



eSports Entertainment Group, Inc.

Oct 28, 2020

Initiating Coverage: A Stake In Fast Growing ESports

Consumer

GMBL

Nasdaq

Rating

Outperform

Initiation

Current Price

\$4.65

Target Price

\$6.50

Market Capitalization

58.33M

Shares Outstanding

12.54M

Float

8.10M

Institutional Holdings

1%

12-Month Low/High

\$2.40/\$9.75

Average 90-Day Volume

334761

Fiscal Year End

06/30/2020

Fast growing industry. The esports audience is growing rapidly, with industry sources forecasting global growth of 11.7% in 2020 to 495 million. We believe that esports is following the patterns of the traditional sports industry, with growth expected in live, in person tournament events (to return following the Covid pandemic), broadcast rights (including streaming and televised), advertising and sponsorships, and finally, wagering.

Among first mover in esports betting. With a large and growing fanbase, we believe that esports betting will follow. Notably, the fanbase is young, an average age of 26, and affluent, with an average income of \$90,000. Notably, there is very little overlap with traditional sports interests. As such, we believe that the esports gambling industry is attractive and is unmet by traditional sports betting and casino gambling. Industry sources estimate that online esports betting is a \$24 billion industry in 2020.

A diversified platform for growth. With the recently announced acquisitions, the company is vertically integrated to many aspects of the esports industry including online and land-based esports and tournament play, skill based, peer to peer wagering, analytics and scouting tools, cloud based software technology to run the games, sportsbook and casino wagering, and esports betting. We believe that the company is uniquely diversified to participate in many areas of industry growth.

Significant cash position. As of June 30, 2020, the company had \$12.5 million in cash and virtually no debt. In addition, there is approximately \$10.5 million in proceeds expected from the exercise of warrants. Recently, the company announced \$43 million in acquisitions that is expected to be financed through a combination of cash, stock and debt. We believe that the acquisitions strengthen the company's ability to swing toward positive cash flow in fiscal 2022/2023.

Initiating with an Outperform rating and a \$6.50 price target. Near current levels, the GMBL shares trade at 1.9 times Enterprise Value to our fiscal year 2021 revenue estimate of \$25 million. The multiple is at a substantial 60% discount to the average multiple for its gambling peer group, as well as a sizable 21% discount to its esports peers. Our price target of \$6.50 anticipates a target multiple of 3.1 times EV to Revenue, the average multiple of its peer set.

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Revenues (\$ MIL)			
Period	2020A	2021E	2022E
Q1		0.2E	5.0E
Q2		2.5E	6.0E
Q3		3.9E	6.5E
Q4		5.5E	7.0E
	0	12.1E	24.5E

EPS (\$)			
Period	2020	2021E	2022E
Q1		(0.23)E	(0.09)E
Q2		(0.10)E	(0.07)E
Q3		(0.10)E	(0.06)E
Q4		(0.07)E	(0.06)E
	(1.50)	(0.47)E	(0.29)E

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

Investment Appraisal

eSports Entertainment is a developmental company in the fast growing industry of esports, (organized video gaming), and esports wagering. While the focus of the company's initial growth will be on gaming, it has a three pronged approach toward the market that includes 1) developing tournament gaming play, 2) traditional sports and casino betting, and 3) esports betting. Each one of the three pillars offers attractive revenue growth and cross pollination growth opportunities.

The esports industry is rapidly growing, attracting 495 million viewers worldwide, up 11.7% from 2019. Notably, the maturation of the industry is following along the lines of traditional sports. Esports tournaments are typically online or live, in person tournament play, typically hosted in auditoriums, and viewed much like a sporting event. While the Covid pandemic shifted these tournaments online, we believe that live, in person tournament play will resume in the future. Notably, given restricted sports schedules and the need for programming during the pandemic, some television broadcast networks televised esports programming.

Much in the way sportsbook wagering evolved from the popularity of traditional sports, we believe that esports will become popular for gamblers as well. Notably, esports offers an attractive growth opportunity for gambling companies given the favorable demographic for esports enthusiasts, which tend to be young and affluent, discussed later in this report. And, this market is large and growing rapidly.

We believe that eSports Entertainment is well positioned to be among the leading companies in the esports and esports gambling industries. Its affiliate group and betting platform, combined with recent acquisitions that create a vertically integrated company, provides a unique and unrivaled play on the growth of the industry. The company operates online and, eventually, live leagues and tournaments for gamers. Leagues and Tournament play offer a compelling revenue opportunity through advertising and sponsorships, streaming broadcast rights, ticket, merchandise, food and beverage sales. In addition, these tournaments offer lead generation for fans interested in wagering on tournament play. To that end, the company has a compelling, real-money wagering platform, called Vie.gg, which allows fans the ability to wager on all professional esports events in a licensed and secure environment. Finally, the company has entered the online gambling industry for casino and sports betting through the acquisition of Argyll Entertainment, which is licensed in the UK and Ireland.

The structure appears to be in place for attractive growth, which is expected to be both internal and through acquisitions. As a NASDAQ listed company, we believe that there is a currency for acquisitions, which is expected to be a key revenue growth driver. For now, a large portion of the company's revenues are expected to be derived from Argyll, which generated \$12 million in revenues in 2019. We estimate that this business will generate \$13 million in revenues in 2020 and grow to \$18 million in 2021. Additional revenue will be derived from leagues and tournaments and from online esports wagering. The company expects to begin generating revenue from its Vie.gg platform. The company has applied for a license in the State of New Jersey and expects approval in Q1 2021. Additional States will be identified for licenses in 2021.

As of June 30, the company had \$12.5 million in cash and virtually no debt, which provides significant liquidity to pursue its growth plans. In addition, the company is expected to generate \$10.5 million from the exercise of warrants, which are currently in the money. The company is estimated to have a burn rate of roughly \$1 million per month, which provides it a decent amount of runway to deliver on its growth plans. We believe that there are significant M&A opportunities, both domestically and internationally. The acquisitions may target leagues and tournaments, as well as traditional and esports wagering businesses.

Recently, the company announced plans to acquire Helix eSports and ggCircuit in a transaction valued at roughly \$43 million. Helix is a esports tournament venue company and ggCircuit is tournament software platform with an integrated point of sale, wallet, solution for enterprise customers. Notably, Helix also owns Genji Analytics, a publisher of analytics and talent scouting information. This anticipated acquisition will enable the company to have a unique, vertically integrated platform for growth in nearly every aspect of the esports industry. While details of the acquisition have not yet been disclosed, we anticipate that the company will finance the acquisition through a combination of cash, equity and debt. The transaction is expected to close by calendar year end. Given the early stage of the industry, there are very few companies that are generating positive cash flow. We believe that eSports Entertainment may swing cash flow positive in fiscal 2022, although our more conservative estimates have a modest cash flow loss. We believe that the recent acquisitions may accelerate the prospect of a swing toward positive

cash flow, depending upon the rate of investment for growth.

Given the nascent and fast developing industry, however, valuation metrics are based on revenues. Near current levels, the GMBL shares trade at 1.9 times Enterprise Value to our estimated fiscal 2021 revenue, or below the average for its esports peer group, as well as the gambling peer group. Notably, the multiple is 80% below recent M&A transaction multiples that have averaged 10.0 times revenues. We are initiating coverage of eSports Entertainment with an Outperform rating and a \$6.50 price target. Our price target is based on an Enterprise Value to Revenue multiple of 3.1 times, which is based on the average of current multiples of public esports and gambling companies and recent transaction prices.

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 that are outlined later in this report.

Investment Highlights

Participation in the fast growing esports industry. Esports fanbase is growing at a rapid rate and is expected to be over 590 million people worldwide by 2022. It is expected that the large and growing esports fanbase will support growth in the number of fans who will gamble on events.

Platform for growth. The company is listed on NASDAQ, which provides a currency for future acquisitions, a key component of its growth strategy. In addition, the company is vertically integrated into many aspects of esports, including online and land based esports and tournament play, analytics and scouting information, cloud based B2B software technology solutions for gaming, esports betting and sportsbook and casino betting.

Well positioned in the large and growing esports gambling market. The esports gambling market is large and estimated to be \$24 billion in 2020. The company has a proprietary esports betting platform, called Vie.gg, which was developed in 2018. This platform offers a wide variety of betting options in a secure, online environment.

Experienced management team. There is a deep management bench with substantial experience in the esports and online gambling industries.

Compelling relative stock valuation. Near current levels, the GMBL shares trade at a discount to its peer group averages in both the gambling and esports industries on the basis of Enterprise Value to Revenue. In addition, the shares trade at a discount to the most recent transaction prices in the industry.

Investment Risks

Competition. There are a large number of competitors in the space with few barriers to entry. Some of its competitors have financial resources greater than the company.

Fees and regulations. Gaming companies are subject to significant taxes and fees. Changes in tax laws could have a material adverse impact on the business.

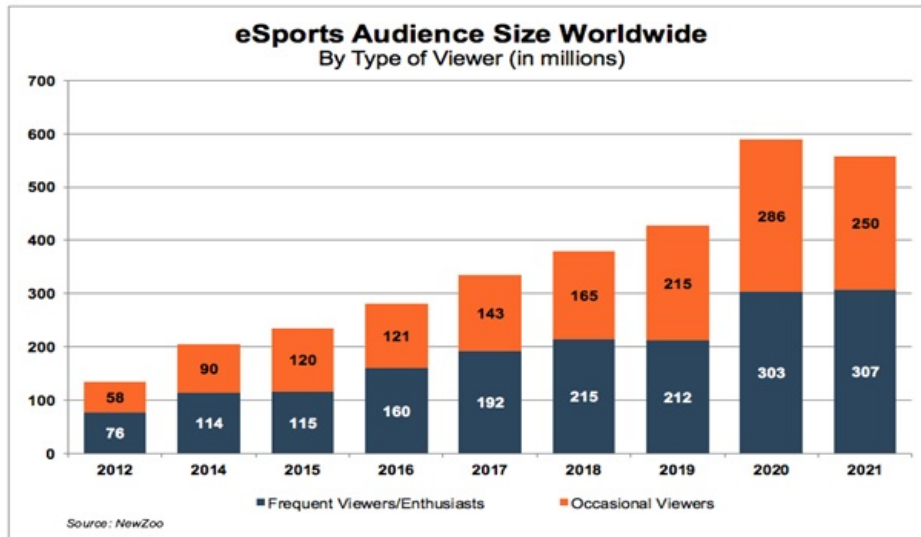
Additional funding expected. The company appears to have sufficient cash to continue operating for the next 12 months. The company is expected to raise additional capital, however, to execute its business strategy and to make acquisitions. The additional funding could be significantly dilutive to existing shareholders. In addition, the prospect that the company increases debt, for funding or acquisition purposes, could increase the balance sheet risk.

Risk management. Gambling exposes the company to trading, liability management and pricing risk. Any significant losses could have a material adverse impact on its business.

Industry Overview

Esports is one of the fastest growing spectator events attracting more than 500 million viewers worldwide. It is defined as

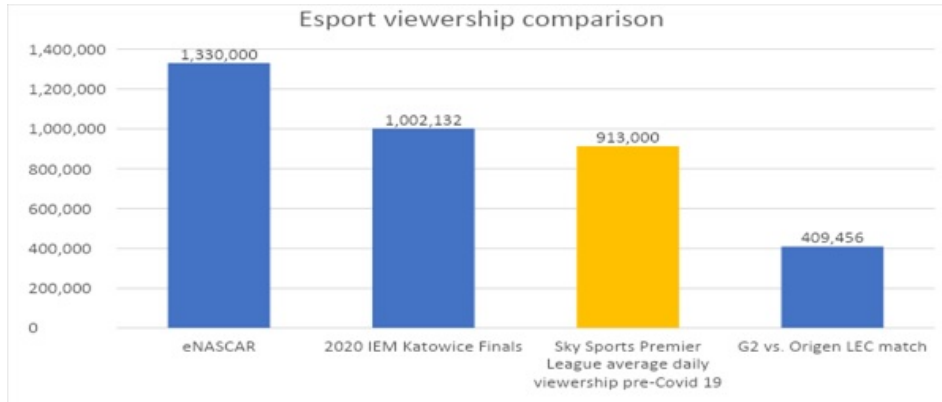
organized video gaming. Whether or not esports is an actual sport can be debated. However, there is no denying that esports' characteristics are similar to traditional sports. Games may consist of individual or multiplayer teams. Participants train and compete against other players or teams in an organized contest under predetermined rules. Competitions attract large audiences at the venue and across social media sites such as Twitch. A reported 1.8 billion hours of esports were watched in 2019, representing a 125% year-over-year growth rate. Announcers describe the action as it unfolds, much like traditional sporting events. Standings, rankings and performance statistics are maintained.



Esports can be broken down into different categories such as multiplayer online battle, first-person shooter, card games, battle royales and real-time strategy. Popular esports franchises include Fortnite, Call of Duty, Halo, League of Legends, Valorant, Dota 2 and Counter Strike. Esports tournament prize purses are larger than traditional sports. Successful esports participants can make millions of dollars. Dota 2 professional Johan Sundstein won \$7 million by age 26. Successful players no longer treat video games as a hobby, but view them as a job. The amount of revenue associated with esports has exploded in recent years.



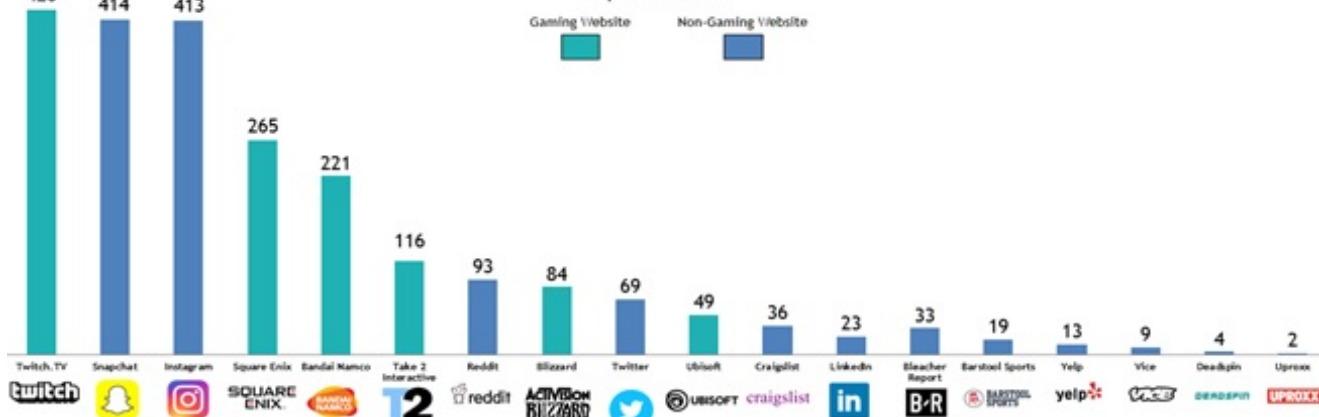
The growing popularity of esports is attracting the attention of traditional sport organizations. Esport contests for eNASCAR and IEM Katowice 2020 both drew over 1 million viewers during competitions last spring, outpacing the viewership of premier soccer competitions. The International Olympic Committee is monitoring the growth of esports and even sponsored esports competitions alongside the 2016 Olympics. Traditional television sports stations such as ESPN now telecast contests and report standings and statistical records on its websites. ESPN even constructs a coach's poll ranking the top players/teams for several of the more popular games. ESPN also monitors and promotes activity in video games that mimic traditional sports such as the Madden Football and MLB Baseball.



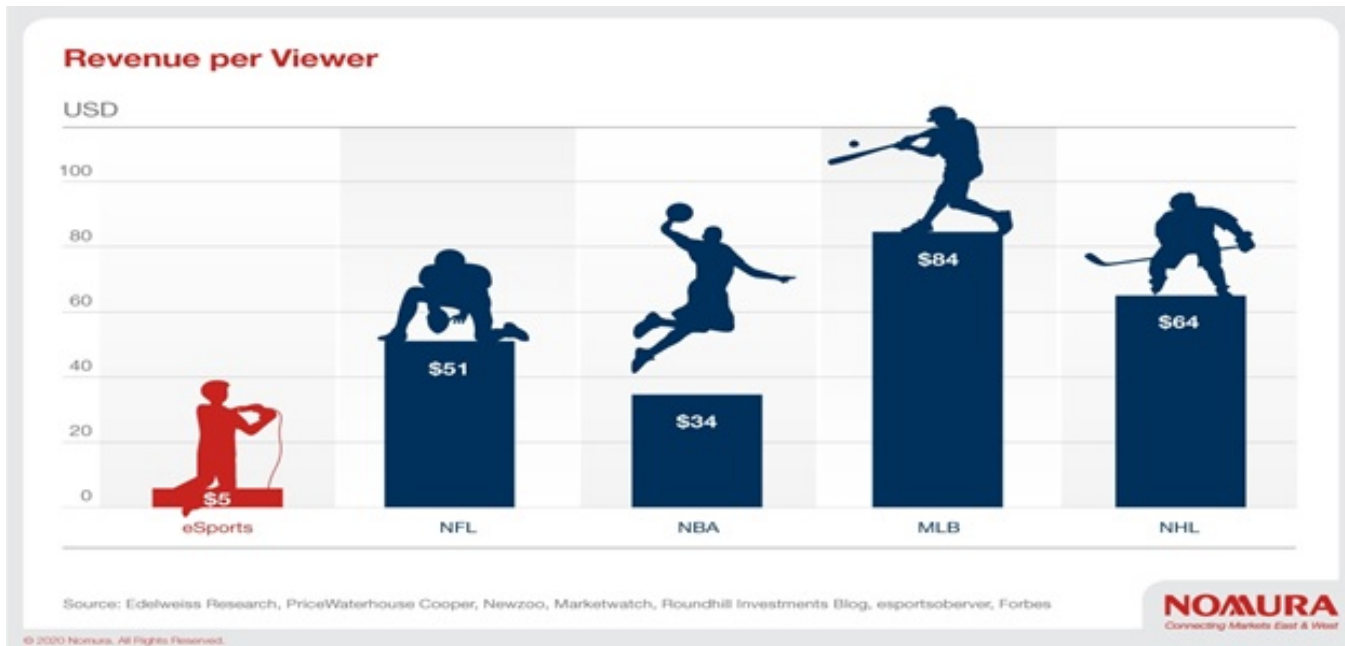
Viewer Demographic

Compared to traditional sport viewing, esports has a younger demographic that is more affluent and more global. The average age of an esports viewer is 26. Eighty-five percent of the viewers are male, but female viewership is growing both in terms of viewership numbers and percentage. Viewership is especially popular in Asian countries. Viewers of esports platforms tend to stay on the platform for longer periods than traditional sports or other computer applications making the sites ripe for advertising revenues. The chart below indicates that websites that show traditional esports contests such as Twitch, Square ENIX and Bandai Namco are watched for longer periods than other applications. The success of esports led Amazon to purchase Twitch for \$1 billion in 2014.

M18-34 Average Minutes Per Visitor
September 2018



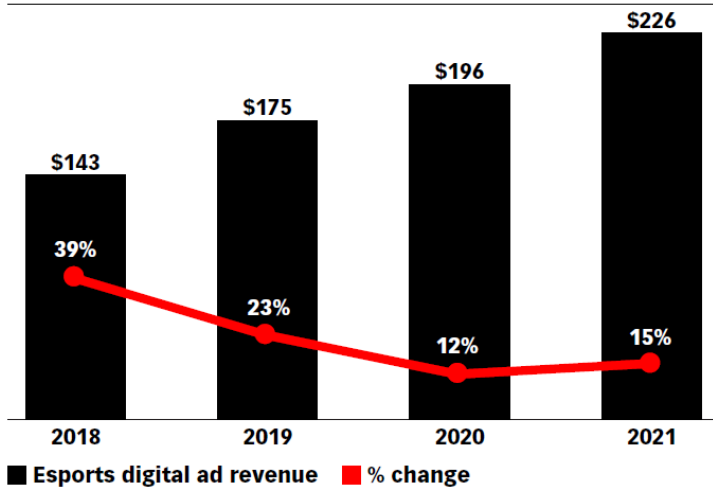
Revenue per viewer is lower than other sports, but growing. What esports lacks in revenue per viewer, however, it makes up for with a larger viewer base. Notably, lower revenue per viewer is a reflection of the relatively young industry and traditional advertisers are just now moving into its direction. Advertisers of traditional sports will allocate more resources to attract this largely unreached market. Esports fans skew heavily male and are 18 to 34 in age, representing 32% of the fan base, with 23% of fans age 35 to 44. Marketers have long advertised on traditional sports, like football, golf, racing and baseball, to reach the male demographic. A March 2020 Morning Consult survey found that only 34% of esports fans are fans of traditional sports. As such, it is likely that marketing budgets will shift out of discretionary ad budgets to esports in order to reach a younger, male demographic and reach an audience that it does not reach by traditional sports platforms.



Industry sources estimate that esports advertising will increase 12% in 2020, reaching \$196 million, an estimate that was modestly adjusted lower by \$3 million due to the Covid pandemic. The total includes advertising and sponsorships from organized esports competitions on digital platforms. This estimate excludes revenues from esports competitions on linear TV, merchandise and ticket sales, as well as ads within the games. The advertising revenue growth is impressive. Most advertising mediums were significantly affected by the Covid pandemic and are expected to decrease in 2020. As the following chart illustrates, looking out to 2021, advertising revenue is expected to increase 15% to \$226 million.

US Esports Digital Ad Revenue, 2018-2021

millions and % change



Note: includes advertising and sponsorship revenues from organized esports competitions (e.g., Evolution Championship Series, League of Legends Championship Series and Overwatch League) hosted on digital platforms; excludes revenues from esports competitions hosted on linear TV
Source: eMarketer, June 2020

256689

www.eMarketer.com

History

Most sources point towards a 1972 contest of the game Spacewar at Stamford University as the first video game competition. The grand prize winner received a year-long subscription to Rolling Stones magazine. A 1980 Space Invaders contest surprisingly drew more than 10,000 participants and led to the media and advertisers paying more attention to video game contest. Video game playing grew in the 1990s with the advent of the Internet. Instead of playing against opponents on a machine at an arcade, players could compete against friends on their respective home computers or game sets.

A 1997 tournament of the game Red Annihilation may have been the first esports competition. The tournament drew 2000 participants trying to win a Ferrari car as the grand prize. Competitions were largely done by amateurs until the late 2000s. By 2010, game designers and game equipment companies began sponsoring tournaments. There were only 10 sponsored tournaments in 2000. By 2010, that number had grown to 260. In 2017, there were 3,765 esports tournaments awarding \$110 million in cash prizes. And, the number of tournaments, participants and viewers, and the amount of prize money continues to growth each year.

Gambling

The growth of participants, viewers and media sponsorship has also attracted the attention of the gambling industry. Narus Advisors estimated \$13 billion wagered on esports globally in 2019 and was projected to grow to \$24 billion in 2020. A recent study of the domestic market indicated that esports gambling could reach \$14 billion in 2020 in the U.S. market alone. That amount would be twice that wagered in 2019.

The recent growth in esports gambling has been fueled by the impact that COVID-19 has had on traditional sports. With football, baseball, basketball, and hockey all delaying and reducing competition, esports has stepped in to fill the void. Esports, being non-contact and largely viewed online, does not face the obstacles faced by traditional sports. Gamblers have noticed and shifted their attention towards esports.

Gambling on esports has also benefitted from changes in gambling regulation. The Professional and Amateur Sports Protection Act (PASPA) of 1992 prevented gambling on sports in all but five states. Whether esports was viewed as a sport was determined by individual states. Nevada (one of five exempted states) legalized gambling on esports in June 2017. The Supreme Court overruled PASPA in 2018 opening gambling to all states and leading to an increase in gambling for both esports and traditional sports. Gambling on esports is also permitted in many foreign countries including the UK, China, Canada and South Korea.

The growth in esports gambling has attracted the attention of traditional gambling venues due to changing demographics and consumer habits for traditional gambling games. Casinos realize that the next generation is more interested in gambling on esports than traditional gambling games. While the Baby Boomer generation likes betting on card games and slot machines and the Gen-X generation likes betting on traditional sports, the Millennial and Gen-Z generations do not show interest in those games, but still gamble. As such, casinos realize they must adapt to changing gambling preferences and that means promoting esports gambling. In response, MGM opened a 20,000 square foot arena in 2018 for esports and has sponsored several competitions. We expect more casinos will follow.

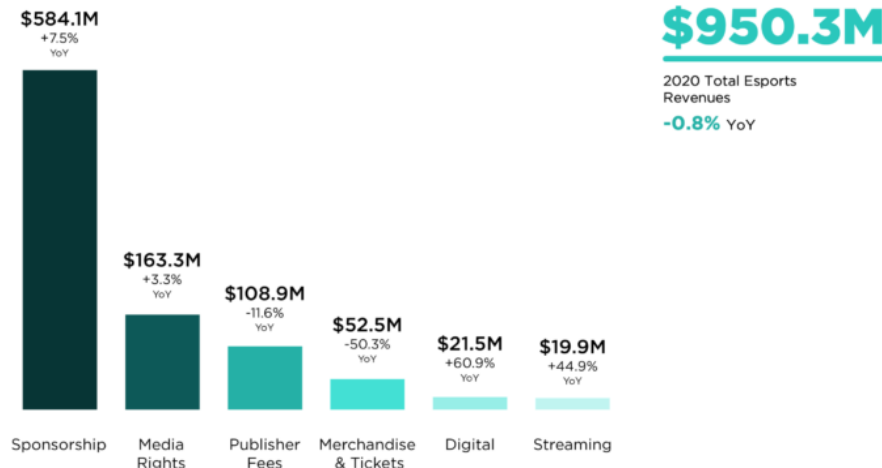
The Covid Effect

The Covid pandemic has had a mixed impact on the esports industry; live, in person events have been largely wiped out, but there is a thriving online business. The live, in person tournaments have had an adverse affect on ticket and merchandise sales. As a result, Newzoo lowered its 2020 forecast for merchandise and ticket sales from \$76.2 million to \$52.5 million, owing to the fact that there are not likely to be live events for the balance of 2020. Total 2020 revenue was lowered from \$973.9 million to \$950.3 million. Still, the 2020 esports revenue forecast is only a modest 0.8% lower than last year, as the following Figure illustrates.



2020 Esports Revenue Streams | Global

Including Year-on-Year Growth



Newzoo's esports revenue figures always exclude revenues from betting, fantasy leagues, and similar cash-payout concepts, as well as revenues generated within games.

©Newzoo | 2020 Global Esports Market Report | October 2020 Update

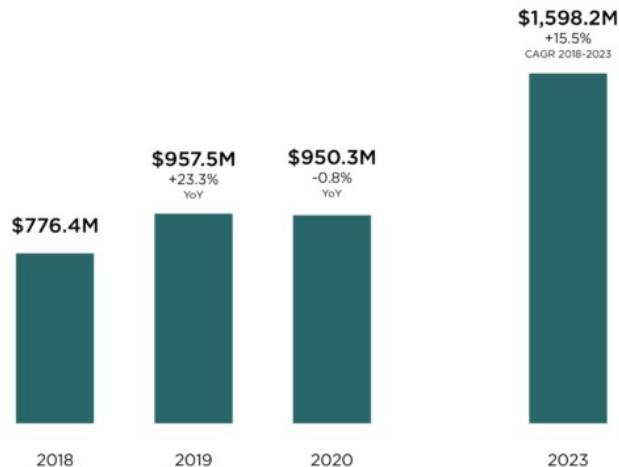
Most of the tournaments have moved online and sponsors have adjusted accordingly. As such, there has not been an impact on audience, which has not been impacted or the number of organizers. Consequently, we expect that the esports industry revenues will bounce back as we move to the back side of the pandemic. Newzoo estimates that industry revenue growth will accelerate at a 15% compound annual rate to 2023, as the following Figure illustrates. Note: these estimates do not include

esports wagering and are only illustrative of the favorable health of the overall esports market during the pandemic.



Esports Revenue Growth

Global | For 2018, 2019, 2020, 2023



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newzoo.com/esportsreport

Company Overview

Esports Entertainment, formerly VGambling, is a developmental company that plans to focus its business on the fast growing esports industry and esports and traditional sports betting. The company is based in Malta, a European Union country, that allows it to offer online gambling in many of the EU countries. The company has a three pronged growth strategy, which focuses on esports entertainment, esports wagering, and iGaming and traditional sports betting. Recently, the company announced a planned acquisition of Helix eSports and ggCircuit for \$43 million. This is one of the most consequential and transformative acquisition for the company. Importantly, the acquisition will diversify the company's revenues and enhance its growth profile, discussed later in this report.

Esports Entertainment

Esports entertainment includes online and in person leagues and tournaments for gamers. It is an organized competitive video gaming that is watched as a spectator event. The company plans to offer video game tournament play and win cash prizes globally and in all 41 States in the U.S. that currently allow games of skill under its Esports Gaming League (EGL) platform. Games of skill are not considered gambling and are not subject to the same laws and regulations as its esports wagering business, discussed later. The esports entertainment model includes tournament entry fees, with the winner to receive a cash prize based on the percentage of the total tournament fees, typically 10%. Importantly, in this model, none of the company's money will be at risk based upon the outcome. In addition to tournament fees, the company may receive revenue from sponsorships and advertising, (both endemic and non endemic), streaming broadcast rights, merchandise sales, ticket sales and concessions.

These tournaments are an important lead generation platform for the company's real-money wagering business. First, the tournament platform allows the company to determine which markets are attractive in terms of players. This can be an important lead to determine markets and States that the company may pursue gambling licenses. Secondly, it allows the company to build its brand within the esports community. Thirdly, it allows the company to develop relationships with players

that can migrate to real-money wagering. In our view, esports tournaments should be profitable, but should also serve as a means for low customer acquisition costs for its wagering platform.

We believe that the company will have a multi pronged approach to build its tournament business, including seeking strategic partnerships, affiliate marketing, enlisting celebrities and social media influencers to promote its business. To reach a large audience, the company plans to partner with professional teams that have millions of fans. This represents a low cost customer acquisition for the company as it utilizes a team's existing fan base. In this instance, the team would promote the esports brand and will be a lead generation for its gambling business. To that end, the company secured affiliate marketing agreements with over 170 professional esports teams and over 600 influencers. The affiliated partners will be provided a link that will have the ability to wager on the outcome, if they are in jurisdictions that allow wagering. The affiliates receive a percentage of the winning bets made through the link and also participate in revenues generated from referrals. We believe that the company will expand upon its partnerships outlined in the following illustration. The company is expected to focus on geographic expansion, especially in the United States, particularly in the 41 States that legally allows tournament play.

One of the most significant partnerships is with an esports brand, Dignitas (DIG), owned by Harris Blitzer Sports and Entertainment (HBSE). HBSE the owner of leading global brands and sports properties including Philadelphia 76ers, the New Jersey Devils and the Prudential Center in Newark, New Jersey, to name a few. Dignitas is an international digital sports and entertainment company, which HBSE acquired in September 2016. Dignitas includes seven esports teams competing on the most popular games including League of Legends, Counter Strike, Super Smash Bros., Rocket League and Clash Royale. With over 9 million registered international fanbase, Dignitas is a leading esports team and one of the most recognizable brands in the industry.

In August 2020, the company acquired Esports Gaming League (EGL), a UK based esports tournament platform. EGL is recognized in the industry for hosting well attended, in-person, ticketed events. These events are monetized through sponsorships, streaming broadcast rights, advertising, ticket sales, merchandise, and food and beverage sales. In 2019, EGL hosted 22 live events internationally that averaged 61,000 per event. Live tournament play has recently shifted almost exclusively to online gaming given the limitations of audience gatherings during the Covid pandemic. It is expected that live, in person leagues and tournaments will resume following the pandemic. Online tournament play, however, has been quite successful.

Also in August, the company partnered with Allied Esports and hosted a gaming tournament featuring 12 teams from European countries. The two week tournament was carried live on Twitch.tv and had over 1.7 million unique viewers, one of the most successful tournaments in the leagues' history. There was a 400% increase in new users for the tournament series and Esports had a 300% increase in deposits for its wagering platform, discussed later in this report. We believe that the success of this partnership is illustrative of the opportunity for the company's wagering platform.

Recently, the company announced an agreement with AEG, a leading sports and live entertainment company, to become the official esports tournament provider for the LA Kings of the National Hockey League and LA Galaxy of Major League Soccer. While the company has offered tournament play internationally, this is the first agreement for tournament play in the United States. Esports Entertainment will host branded tournaments for the LA Kings and LA Galaxy on its Esports Gaming League platform. For AEG, this allows the sports teams to engage with its current fanbase and to outreach to potentially new fans. Further details of the agreement were not yet disclosed, but we believe that it will become a basis for future agreements with traditional sports teams and an opportunity to expand in the United States.

The company recently announced the most transformative acquisition of its young history with plans to purchase Helix eSports and ggCircuit for \$43 million. The acquisition is expected to close year end 2020 or early 2021. Helix eSports has state of the art esports centers that allow gamers to compete on modern, high end gaming equipment. The company currently has two locations, with additional locations coming soon. The average cost of the facility is \$500,000 and are expected to be profitable within 18 months. We believe that the venues offer insight on how traditional casinos may incorporate esports and esports betting into their facilities.

In addition to the esports facilities, the company will own ggCircuit, a B2B, cloud based management system, tournament

platform, and point of sale solution for enterprise customers. Notably, the ggCircuit network has more than 1,000 locations, with clients ranging from Gamestop, Dell, Best Buy, and Lenovo. The acquisition also includes Genji Analytics, an analytics and scouting information company. Finally, the acquisition includes LANduel, a player versus player wagering platform for skilled based wagering. We believe that these platforms provide relationships that may cross pollinate to its other business lines and attractive opportunities for growth.

The company has not provided details on the financials of Helix as it plans to audit the numbers. In addition, the company has options on the financing the acquisition. We anticipate that the company would use a combination of cash, equity and debt to finance the acquisition. We expect that there will be roughly \$10 million in proceeds from the likely exercise of in the money warrants. We believe that this cash will be used for the acquisition. The balance will likely be a combination of equity and debt, likely leaning towards equity if the stock performs well.

We estimate that Helix will generate roughly \$8 million to \$10 million in revenues in 2020, depressed by the impact of the Covid pandemic. Currently, the esports centers are operating at only 25% capacity. Despite the limited number of customers, the facilities are expected to be break even due to beverage and food sales and innovative ways to utilize the company's equipment. We believe that the business will resume as the pandemic subsides. Consequently, management provided guidance for fiscal 2022 of a minimum of \$17 million. Our current estimates do not factor in the acquisitions until more details are known. But, we believe that the acquisition is attractive and provides the company compelling growth opportunities.

Esports Wagering Platform

The company's mobile wagering platform for esports betting is called Vie.gg. The platform provides fans the ability to wager on professional esports events in a licensed and secure manner. Notably, Vie.gg does not offer betting on casino games, just esports. The company has gaming licenses in Malta and Curacao, which covers 149 jurisdictions globally. As a result, the company has esports wagering opportunities in Canada, Japan, Germany, South Africa, among others. Since the company received its Malta license on April 30, 2020, the company now has the ability to enter European Union countries.

We expect that the company will seek a two prong approach to growing this business, including developing its esports wagering business internationally and to obtain licenses in the United States. On August 20, the company entered into a multi-year partnership with Twin River Worldwide Holdings to launch Vie.gg in the State of New Jersey. The company plans to have its Vie.gg platform up and running by the end of the first quarter 2021 in New Jersey, which assumes that its license application is approved. We believe that an advantage for the granting of a State license includes the fact that the company is NASDAQ listed, which offers financial reporting transparency with SEC filings. The company plans to identify additional States to pursue licensing for its wagering platform.

iGaming and Traditional Sports Betting

The company purchased AHG Entertainment, which included Argyll Entertainment and Nevada Holdings, in July 2020 to enter the sports betting market for sportsbook and casino. Casino games include Blackjack, Roulette, Baccarat, Slots and virtual games, including horse racing, soccer and motorsports. We believe that the acquisition was designed to cross pollinate its esports wagering business with traditional gambling in markets that provide jurisdiction approval. AHG is licensed and regulated by the UK Gambling Commission and the Irish Revenue Commissions to operate an online sportsbook and casino sites in the United Kingdom and Ireland. The Argyll flagship sites include www.SportNation.bet and two white label brands including www.RedZone.bet and www.uk.Fansbet.com. The company indicates that there are over 100,000 registered players through Argyll Entertainment. At this time, wagering is only permitted in the United Kingdom and Republic of Ireland.

The vast majority of the company's \$13 million revenue guide for fiscal 2021 is expected to come from the Argyll acquisition. We estimate that the business is expected to turn cash flow positive by the fourth quarter 2021, excluding the investment spend to enter new markets, which is likely. Revenues are expected to increase over 38% in fiscal 2022 to roughly \$18 million. We believe that cash flow margins should eventually be in the 8% range, but could go higher depending upon expansion into other

markets, which may not be taxed as heavily as the United Kingdom. The company has identified 8 to 9 territories to enter which include Canada, Brazil, Argentina, Chile, New Zealand and Japan.

Growth Strategy

We believe that the primary area of growth in the next few years will be through acquisitions, which are expected to focus along its three pillar strategy outlined earlier. In addition, the company plans to focus on expanding its offerings into additional markets and to offer new products and services.

Acquisitions. The company plans to have an aggressive acquisition program that develops a diversified, vertically integrated growth opportunity. Management indicated that acquisitions are expected to round out, or accelerate, the gambling opportunities in Europe and/or develop in the esports space. In addition, the company anticipates that it will seek established businesses that may be EBITDA positive.

New products and services. The company plans to offer skill-based online video game tournaments for cash prizes in jurisdictions in the U.S. and other countries that allow such tournament play. In addition, it plans to offer peer-to-peer play for prize money. In this instance, the company collects a tournament entry fee and distributes prize money, which is typically 10% of the total entry fees.

The company also plans to develop, license or acquire from a third party an online skill game tournament play platform. The platform is expected to be accessible by PC, game console or mobile device. The company indicated that it plans to launch video games under its VIE brand beginning in the second half of 2020.

Expansion opportunities. With its Malta Gaming Authority license, the company has the ability to offer online gaming operations to the vast majority of countries in the European Union. The company plans to apply for an online gambling license in Asia, which is the largest gambling market in the world. We also expect that the company will pursue expansion in the U.S. with its Vie.gg platform. We believe that its partnership with Twin River Worldwide Holdings to launch its mobile sports betting product in New Jersey is a first step to introduce its products in other jurisdictions in the US.

Competition

The gambling industry on esports and traditional online sportsbook and casino betting is highly competitive with low barriers to entry. We believe that an advantage of the company's wagering platform is that it offers the most comprehensive suite of betting options. In addition, many of its competitors offer one product, rather than a suite of gambling options. We believe that the company is aggressively seeking acquisitions to enhance its feature set in the esports wagering market and to provide a larger barrier to entry. There are a large number of current competitors including Unikrn, bet365, William Hill, Betway, and Pinnacle Sports. Other gambling companies, such as DraftKings, which offer traditional sportsbook and casino betting, could focus on the esports market at some point in the future. A number of other companies may enter this fast growing market as well. We believe that the company's diversified revenue stream approach de-risks some of the competitive pressures on its gambling business.

Financial Overview

As of June 30, 2020, the company had \$12.5 million in cash and virtually no debt as the following figure illustrates. The company's cash position is expected to decrease by roughly \$2.7 million per quarter as the company invests for its growth. Notably, there are warrants that may provide additional liquidity for the company as they are redeemed. We estimate that proceeds from the warrants will be roughly \$10.5 million. We expect that the balance sheet will change over time as the company seeks acquisition fueled growth.

Recently, the company announced plans to acquire Helix eSports and ggCircuit in a combined transaction valued at \$43 million. The transaction is expected to be initially financed through debt, although it is likely that the company may seek an equity raise to enhance its liquidity and have a war chest for future acquisitions. We estimate that the planned purchase is roughly 4.4 times 2020 revenues, or 2.5 times fiscal 2022 revenues based on the \$17 million revenue guidance for the

company in fiscal 2022.

Consolidated Balance Sheet	
(in millions)	30-Jun
	2020
Assets	
Current Assets	
Cash	12.353
Prepaid expenses & other	-
Deposit on business acquisition	0.500
Prepaid expenses & other	0.263
Total current assets	13.116
Fixed assets	0.008
Intangible assets	0.002
Other	0.007
Total Assets	13.133
Liabilities & Stockholders' Deficit	
Accounts payable & accrued exp.	0.790
Liabilities to be settled in stock	0.928
Due to officers	0.022
Convertible note	
Derivative liabilities	
Total Liabilities	1.739
Stockholders' deficit	
Preferred stock	-
Common stock	0.011
Additional paid-in capital	31.803
Equity to be issued	0.115
Accumulated deficit	(20.536)
Total Stockholders' Deficit	11.394
Total liabilities & Stockholders' Deficit	13.134

Recent Results and Outlook

The company did not have significant operations in 2019, reflected in its fiscal year end June 30, 2020 results. In the fiscal first quarter end September 30, its business will largely reflect the recent Argyll acquisition. The company's revenue guidance for fiscal year end June 30, 2021 is \$13 million. With the recent planned Helix acquisition, the company increased its revenue guidance for fiscal 2022 from \$25 million to \$42 million. Given the start up nature of the esports business, in general, and eSports Entertainment, specifically, we do not anticipate that the company will generate positive total company cash flow in fiscal 2021 or fiscal 2022. We believe it is possible that the company could swing toward positive cash flow in the second half of fiscal 2022, although our estimates are more conservative and anticipate losses. Longer term, we do believe that the company will swing toward positive cash flow, possibly in fiscal 2023, excluding further acquisitions or more aggressive investment plans, which appears likely.

Management Overview

The company has built a management team with experience in the online gambling, gaming and esports industries. Notably, the company has four independent directors including Damian Mathews, Chul Woong Lim, Alan Alden and Warwick Bartlett,

on a 6 person board.

Grant Johnson has been the Chief Executive Officer of the Company since 2013. From 2007 to 2013, Mr. Johnson advised several development stage companies as a sales management and business development consultant. From 2003 to 2007, Mr. Johnson was co-founder, President, Chief Operating Officer and a Director of Swiss Medica Inc., a US publicly listed company which manufactured and sold nutraceutical products online. From 2000 to 2003, Mr. Johnson was founder, President, Chief Executive Officer and a Director of Healthnet International Inc., a US publicly listed company which sold nutraceutical products online. From early 1996 to 1999, Mr. Johnson was Vice President of Starnet Communications International, Inc. and Softec Systems Inc., a market leader in the B2B sector of the online gambling industry. Mr. Johnson obtained his Bachelor of Arts degree in economics and history from the University of Western Ontario in Canada.

Daniel Marks combines over twenty (20) years of experience of senior management in online gambling and corporate banking. From 2016 through the present, Mr. Marks has served as Chief Financial Officer of Argyll Entertainment AG, an online gambling operator licensed in the UK and Ireland. From 2014 to 2016, he was Chief Financial Officer for Large and Mid-Market Corporates for HSBC, North America, a British multinational banking and financial services organization. From 2008 through 2014, Mr. Marks held multiple financial and operational leadership roles, including Chief Operating Officer for UK Coverage at Barclays plc, a British multinational investment bank and financial services company. He has an undergraduate degree from the University of Bristol, UK, and is a CIMA qualified accountant.

John Brackens combines over 12 years of experience in information technology senior management following a 4 year career leading customer experience teams. Previously, he had been involved in five organizations within the game industry holding positions including Chief Operating Officer, Treasurer, Foreign Director, and Network Operations Manager. From 2018 through January 2019, Mr. Brackens was the Operations Director for Carte Blanche Entertainment, Inc., an iGaming company. From 2016 to 2017, he was Chief Operating Officer for Sparkjumpers Pte Ltd., a company involved in video game development and eSports tournament events. From January 2014 to January 2016, he was Manager of Network Operations of Activision Blizzard - Demonware an entertainment company that focused on AAA game development. Mr. Brackens studied Electrical Engineering at Arizona State University. On September 26, 2019, Mr. Brackens was appointed chief technology officer of the Company.

Stuart Tilly combines over 15 years of experience in the online gaming industry having previously trained and qualified as a Solicitor. Previously, he had been involved in several online gaming companies, holding positions including Founder and Chief Executive Officer, Chief Legal Officer and Non-Executive Director and board member. From 2016 through 2020, Stuart was the Chief Executive Officer for Argyll Entertainment AG, a UK licensed online sports betting and gaming company. From 2014 to 2020, he was also Founder and Chief Executive Officer of Flip Sports Limited, a mobile games development company. From 2012 to 2016 he was Founder and Executive Director of iGaming Counsel, a legal and commercial advisory firm to the online gaming industry. From 2005 to 2012 he held senior legal positions in the online gaming industry. Stuart was also a founding member of the International Social Games Association, an industry trade body for the social gaming industry and a non-executive advisor to Game Sparks Limited, a games platform as a service company. He has a law degree from the University of Exeter and an LPC Masters Degree from Nottingham Trent Law School. Stuart trained and qualified as a solicitor at Magic Circle law firm, Allen & Overy LLP.

Damian Mathews combines over 25 years of experience in senior finance positions within investment management, banking and accounting. Previously, he had been involved with the Qatar and Abu Dhabi Investment Company (a sovereign wealth fund owned investment company) as Chief Financial Officer from 2014 to 2020. From 2012 to 2014 he was a Director of his own consultancy business, NZ Pacific Investments, in New Zealand. From 2009 to 2012 he held senior management positions including General Manager Finance (New Zealand); Head of Finance and Operations Americas (United States); and Head of Change Management (Australia) at Commonwealth Bank of Australia Group. From 2007 to 2008 Damian was a Director in Product Control at ABN Amro bank in London. From 2002 to 2006 he held various senior financial controller positions at Royal Bank of Scotland Group in London. From 1998 to 2002 he was an Assistant Vice President at Credit Suisse First Boston investment bank in London and the Bahamas. From 1994 to 1998, he was an Assistant Manager at KPMG accountants in London. He has a joint honors undergraduate degree in Economics and Politics from the University of Bristol in the United Kingdom and is a fellow of the Institute of Chartered Accountants in England and Wales.

Chul Woong Lim, since June 2018, has been Director of Global Business for Loud Communications based in Seoul, South Korea. Between 2014 and 2018 Mr. Lim was the Secretary General of the International e-Sports Federation (IeSF) based in Seoul, South Korea where he was responsible for relations with 47 national federations, international sports authorities, and global partners, in addition to organizing and operating the eSports World Championship and other international esports tournaments. During 2010, Mr. Lim was Deputy Manager of Sports Marketing with FIRSONS Inc., a Seoul, South Korea based sports events marketing firm. Mr. Lim was one of our Directors between January 30, 2015 and October 26, 2016. Mr. Lim received a B.S. in Physical Education from Seoul National University.

Alan Alden has been a specialist in advising remote gaming companies located in Malta since 2000, when he advised the first remote gaming companies as the Senior Manager of Enterprise Risk Services at Deloitte & Touche (Malta). In 2006, Mr. Alden established Kyte Consultants Ltd, a company that specialized in the remote gaming and payment card sectors, to assist companies located in Malta. In 2009, Mr. Alden became a founding director in Contact Advisory Services Ltd, a licensed Company Service Provider (CSP) that offers a complete service to its customers, from company incorporation, to licensing for gaming and financial institutions. Since 2010, Mr. Alden has served as the General Secretary of the Malta Remote Gaming Council. Mr. Alden is a Certified Information Systems Security Professional ("CISSP") and a Certified Information Systems Auditor ("CISA"). Mr. Alden was also the founding President of the ISACA Malta Chapter between 2005 and 2008. In 2015, Mr. Alden became a Part Time Lecturer on IT Auditing at the University of Malta.

Warwick Bartlett combines over fifty (50) years of experience in the gaming industry. From 1999 through the present, Mr. Bartlett has served as Chief Executive Officer of Global Betting & Gaming Consultants Ltd, a company that provides data and market reports for the global gambling industry. From 1989 to 2019, Mr. Bartlett served on the board of directors of Cashline Pawnbrokers Ltd. From 2002 to 2013, Mr. Bartlett served as Non-Executive Chairman of the Association of British Bookmakers a trade organization for betting shop operators in the United Kingdom which represents its members and their interests through legislative advocacy and media relations. From 2004 to 2010, Mr. Bartlett served as Member of the Horserace Betting Levy Board a UK statutory body that was established by the Betting Levy Act 1961. From 1992 to 2000, Mr. Bartlett served as Chairman of the British Betting Office Association.

Source: Company filings.

Stock Summary and Valuation

The esports industry is relatively new and there are few companies that are cash flow positive or profitable. But, the business is growing rapidly and most companies are expected to swing toward positive cash flow. We would assume that there will be a significant amount of industry consolidation, as companies position for leadership in this growing industry. Most of the valuation in a M&A transaction are expected to be in the form of goodwill. Amortization of goodwill is expected to adversely affect earnings. Consequently, we do not believe that earnings will be the basis of public market values for the foreseeable future. The current stock valuation metric is based on Enterprise Value to Revenue, which is the basis for comparative analysis for publicly traded companies and for the most recent M&A transactions. We believe that the industry valuation metric will shift toward cash flow valuations as the industry matures.

Recent transactions in the industry are hi



Precedent M&A Transactions of Previously Publicly Traded Comps

Date	Buyer	Target	Transaction Value	Enterprise Value/	
				Revenue	EBITDA
7/27/20	Rush Street Interactive, LP	dMY Technology Group, Inc.	\$1,780.0	11.9x	NMF
6/29/20	Golden Nugget Online Gaming, Inc.	Landcadia Holdings II, Inc.	\$745.0	11.6x	36.9x
12/23/19	DraftKings & SBTech (nka:DraftKings Inc.)	Diamond Eagle Acquisition Corp.	\$2,700.0	6.5x	NA
Mean			\$1,741.7	10.0x	36.9x
Median			\$1,780.0	11.6x	36.9x

Notes:

Golden Nugget PF valuation of \$745M per enterprise value and purchase multiples from Landcadia SEC filings 6/29/20

Rush Street enterprise value and revenues from press release and SEC filing by dMY Technology

Draft Kings enterprise value and revenues from Diamond Eagle SEC filing dated 12/23/19

Near current levels, the GMBL shares trade at 1.9 times Enterprise Value to our fiscal year end June 30, 2021 revenues, or at the low end of its comparable peers and recent M&A transaction multiples. As the following comparable chart illustrates, the GMBL shares trade at 1.9 times Enterprise Value to Revenues with an average industry peer group trading at 6.9 times. Our Enterprise Value calculation for the GMBL shares includes fully diluted shares assuming the exercise of in the money warrants and proceeds from those warrants. We assume that those warrants will be called in coming months. The companies highlighted in gray are the most comparable given that these companies are in the wagering business. Even factoring out the highest valuation in the peer set, Draftkings, the average multiple for the peer group is 4.7 times EV to Revenues.

eSports Entertainment Group Inc. (GMBL) | Current Price: \$4.65 | Outperform | Oct 28, 2020

		Esports Entertainment	DraftKings Inc.	GAN Limited	PointsBet Holdings	Flutter Entertainment	dMY Technology	Avg.
Ticker		GMBL	DKNG	GAN	PBH.AX	PDYPY	DMYT	
Stock Price								
52 week high		\$5.12	\$64.19	\$28.95	\$16.40	\$87.36	\$14.38	
52 week low		\$1.72	\$9.85	\$10.60	\$1.10	\$31.35	\$9.51	
Oct. 27, 2020		\$4.68	\$39.30	\$15.31	\$10.42	\$80.54	\$11.66	
Revenue	2019A	\$0	\$357	\$32	\$52	\$3,289	NA	
	2020E	12	527	38	163	4,449	226	
	2021E	25	771	49	291	4,998	320	
	19-'20 Growth	NMF	47.6%	18.8%	213.5%	35.3%	NMF	78.8%
	20-'21 Growth	108.3%	46.3%	28.9%	78.5%	12.3%	41.6%	52.7%
EBITDA	2019A	(\$5)	(\$262)	(\$2)	(\$38)	\$425	\$0	
	2020E	(\$7)	(\$426)	11	(\$65)	1,068	4	
	2021E	(\$3)	(\$326)	14	(\$53)	1,193	4	
	19-'20 Growth	40.0%	62.6%	-650.0%	72.5%	151.3%	NMF	-64.7%
	20-'21 Growth	-57.1%	-23.5%	27.3%	-17.5%	11.7%	0.0%	-9.9%
Diluted Shares		15.0	394.0	33.5	162.4	154.0	28.6	
Equity Market Value		70.2	15,484.2	512.9	1,692.2	12,403.2	333.5	
Plus: LT Debt (current)		0.0	1,731.0	0.0	0.0	4,310.0	0.0	
Less: Cash & Other Ass		23.0	1,182.0	59.0	144.0	1,160.0	0.0	
Enterprise Value (EV)		47.2	16,033.2	453.9	1,548.2	15,553.2	333.5	
EV /Revenue								
52 week high		4.5	49.0	24.0	15.5	3.7	1.8	
52 week low		0.2	8.4	7.8	0.2	1.8	1.2	
Current Fiscal 2020E		3.9X	30.4X	11.9X	9.5X	3.5X	1.5X	10.1
Current Fiscal 2021E		1.9X	20.8X	9.3X	5.3X	3.1X	1.0X	6.9

All figures in millions except for per share data.

Source: GMBL are Noble estimates; all other estimates are consensus estimates

DraftKings is based in the United States and trades on the NASDAQ, It is a digital sports entertainment and gaming company that provides daily sports, sports betting, and iGaming opportunities, with a focus on sports betting and casino gaming platforms.

GAN Holdings is a leading business-to-business supplier of enterprise software-as-a-service solutions principally designed for retail U.S. casinos seeking to operate highly regulated Internet gambling.

PointsBet Holdings, based on Australia, develops spread-betting and fixed odds trading platforms, along with online bookmarking services for sports and racing.

Flutter Entertainment is the holding company for online sports and betting and gaming, including Paddy Power, Betfair, Pokerstars, Sky Bet, Sportsbet, FOX Bet, FanDuel, TVG and Adjarabet. Our vision is to be a global leader in online sports betting and gaming.

dMY Technology Group is a special purchase acquisition company which recently acquired Genius Sports. Genius Sports acquires data from sports events around the world and supplies it to sports betting operators, providing them with

Given that the company plans to expand into other esports areas outside of wagering, the company's stock valuation compares well with an expanded group of companies involved in content creation, tournament play and sports leagues. The average company in this peer set trades at 2.4 times EV to Revenues. Here too, there is an outlier, Activision, which trades at 7.1 times Enterprise Value to 2021 revenue. Excluding Activision, the average EV to 2021 Revenue is 1.5 times. Notably, many of these companies have been adversely affect by Covid-19, specifically those companies that have live tournament play or live entertainment venues. Esports Entertainment has not been adversely affect as many of these companies have been. We would assume that the stock valuation of these companies will rebound as investors focus post Covid on the recovery of live

Activision Blizzard is a premier developer and publisher of entertainment software renowned for creating some of the industry's most critically acclaimed games.

Live Nation Entertainment is the world's leading live entertainment company comprised of global market leaders: Ticketmaster, Live Nation Concerts, and Live Nation Media & Sponsorship.

Enthusiast Gaming Holding (formerly J55 Capital Corp.) is a gaming company building the largest community of authentic lifestyle gamers. The Company's principal business activities are comprised of three main pillars: Media, Entertainment, and eSports.

Modern Times Group, based in Scandinavia, is a leading pure-play in esports and gaming entertainment, with an attractive company portfolio comprising of some of the strongest brands in the industry.

Allied Esports is a premier esports entertainment company with a global network of dedicated esports properties and content production facilities.

In deriving our price target, we average the EV to 2021 Revenue multiples from the average of its gambling peer group (4.7 times, which excludes the outlier), and the esports peers (1.5 times, which excludes its outlier) to derive a target multiple of 3.1 times. We have excluded the average M&A transaction multiples, only in an effort to be conservative. We would not rule out, however, the that Esports Entertainment becomes a takeover target, which is possible should the company become an established player in the gambling industry, as we expect. Based on the average of its peer group valuation, our price target would be \$6.50.

However, the company plans to purchase Helix and ggCircuit for \$43 million, which expected to close by year end 2020. We assume that the company will use roughly \$10 million in cash, and possibly a combination of debt and equity for the balance. The use of equity will be dependent upon the price of the stock, but we assume that the company will prefer to use its equity rather than adding debt. This move would suggest our target price of \$6.50 would imply a stock valuation to 3.1 times EV to proforma fiscal 2021 revenues of \$42 million, which incorporates the acquisition, assumes debt of roughly \$5 million, and an increase in shares outstanding to 20 million. Our price target may be adjusted based on the company's financing plans, which may be based on the stock's price. Notably, the multiple would be below the average of its gambling peers, currently at 4.7 times.

Risks in achieving our price target could include the prospect of dilutive financing for the recently announced acquisition or future acquisitions, delays in obtaining gambling licenses or restrictions in expansion plans in the U.S. and/or other countries, increased competition from traditional gambling and casinos, as well as new entrants into the online gambling market.

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, cloud 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

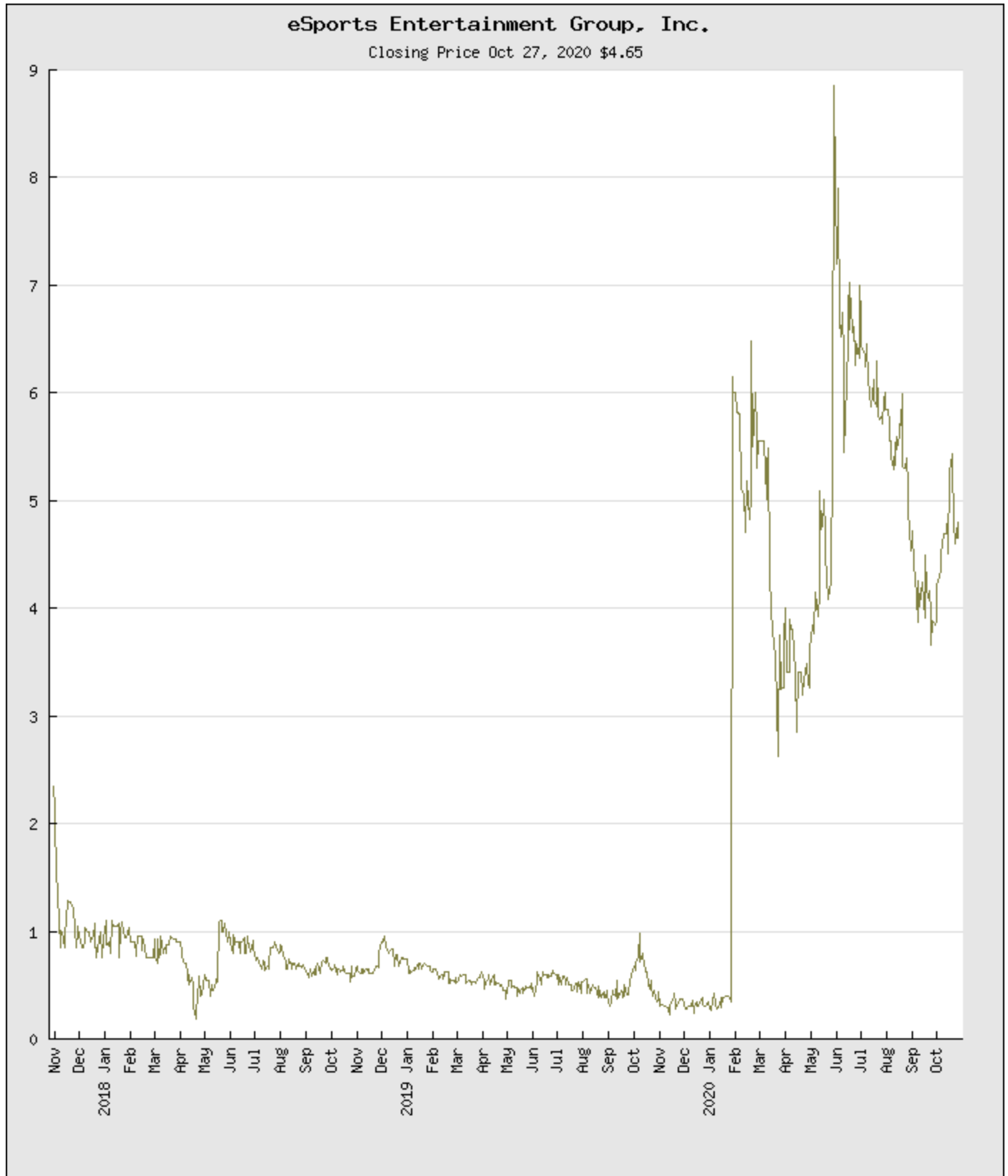
We have assigned the company 2.0 checks out of 5.0 in our fundamental analysis, which is below average and reflects the developmental nature of the company. The company scores high on corporate governance and management given the independence of its board and managements experience in the industry. In 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 the foreseeable future. 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 1.9 times Enterprise Value to our estimated fiscal 2021 revenue, or below the average for its esports peer group, as well as the gambling peer group. Notably, the multiple is 80% below recent M&A transaction multiples that have averaged 10 times revenues. We are initiating coverage of eSports Entertainment with an Outperform rating and a \$6.50 price target. Our price target is based on an Enterprise Value to Revenue multiple of 3.1 times, which is based on the average of current multiples of public esports and gambling companies. Our stock valuation is largely unchanged under financing assumptions for its recently announced acquisition, but could be adversely affected by changes in the stock price.

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 that are outlined later in this report.

Esports Entertainment (in millions, except per share data)	2020	Q1 E Sept	Q2 E Dec	Q3 E Mar	Q4 E Jun	2021E	Q1 E Sept	Q2 E Dec	Q3 E Mar	Q4 E Jun	2022E
Revenue		0.200	2.500	3.900	5.500	12.100	5.000	6.000	6.500	7.000	24.500
% Change							2400%	140%	67%	27%	102%
Cost of goods		0.500	1.100	2.400	3.400	7.400	3.000	3.500	3.750	4.050	
% Change							500%	218%	56%	19%	-100%
Gross profit		-0.300	1.400	1.500	2.100	4.700	2.000	2.500	2.750	2.950	10.200
% Change							-767%	79%	83%	40%	117%
% of Revenues		-150%	56%	38%	38%	39%	40%	42%	42%	42%	42%
Operating Expenses:											
General & Administrative	4.050	1.500	1.400	1.400	1.400	5.700	1.600	1.600	1.600	1.600	6.400
% Change							7%	14%	14%	14%	12%
% of revenues		750%	56%	36%	25%	47%	32%	27%	25%	23%	26%
Sales & Marketing		1.500	1.500	1.500	1.500	6.000	1.800	1.800	1.900	2.000	7.500
% Change							20%	20%	27%	33%	25%
% of revenues		750%	60%	38%	27%	50%					
Research & Development		0.600	0.600	0.600	0.600	2.400	0.500	0.500	0.500	0.500	2.000
% Change							-17%	-17%	-17%	-17%	-17%
% of revenues		300%	24%	15%	11%	20%					
Total Operating Expenses		3.600	3.500	3.500	3.500	14.100	3.900	3.900	4.000	4.100	15.900
% Change							8%	11%	14%	17%	13%
% of revenues		1800%	140%	90%	64%	117%	78%	65%	62%	59%	
Stock-based compensation	1.614	0.200	0.200	0.200	0.200	0.800	0.250	0.250	0.250	0.250	1.000
% Change							25%	25%	25%	25%	25%
Percent of Revenues											
Depreciation & amortization	0.020	0.020	0.020	0.020	0.020	0.080	0.350	0.350	0.350	0.350	1.400
% Change							1650%	1650%	1650%	1650%	1650%
Percent of Revenues											
Adjusted EBITDA	-4.030	(3.680)	(1.880)	(1.780)	(1.180)	(8.520)	(1.300)	(0.800)	(0.650)	(0.550)	(3.300)
% Change							-65%	-57%	-63%	-53%	-61%
Cash flow Margin		-1840.0%	-75.2%	-45.6%	-21.5%	-70.4%	-26.0%	-13.3%	-10.0%	-7.9%	-13.5%
Operating Income (Loss)	(4.050)	(3.900)	(2.100)	(2.000)	(1.400)	(9.400)	(1.900)	(1.400)	(1.250)	(1.150)	(5.700)
% Change							-51%	-33%	-38%	-18%	-39%
Interest Expense	(1.995)	(0.050)	(0.050)	(0.050)	(0.050)	(0.200)	(0.050)	(0.050)	(0.050)	(0.050)	(0.200)
Net amort of debt discount	(1.157)										
Change in fair market value	(2.432)										
Loss on extinguishment of debt	(2.796)										
Gain on warrant exchange	1.894										
Impairment of intangible asset	(0.067)										
Gain on settlement of debt	0.254										
Foreign exchange gain (loss)	0.042										
Total Expenses	(6.299)										
Loss before income taxes	(10.349)	(3.950)	(2.150)	(2.050)	(1.450)	(9.600)	(1.950)	(1.450)	(1.300)	(1.200)	(5.900)
Income taxes	(0.002)	(1.067)	(0.581)	(0.554)	(0.392)	(2.592)	(0.527)	(0.392)	(0.351)	(0.324)	(1.593)
Tax rate		27%	27%	27%	27%		27%	27%	27%	27%	
Net loss & comprehensive loss	(10.351)	(2.884)	(1.570)	(1.497)	(1.059)	(7.008)	(1.424)	(1.059)	(0.949)	(0.876)	(4.307)
Basic & diluted loss per common share	(1.50)	(0.23)	(0.10)	(0.10)	(0.07)	(0.47)	(0.09)	(0.07)	(0.06)	(0.06)	(0.29)
Weighted avg. shares outstanding	6.880	12.575	15.000	15.000	15.000	15.000	15.000	15.000	15.000	15.000	15.000



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FUNDAMENTAL ASSESSMENT

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.

FINRA licenses 7, 24, 66, 86, 87.

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Unless otherwise noted through the dropping of coverage or change in analyst, the analyst who wrote this research report will provide continuing coverage on this company through the publishing of research available through Noble Capital Market's distribution lists, website, third party distribution partners, and through Noble's affiliated website, channelchek.com.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	93%	43%
Market Perform: potential return is -15% to 15% of the current price	9%	2%
Underperform: potential return is >15% below the current price	0%	0%

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Additional information is available upon request. Any recipient of this report that wishes further information regarding the subject company or the disclosure information mentioned herein, should contact Noble Capital Markets, Inc. by mail or phone.

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