Zacks Small-Cap Research

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# Chicken Soup For the Soul Entertainment (CSSE-NASDAQ)

## CSSE's Low Cost TV Programming Spurs Huge Demand From Networks

We believe that CSSE stock should be valued at the average EV/EBITDA of its peers. Using an average of 20.2 times, and forecasted EBITDA of $15.4 million, the stock could reach $25.85 per share by 2018.

| | |
|---|---|
| Current Price (10/02/17) | $7.16 |
| **Valuation** | **$23.50** |

## OUTLOOK

Chicken Soup for the Soul Entertainment has disrupted the market for programming content sold to networks through a unique business model. CSSE signs sponsors for its shows that pay the cost to produce them in return for exposure. This allows it to offer shows free to networks while insuring a profit for both Chicken Soup and the network. In addition, its branded, high quality, positive programming creates little risk for networks to air its shows. This model has spurred huge demand, and the company's low costs and high margins should provide investors with exceptional returns at low risk.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$13.26** |
| **52-Week Low** | **$7.07** |
| **One-Year Return (%)** | **N/A** |
| **Beta** | **N/A** |
| **Average Daily Volume (sh)** | **63,133** |
| **Shares Outstanding (mil)** | **12.5** |
| **Market Capitalization ($mil)** | **$90** |
| **Short Interest Ratio (days)** | **1** |
| **Institutional Ownership (%)** | **0** |
| **Insider Ownership (%)** | **70.3%** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **N/A** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/M** |
| **P/E using 2017 Estimate** | **18.4** |
| **P/E using 2018 Estimate** | **9.5** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **High** |
| **Type of Stock** | **Growth** |
| **Industry** | **Broadcast-Radio/TV** |
| **Zacks Rank in Industry** | **N/A** |

## ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2015 | NA | NA | $0.2 A | $1.3 A | $1.5 A |
| 2016 | $1.1 A | $1.2 A | $0.1 A | $5.7 A | $8.1 A |
| 2017 | $1.4 A | $0.8 A | $1.5 E | $16.3 E | $20.0 E |
| 2018 | | | | | $33.1 E |

**GAAP EPS**

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2015 | NA | NA | NA | NA | -$0.09 A |
| 2016 | $0.03 A | $0.01 A | NA | NA | $0.09 A |
| 2017 | -$0.01 A | -$0.08 A | -$0.07 E | $0.45 E | $0.37 E |
| 2018 | | | | | $0.70 E |

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## KEY POINTS

- Chicken Soup for the Soul Entertainment is built on a **new business model** with built in profits that provides TV channels with **free or very low cost, high quality** content.

- Corporate advertisers or foundations, which fund production in exchange for either making their product part of the story, sponsor its shows or promoting an idea they endorse.

- Since these shows are paid for by advertisers in advance of production, and producers are hired on a flat fee basis, the company already has a profit locked it before production starts. It can then offer the content to television channels free. These channels then make their money by selling ads while taking no financial production risk on the content. This novel arrangement has produced demand for Chicken Soup provided content.

- The Chicken Soup brand and track record assures participants of high quality family friendly content with a positive message.

- The company is producing four shows to be delivered in 2017, with the possibility of three more being signed this calendar year. As the company only books revenues upon delivery of completed episodes, it will book the majority of its revenue in Q4 of 2017 due to the delivery schedule of these four shows.

- Its unique business model affords high margins and high EBITDA that is expected to be reinvested in the business to create more content. It has the capacity to reach $20 million in sales in 2017 with just three employees plus a 10% management fee to the parent company as all production work is outsourced.

- The company also has plans to leverage its content by providing an on-demand OTT service using its tail end content, and other third party content. This OTT service will be offered in two versions: free with ads and paid without ads. It also generates revenue from it A Plus subsidiary that produces web-based short form video using celebrities and targets a younger demographic. This A Plus unit is 75% owned by the parent company and 23% owned by Ashton Kutcher, the actor, producer, and VC. Ashton is also contracted to produce two TV series for CSSE.

- CSSE has a strong balance sheet and over $10 million in cash after the IPO. It repaid all outstanding debt and has substantial liquidity with positive operating cash flow.

- Due to its high growth rate, high margins and the high EBITDA multiples afforded companies in this industry, we believe CSSE common stock could be worth as much as $25.85 per share by next year if it can reach our conservative EBITDA targets. This is based on an industry multiple of 20.2 times enterprise value to EBITDA. The risk in this is that the company is unable to book a sufficient number of shows at favorable pricing. In addition the lumpy quarters and tendency for revenues to be back end weighted adds more risk to the stock.

## OVERVIEW

Chicken Soup for the Soul Entertainment (CSSE) was founded in 2015 as a company separate from the Chicken Soup for the Soul parent company that focuses on books. It went public on NASDAQ on July 17, 2017 as a Reg A+ deal, raising $30 million.

CSSE has a license to use the Chicken Soup for the Soul brand and its content for use in video. It focuses on family friendly content with a positive message that is sold to cable and network television channels. The company produced with its first television series *Hidden Heroes* starting in 2015 (now in its third season); it currently airs on CBS and its third season is scheduled to air this fall on *The CW* network.




In September 2016, the company signed a distribution agreement with A Plus, a web site that produces articles and short videos of positive stories targeted toward a young demographic. A Plus is 75% owned by the Chicken Soup of the Soul parent company, and 23% owned by Ashton Kutcher, the actor, producer, and venture capitalist. Chicken Soup for the Soul Entertainment books a net distribution fee of 30% of all gross video and 5% of all gross editorial revenue generated by A Plus and this revenue is reported in the Online segment of the company's income statement. Ashton Kutcher has also been contracted to serve as an executive producer for two new television series for CSSE. These series will be focusing on the positive themes drawn from APlus.com and Chicken Soup for the Soul. These series are slated for distribution on broadcast or cable channels as well as online and the first of his shows may be produced in 2017.

In Q4 of 2016 a second series, *Project Dad*, began to air on the TLC Network and Discovery Family.



In 2017, the company is scheduled to deliver another season of *Hidden Heroes*, *Fatherhood* (a parenting show), and Vacation Rental Potential (about purchasing vacation homes and renting them out.) Revenues from these series are booked when they are delivered, and they coincidently are all are expected to be delivered in Q4 this year.

The company has an extensive pipeline of deals as shown below:

| | |
|---|---|
| **Already Signed** | |
| Hidden Heroes | Kindness, Parenting |
| Fatherhood | Parenting |
| Vacation Rental Potential | Real Estate, Travel, Home |
| | |
| **Highly Likely 2017** | |
| City, Burbs or Sticks | Real Estate, Travel, Home |
| MoneyCenter | Magazine, Finance |
| Random (working title) | Social Experiment, Kindness (Ashton Kutcher) |
| | |
| **Likely 2017-2018** | |
| Behind the Seams | Travel, Documentary |
| New Leash on Life | Pets |
| No Restaurant Required | Food,Travel |
| Pet Caves | Pets |
| Secret Life of Babies | Parenting, Comedy |
| Weird History of Cool Stuff | Lifestyle, History, Science |
| | |
| **Possible 2018** | |
| American Women | Social Experiment |
| Brighter Things (working title) | News (Ashton Kutcher) |
| Late Night Snack | Food, Home |

**Unique Business Model**

The key differentiator between Chicken Soup for the Soul Entertainment and other providers of television content is its business model, which **offers low cost or free content to the network**. Combined with a well-respected brand, this model has created demand that has exceeded the company's ability to fill it. In fact, the company had been approached by a network to fill hours of prime time with daily content.

Chicken Soup for the Soul Entertainment, has **disrupted the industry model** by finding sponsors who fund the entire production cost in return for having their product, service, or message, highlighted and integrated, thus allowing CSSE to offer this content free to networks. For example, an airline could sponsor a travel show that always flies on that airline and shows its plane in each episode. Or it could be sponsor a message. A foundation that promotes health and wellness could sponsor a show cooking show on healthy eating. In this case, the sponsor might ask for in return is an introduction screen that shows they sponsor it. Think PBS.

**Typical economics for CSSE may require the sponsor to pay $3-$4 million for a 12-20 episode series. CSSE then goes out and hires a producer for less than that amount. This way CSSE locks in a large million gross margin before any work starts.** Chicken Soup then licenses the show to the network free or very low cost. The network makes its money selling ads around that show. CSSE keeps the ownership rights to the show and can then make even more money off it in ways such as: streaming it online themselves after it is done airing, offering it to Netflix or Amazon after the initial airing, or selling the rights to show it overseas.

We contrast this with the usual model. Here the economics on a typical TV series require the network to purchase the content creating financial risk for the network. A 12-20 episode series may require the network

to agree to pay $100,000 to $200,000 per episode, and advertising revenues would be split with the producer 90/10. The network would then own all the rights to the show including most of the tail end including foreign sales and reruns. This model requires the network to take all the financial risks and ties up capital. While a hit could provide upside, a financial failure is also possible.

**Lean Expense Model With Leverage**

Another unusual aspect of the Chicken Soup for the Soul Entertainment company is that is only has three full time employees as it relies on the parent company for senior management functions, including finance, administration, and facilities. The services of the chairman and CEO, vice chairman and chief strategy officer, the senior brand advisor and director, and CFO, are provided to CSSE under the CSS Management Agreement. The entertainment company pays the parent a fixed 10% of revenues for these services and the license to use the Chicken Soup for the Soul brand and content. The company's three employees are Elana Sokfo, Chief Operating Officer at A Plus, Michael Winter**,** SVP of Programming and Development, and Jayson Goldberg, SVP Branded Entertainment and Content Partnerships.

**Online Sales**

The online segment of the business consists of the A Plus subsidiary and any revenues generated from shows from international distribution or online viewing. In the future, perhaps in 2018, the company also plans to launch its own online business where viewers can watch both CSSE's shows as well as content from third parties. This OTT channel will be available both in a free and paid version and the company will generate revenues from both ads and subscriptions. If the company can convert even as few as 200,000 fans into paid subscribers at $5 a month, this could generate $12 million per year at very high margins.

**A Plus**

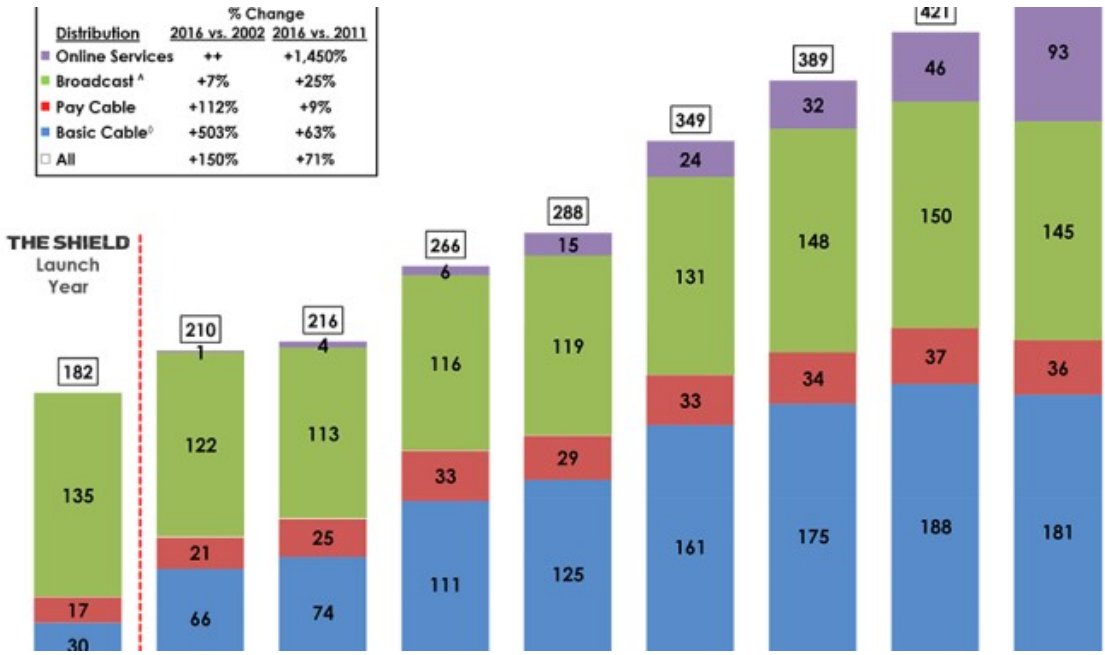
The Company entered into an exclusive distribution agreement in September 2016 with APlus.com, a digital media company founded by Ashton Kutcher that specializes in positive journalism and social change. CSSE receives a net distribution fee of 30% of all gross video, and 5% of all gross editorial revenue, generated by A Plus' content. A Plus generates revenues from sponsors and features native videos, and both curated and native article content. In addition to being featured on the site, sponsored stories are promoted on social media by A Plus's network of celebrities. This huge social media and web presence allows CSSE to offer advertisers guaranteed minimums for digital ad and social media mentions. For starters the A Plus page has 915,000 Facebook followers, in addition to Chicken Soup for the Soul's own 1.9 million on its parent site. Besides Ashton Kutcher, A Plus uses celebrity influencers such as Britney Spears, Lil Wayne, and George Takei, who combined have over 480 million followers. The *Chicken Soup for the Soul* brand had over 10 billion content views (which include impressions, video views and podcast downloads) across all platforms including Facebook, Twitter, YouTube and Instagram during the 12-month period ended March 31, 2017, with 1 billion content views in March 2017.

As an example of a campaign on A Plus, in December of 2106, Tropicana launched a sponsored, a custom section on the A Plus site called *Morning Spark* that ran for six weeks using new content each day. For this campaign, A Plus went to a coffee shop in Brooklyn. Patrons were handed bottles of Tropicana with complimentary, hand-written notes attached, such as "You are a fantastic mom," and "Your smile shows your confidence." A Plus then filmed the results and posted the videos. This campaign was run to boost the image of orange juice and the Tropicana brand with a positive message.

### Television Programming Market

Spending on original programming by TV networks and online channels is expected to be $21 billion by L2, Inc. The largest spender is expected to be Netflix at $6 billion followed by Amazon at $4.5 billion. According to Boston Consulting Group and SNL Kagan data, CBS, who airs Hidden Heroes, had a content budget of $4 billion in 2016 while NBC's was $4.3 billion.

Each year FX puts out industry data on the number of scripted series airing in the US by distribution method. In 2016 this number totaled 455 and that number is higher in 2017 versus the same period last year. Industry experts warn this large number has led to many shows losing money as providers fight for viewers making CSSE's model even more vital to customers.




**Source: FX Networks**

### Online Content Market

In the future, the company plans to offer its content and some third party content online. It is in the process of creating an internet-based service in both a free and paid version to enable consumers to view shows. Delivering shows through the internet rather than broadcast on TV and through cable operators is call Over-the-Top (of the internet) or OTT. According to research by Markets and Markets, the **OTT market in the US is estimated to grow from $28.0 billion in 2015 to $62.0 billion by 2020, at an estimated CAGR of 17.2%** as internet speeds improve and cord cutting increases. While the majority of this revenue has been generated by subscription services such as Netflix and Amazon or per view transactions, free ad supported viewing such as on YouTube should increase. Internet delivered ad-supported television content has even more appeal to advertisers as it lets viewers be targeted more specifically and coordinated with web-based advertising on other devices. eMarketer estimates that US TV ad spending is virtually flat this year. It predicts this market will expand just 0.5% to $71.7 billion in 2017. In April, comScore reported that 51 million U.S. homes have used OTT services and this number is growing. Nielson says traditional television viewing has

been declining albeit slowly and according to eMarketer there will be 22 million people with out cable service this year, up 33% from last year, as prices for cable continue to increase and more alternative content sources are available.

**US Adult Pay TV and Non-Pay TV Viewers, by Type, 2016-2021**

*millions and % change*

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **Pay TV viewers** | **201.1** | **196.3** | **192.0** | **188.3** | **184.7** | **181.7** |
| **Pay TV viewer growth** | **-1.6%** | **-2.4%** | **-2.1%** | **-2.0%** | **-1.9%** | **-1.6%** |
| **Non-pay TV viewers** | **49.2** | **56.6** | **63.4** | **69.7** | **75.7** | **81.0** |
| —Cord-nevers | 32.5 | 34.4 | 36.3 | 38.0 | 39.6 | 41.0 |
| —Cord-cutters | 16.7 | 22.2 | 27.1 | 31.7 | 36.1 | 40.1 |
| **Non-pay TV viewer growth** | **13.7%** | **15.1%** | **12.1%** | **9.9%** | **8.5%** | **7.1%** |
| —Cord-nevers | 6.7% | 5.8% | 5.6% | 4.7% | 4.2% | 3.6% |
| —Cord-cutters | 30.2% | 33.2% | 22.0% | 17.0% | 13.7% | 11.0% |

*Note: ages 18+; pay TV viewers are individuals who have access to traditional pay TV services; excludes IPTV and pure-play online video services (e.g., Hulu, Netflix, YouTube, Sling TV, etc.); non-pay TV viewers are individuals who no longer have access to traditional pay TV services or have never had access to traditional pay TV services*
*Source: eMarketer, July 2017*

228923 www.eMarketer.com

## INDUSTRY POSITION

Chicken Soup for the Soul Entertainment competes with thousands of producers ranging from large studios to independent individuals all of whom wish to garner interest in their projects and find a network to finance and air their shows. Some of these producers focus on certain topic that intersect with CSSE and are seen more often. Being able to reach the right decision makers, and having a track record of reliability and previous success are important factors in winning business.

The top ten television producers according to Ranker are:

- 3 Arts Entertainment
- 20th Century Fox Television
- A&E Television Network
- ABC Studios
- ACME Communications
- Alloy Entertainment
- American Movie Classics (AMC)
- Anonymous Content
- Bad Robot
- BBC America

## MANAGEMENT

**William J. Rouhana, Jr.**
Chairman and CEO

Bill has been the CEO of Chicken Soup for the Soul since April 2008 and has been a leader in the media, entertainment, and communications industries for more than 35 years. He was the founder and CEO of Winstar Communications, a wireless broadband pioneer, and Winstar New Media, one of the earliest online content companies, from 1993 until 2001. During his career, Bill led the acquisition of numerous media companies. As an entertainment and finance lawyer from 1977 to 1985, he developed new film financing models for major producers such as Blake Edwards. He is the founder of The Humpty Dumpty Institute, which created the International Film Exchange, and the Co-Chairman of the Global Creative Forum, which connects the United Nations with major film and television executives, producers and talent. He received a B.A. from Colby College, where he is currently Trustee Emeritus, and a J.D. from Georgetown Law School.

**Scott Seaton**
Vice Chairman and Chief Strategy Officer

Scott has been the EVP and COO of Chicken Soup for the Soul since April 2012. He has more than 25 years of media and telecommunications investment banking experience. Prior to joining Chicken Soup for the Soul, he was a Managing Director at Credit Suisse First Boston where he worked from 1988 to 2002, at Bank of America from 2002 to 2009, and at Oppenheimer & Co from 2010 to 2012. He served on the board of directors of Mediacom Communication Corporation from 2009 to 2011. He received an A.B. from Stanford University and an M.B.A. from Harvard University.

**Daniel Press**
CFO

Dan has over 35 years of financial experience in public and private companies. He has been the EVP and CFO of Chicken Soup for the Soul since May 2012. He began his career at a Big Four accounting firm and later served as the senior financial executive for several public and private companies. He completed four public offerings and various M&A deals. As CFO of White Amber he managed the sale of the company to Taleo. After that sale, Dan became CFO of USADATA, and was part of the management team that affected a leveraged buy-out of the company. Before joining Chicken Soup for the Soul, Dan was CFO of Certpoint Systems. He received his B.S. from Long Island University and is a CPA.

**Elana Sofko**
SVP of Business Development and Distribution

Elana joined Chicken Soup for the Soul Entertainment in 2016 and brought over two decades of media and entertainment experience. Prior to Chicken Soup for the Soul Entertainment, Elana worked for WWE, on international expansion and localization of WWE's digital properties as well as supporting the launch and international expansion of WWE Network, a subscription based video over-the-top (OTT) service. She also worked on the launch of SiriusXM, and has overseen strategic growth initiatives at ESPN, Nokia, News Corp and A&E Television Networks. Elana earned a B.A. in English Literature from the State University of New York at Albany, and an M.B.A. from University of Connecticut.

**Michael Winter**
SVP of Programming and Development

Michael joined Chicken Soup for the Soul Entertainment in 2016 and has been a producer and executive for over 17 years. Prior to joining Chicken Soup for the Soul Entertainment, he had his own production company, Speedway Boogie Productions, where he produced shows for HGTV, DIY and Bravo. His

career started at Bunim-Murray Productions working for shows for MTV and Fox. He then went on to produce for ABC, Style, TLC, MTV, and VH1. From there, Mr. Winter was hired as the first director of programming for NBC Sports Network. Soon after, he was moved to Scripps Networks where he executive produced 30 series and specials for HGTV and DIY. In 2010, Mr. Winter was appointed VP of Leopard Films producing shows for HGTV, Food Network, Travel, GSN, Ovation, A&E, History, and over 300 episodes of the megahit *House Hunters International*. Mr. Winter received his B.A. in Literature from American University.

**Jayson Goldberg**
SVP of Branded Entertainment and Content Partnerships

Jason has over 25 years of experience in branded entertainment and media. From 2013 to 2017, he was SVP at Dick Clark Productions where he grew national branded entertainment sales four-fold. Previously he managed branded content partnerships and cross-channel sponsorships for the Billboard Music Awards. Before Billboard Jason worked at various print publications including Architectural Digest, Inc., Fast Company and Men's Fitness. Jason earned a BFA from New York University.

## BOARD OF DIRECTORS

**William J. Rouhana, Jr.**

**Scott Seaton**

**Amy Newmark**
Publisher, Editor in Chief and Author, Chicken Soup for the Soul

Amy has more than 30 years of media and telecommunications industry and investment banking experience. She has been the Publisher, Editor-in-Chief, and an author of the *Chicken Soup for the Soul* book series since April 2008, and has coauthored the publication of more than 150 books under the Brand during her tenure. Amy previously founded and managed a successful hedge fund for five years. She was a top-ranked telecom analyst at CJ Lawrence. She received her A.B. from Harvard University and is a CFA.

**Diana Wilkin**
Managing Director, Twelve 24 Media

Diana has over 20 years of experience in the media industry. She has been Managing Director of Twelve 24 Media since 2014. She served as President of CBS Affiliate Relations from 2008 to 2014 where she was responsible for network agreements with all major broadcast group television stations. From 2000 to 2008, she was involved in the management of both CBS and FOX affiliates in numerous markets. She received a B.S. from the University of Southern California

**Christina Weiss Lurie**
Owner, Philadelphia Eagles

Christina's multi-faceted career spans the worlds of sports, entertainment, and philanthropy. She is an owner of the Philadelphia Eagles and the Founder of the Eagles Charitable Foundation. She is also a two-time Oscar award-winning film producer. She is the co-founder of the independent film company, Tango Pictures. Christina received her B.A. from Yale University.

**Peter Dekom**
Entertainment Lawyer

Peter has more than 40 years of media and entertainment legal, consulting, and entrepreneurial experience. He previously worked as "of counsel" with Weissmann Wolff Bergman Coleman Grodin & Evall and his clients have included major film producers and stars. He is a Member of the Academy of Television Arts and Sciences and Academy Foundation. Peter received a B.A. from Yale University and a J.D. from the UCLA School of Law.

**Fred Cohen**
Chairman, International Academy of Television Arts & Sciences

Fred has more than 35 years of media and entertainment experience and has been the Chairman of the International Academy of Television Arts & Sciences (Emmys) since 2004. Previously, he was the President of King World International Productions, EVP of CBS Broadcast International, and the President of HBO International. He received a B.A. from The University of Michigan and an M.S. from Stanford University

## VALUATION

We believe that Chicken Soup for the Soup Entertainment should be valued on EBITDA. There are few public comps to value the company against and it believes the closest comp is WWE. If we take Gaia, which has negative EBITDA, out of the average, these companies trade at an average valuation of 20.2 times EV/EBITDA. Using an estimate for EBITDA in 2018 of $15.4 million and the industry average, CSSE could be worth $328 million by 2018 or $25.85 per share.

| | Ticker | Revenue | | TTM | Enterprise Value / Sales | | EV/ | Included | Enterprise |
|---|---|---|---|---|---|---|---|---|---|
| Company | | 2017E | LTM | EBITDA | 2017E | LTM | EBITDA | Average? | Value |
| Entertainment One | ENTMF | NA | $1,430 | $140 | NA | 1.2x | 12.7x | y | 1,780 |
| DHX Media | DHXM | NA | $229 | $52 | NA | 3.8x | 16.9x | y | 872 |
| Gaia | GAIA | $28 | $22 | -$19 | 5.2x | 6.6x | -7.6x | n | 143 |
| Lionsgate | LGF-A | $4,365 | $3,650 | $300 | 2.1x | 2.5x | 30.3x | y | 9,110 |
| WWE | WWE | $785 | $762 | $81 | 2.2x | 2.2x | 20.9x | y | 1,700 |
| **Average** | | | | **143.4** | **3.1x** | **2.4x** | **20.2x** | | **$3,366** |

## RISKS

- The company is new and to date has only two series that have been produced and aired. There is no assurance the company will be able to continue to find sponsors to support it unique business model and fund the production of shows.

- Third party producers hired may not be able to produce high quality shows with the budget afforded or may not complete contracts.

- Other producers may copy CSSE's model in order to offer free or very low priced content.

- The company may have difficulty entering the OTT market for its content and advertisers may be unwilling to advertise on it and consumers may not be willing to pay for an ad free experience.

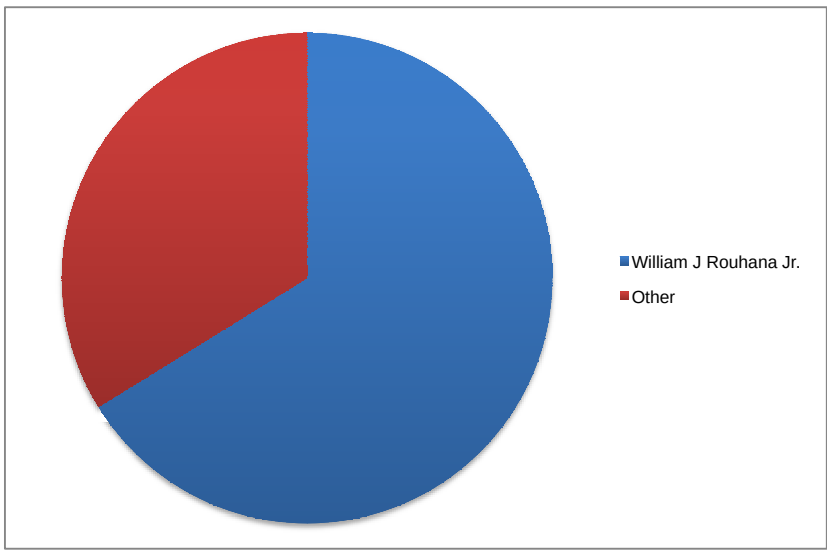
- The company may find it difficult to fund production in advance of payments by the networks and experience cash flow disruptions requiring the company to take on debt.

- The ownership structure gives common shareholders little say in the governance of the company. CEO Bill Rouhana controls 95% of the total voting power through ownership of 7.8 million shares of class B common stock, with each class B share entitled to 10 votes.

- The stock has very low float making it difficult to accumulate or sell stock.

- Revenues for the company have fallen mostly in the fourth quarter making financials difficult to forecast. Also the majority of revenues come from a few large sales, which are difficult to predict, both as to when they are signed, as well as when they will be delivered creating a wide range of revenue possible in any given quarter.

## OWNERSHIP



# INCOME STATEMENT

| Chicken Soup for the Soul Entertainment | Q1 2016 31-Mar | Q2 2016 30-Jun | Q3 2016 30-Sep | Q4 2016 31-Dec | Q1 2017 31-Mar | Q2 2017 30-Jun | Q3 2017E 30-Sep | Q4 2017E 31-Dec | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Television** | 1.1 | $1.0 | NA | NA | $1.3 | $0.6 | $1.2 | $16.0 | $1.5 | $7.3 | $19.1 | $32.00 |
| Yr-to-yr Growth | | | | | NA | NA | NA | NA | | 387% | 160% | 68% |
| **Online** | 0.0 | 0.2 | NA | NA | 0.2 | 0.2 | 0.3 | 0.3 | 0.0 | 0.8 | 1.0 | 1.1 |
| Yr-to-yr Growth | | | | | NA | NA | NA | NA | | NM | 22% | 15% |
| **Total revenue** | **1.1** | **1.2** | **0.1** | **5.7** | **1.4** | **0.8** | **1.5** | **16.3** | **1.5** | **8.1** | **20.0** | **33.1** |
| Yr-to-yr Growth | NM | NM | -14% | 324% | 27% | -31% | 1000% | 185% | | 439% | 146% | 65% |
| **Cost of revenue** | 0.5 | 0.5 | NA | NA | 0.5 | 0.3 | 0.6 | 6.5 | 0.7 | 3.2 | 7.9 | 13.0 |
| Gross profit | 0.6 | 0.6 | NA | NA | 0.9 | 0.5 | 0.9 | 9.8 | 0.9 | 5.0 | 12.1 | 20.1 |
| Gross Margin % | 55% | 55% | NA | NA | 67% | 60% | 60% | 60% | 57% | 61% | 61% | 61% |
| **Operating expenses:** | | | | | | | | | | | | |
| SG&A (Ex-stock based comp) | 0.1 | 0.2 | NA | NA | 0.1 | 0.4 | 1.3 | 0.3 | 0.5 | 0.8 | 2.1 | 2.2 |
| Stock-based compensation | 0.0 | 0.1 | NA | NA | 0.1 | 0.2 | 0.3 | 0.3 | 0.8 | 1.5 | 0.8 | 0.8 |
| Management and license fees due to affiliate | 0.1 | 0.1 | NA | NA | 0.1 | 0.1 | 0.2 | 1.6 | 0.3 | 0.8 | 2.0 | 3.3 |
| Total operating expenses | 0.2 | 0.4 | NA | NA | 0.4 | 0.6 | 1.7 | 2.2 | 1.6 | 3.2 | 4.9 | 6.3 |
| Operating income: | 0.4 | 0.2 | NA | NA | 0.5 | (0.2) | (0.8) | 7.6 | -0.8 | 1.8 | 7.2 | 13.8 |
| Operating margin | 34.8% | 17.9% | NA | NA | 38.2% | -20.5% | -53.3% | 46.7% | -50.0% | 21.9% | 36.0% | 41.8% |
| **Other income:** | | | | | | | | | | | | |
| Interest income | 0.0 | 0.0 | NA | NA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - |
| interest expense | - | (0.0) | NA | NA | (0.5) | (0.6) | (0.1) | - | - | (0.6) | (1.1) | - |
| Total other income | 0.0 | (0.046) | NA | NA | (0.5) | (0.6) | 0.0 | 0.0 | 0.0 | (0.5) | (1.1) | - |
| Income before income taxes | 0.4 | 0.2 | NA | NA | 0.1 | (0.7) | (0.8) | 7.6 | -0.8 | 1.2 | 6.1 | 13.8 |
| Pretax Margin | 34.8% | 14.0% | NA | NA | 4.6% | -93.2% | -53.2% | 46.8% | -50.0% | 15.2% | 30.3% | 41.8% |
| Income taxes | 0.2 | 0.108 | NA | NA | 0.2 | (0.0) | - | 2.0 | - | 0.4 | 2.2 | 5.0 |
| Tax rate | 42% | 67% | NA | NA | 304% | 5% | 36% | 27% | 0% | 36% | 36% | 36% |
| | | | NA | NA | | | | | | | | |
| Net income | 0.2 | 0.1 | NA | NA | (0.1) | (0.7) | (0.8) | 5.6 | (0.8) | 0.8 | 3.9 | 8.9 |
| Yr-over-Yr | | | | | -159% | -1413% | NA | NA | | -205% | 388% | 128% |
| Stk based compensation | - | 0.1 | NA | NA | 0.1 | 0.2 | 0.3 | 0.3 | 0.4 | 1.5 | 0.8 | 0.8 |
| One-time expenses | - | - | NA | NA | 0.0 | 0.2 | 1.0 | - | - | - | 1.2 | - |
| Non-GAAP Income | 0.2 | 0.1 | NA | NA | 0.0 | (0.4) | 0.5 | 5.9 | (0.4) | 2.3 | 5.9 | 9.7 |
| Yr-over-Yr | | | | | -92% | -386% | NA | NA | | -693% | 151% | 65% |
| **Net income per share:** | | | | | | | | | | | | |
| Primary EPS | 0.03 | 0.01 | NA | NA | (0.01) | (0.08) | (0.07) | 0.49 | (0.09) | 0.09 | 0.38 | 0.70 |
| **Diluted EPS** | **0.03** | **0.01** | **NA** | **NA** | **(0.01)** | **(0.08)** | **(0.07)** | **0.45** | **(0.09)** | **0.09** | **0.37** | **0.70** |
| Non-GAAP Diluted EPS | 0.03 | 0.01 | NA | NA | 0.00 | (0.04) | 0.04 | 0.47 | (0.04) | 0.26 | 0.55 | 0.76 |
| | | | | | -92% | -375% | NA | NA | | | | |
| **Shares** | | | | | | | | | | | | |
| Basic | 8.8 | 8.8 | 8.8 | 8.8 | 9.1 | 9.1 | 11.5 | 11.5 | 8.8 | 8.8 | 10.3 | 12.7 |
| Diluted | 8.8 | 8.8 | 8.8 | 8.8 | 9.1 | 9.1 | 11.5 | 12.5 | 8.8 | 9.0 | 10.6 | 12.7 |
| | | | | | 4.3% | 4.3% | NA | NA | | 2.7% | 17.5% | 20.1% |
| Adjusted EBITDA | 0.387 | 0.396 | NA | NA | 0.694 | 0.166 | 0.450 | 7.870 | - | 3.8 | 9.1 | 15.4 |
| | | | | | | | | | | NA | 139% | 70% |
| Net income | 0.225 | 0.053 | NA | NA | (0.134) | -0.699 | (0.798) | 5.601 | (0.753) | 0.794 | 3.875 | 8.853 |
| Taxes | 0.162 | 0.108 | NA | NA | 0.199 | -0.040 | - | 2.021 | - | 0.439 | 2.180 | 4.980 |
| Stock based comp | 0.000 | 0.077 | NA | NA | 0.133 | 0.159 | 0.250 | 0.250 | 0.792 | 1.542 | 0.792 | 0.800 |
| Interest and programming amortization | 0.000 | 0.046 | NA | NA | 0.476 | 0.577 | -0.002 | -0.002 | 0.000 | 0.547 | 1.048 | 0.800 |
| One-time | 0.000 | 0.112 | NA | NA | 0.020 | 0.169 | 1.000 | 0.000 | 0.112 | 0.112 | 1.189 | 0.000 |
| Adjusted EBITDA | 0.387 | 0.396 | NA | NA | 0.694 | 0.166 | 0.450 | 7.870 | 0.151 | 3.435 | 9.084 | 15.434 |

## BALANCE SHEET

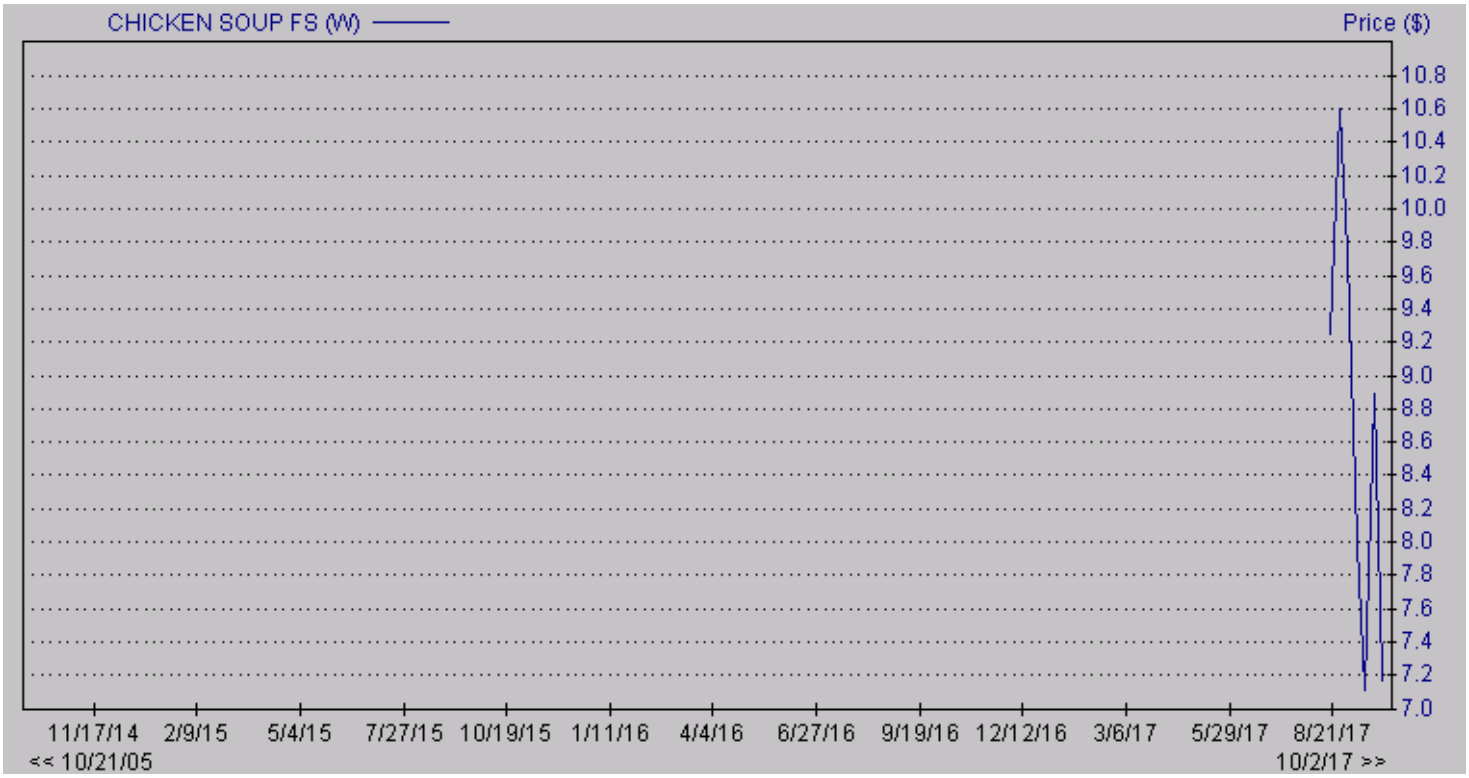
The company's IPO occurred after the June quarter closed. In the IPO CSSE raised a net $24 million in cash and repaid all of its debt ($8.5 million.) The company now has no debt. Adding the $1 million on the balance sheet on June 30, the company had approximately $15.4 million in cash after debt repayment.

| | June 30, 2017 | Dec 31, 2016 | Jun-Dec % Change |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $1,001,331 | $507,247 | 97% |
| Accounts receivable, net | 1,712,340 | 151,417 | 1031% |
| Prepaid expenses | 834,935 | 216,397 | 286% |
| Intangible asset - video content license | 5,000,000 | 5,000,000 | 0% |
| Prepaid distribution fees | 2,135,536 | 592,786 | 260% |
| Due from affiliated companies | 2,082,005 | 1,372,517 | 52% |
| Programming costs, net | 5,510,445 | 3,977,553 | 39% |
| **Total assets** | 18,276,592 | 11,817,917 | 55% |
| | | | |
| **Current liabilities** | | | |
| **Senior secured note payable, net** | **4,082,000** | **2,610,106** | 56% |
| **Senior secured note payable to related party, net** | **4,440,059** | **3,316,488** | 34% |
| Accounts payable and accrued expenses | 904,952 | 694,368 | 30% |
| Income taxes payable | 349,000 | 0 | NM |
| Accrued programming costs | 1,020,596 | 1,061,980 | -4% |
| Deferred tax liability, net | 210,000 | 439,000 | -52% |
| Deferred revenue | 850,000 | 71,429 | 1090% |
| Total liabilities | 11,856,607 | 8,193,371 | 45% |
| | | | |
| **Stockholder's equity** | | | |
| Preferred stock, $.0001 par value: Authorized shares 10,000,000, none issued and outstanding | 0 | 0 | |
| Class A Common stock | 125 | 89 | 40% |
| Class B Common stock | 807 | 807 | 0% |
| Additional paid-in capital | 7,702,481 | 4,074,646 | 89% |
| Accumulated deficit | (1,283,428) | (450,996) | 185% |
| Total stockholders' equity | 6,419,985 | 3,624,546 | 77% |
| Total liabilities and stockholders' equity | 18,276,592 | 11,817,917 | 55% |
| | | | |
| Quick Ratio | NA | NA | |
| Working Capital | NA | NA | |
| Cash as % of assets | 5% | 4% | 28% |
| Cash per share | $0.11 | $0.04 | 148% |
| Debt % of assets | 47% | 50% | -7% |

## CASH FLOW

| | Year 2015 | 6 Months Ended Jun 30, 2016 | 6 Months Ended Dec 31, 2016 | Year 2016 | 6 Months Ended Jun 30, 2017 |
|---|---|---|---|---|---|
| **Operating activities:** | | | | | |
| Net income | (753,463) | 278,492 | 502,641 | 781,133 | (832,432) |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | | | | |
| Share-based compensation | 792,000 | 77,018 | 1,465,026 | 1,542,044 | 292,191 |
| Amortization of programming costs | 646,295 | 1,027,227 | 2,128,441 | 3,155,668 | 794,923 |
| Amortization of deferred financing costs | - | 711 | 40,148 | 40,859 | 43,747 |
| Amortization of original issue discount | - | 29,169 | 354,543 | 383,712 | 805,893 |
| Loss on debt extinguishment | - | - | - | - | 24,803 |
| Deferred income taxes | - | 270,000 | 169,000 | 439,000 | (229,000) |
| **Change in operating assets and liabilities:** | | | | | |
| Trade accounts receivable | - | (799,540) | 648,123 | (151,417) | (1,560,924) |
| Prepaid expenses and other current assets | (16,198) | (132,162) | (68,037) | (200,199) | (618,538) |
| Programming costs | (1,597,364) | (2,683,536) | (2,436,718) | (5,120,254) | (1,747,798) |
| Prepaid distribution fees | - | - | (592,786) | (592,786) | (1,542,750) |
| Accounts payable and accrued expenses | 23,031 | 346,669 | 324,669 | 671,338 | 200,219 |
| Income taxes payable | - | - | - | - | 349,000 |
| Deferred revenues | 3,500,000 | 2,557,874 | (5,986,445) | (3,428,571) | 778,572 |
| Net cash provided by operating activities | 2,594,301 | 971,922 | (3,451,395) | (2,479,473) | (3,242,094) |
| **Investing activities:** | | | | | |
| Purchase of video content license from affiliate | - | (5,000,000) | - | (5,000,000) | - |
| Net cash used in investing activities | - | (5,000,000) | - | (5,000,000) | - |
| **Cash flows from financing activities:** | | | | | |
| Proceeds from revolving credit facility | - | 2,300,000 | 2,230,000 | 4,530,000 | 3,325,000 |
| Repayments of revolving credit facility | - | (800,000) | (250,000) | (1,050,000) | (2,305,000) |
| Prepayment of deferred financing cost | - | (6,400) | (78,206) | (84,606) | - |
| Due from affiliated companies | (2,590,223) | 2,423,578 | (1,684,539) | 739,039 | (709,488) |
| Payment of stock issuance cost | - | - | (197,600) | (197,600) | (17,500) |
| Proceeds from notes payable | - | - | 2,970,000 | 2,970,000 | 2,030,000 |
| Proceeds from issuance of common stock | - | 200,878 | 874,931 | 1,075,809 | 1,413,166 |
| **Net cash used in financing activities** | (2,590,223) | 4,118,056 | 3,864,586 | 7,982,642 | 3,736,178 |
| Net change - cash | 4,078 | 89,978 | 413,191 | 503,169 | 494,084 |
| Cash, beginning of quarter | - | 4,078 | 94,056 | 4,078 | 507,247 |
| Cash, end of period | 4,078 | 94,056 | 507,247 | 507,247 | 1,001,331 |
| **Supplemental information:** | | | | | |
| Interest paid | - | 13,521 | 96,571 | 110,092 | 228,205 |
| Income taxes paid | - | - | - | - | 52,000 |
| **Non-cash operating activity:** | | | | | |
| Fair value of shares issued to executive producer | **-** | **-** | - - | **-** | 625,500 |
| **Non-cash investing and financing activities:** | | | | | |
| Fair value of warrants issued with notes and revolving credit | - | 262,524 | 600,846 | 863,370 | 410,976 |
| Fair value of shares issued for Trema rights | - | 792,000 | - | 792,000 | - |

## HISTORICAL STOCK PRICE



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