - 02/04/2021 Outperform Target $11.00 Current $8.27
B - 12/17/2020 Outperform Target $10.00 Current $5.96
C - 11/20/2020 Outperform Target $6.50 Current $4.27
D - 11/18/2020 Outperform Target $6.50 Current $4.23
E - 10/28/2020 Outperform Target $6.50 Current $4.57

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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	78%	35%
Market Perform: potential return is -15% to 15% of the current price	5%	1%
Underperform: potential return is >15% below the current price	0%	0%

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Noble Capital Markets, Inc.
225 NE Mizner Blvd. Suite 150
Boca Raton, FL 33432
561-994-1191

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