

ESE Entertainment Inc.

(TSXV: ESE)

Promoting Games Developed by Electronic Arts & Tencent - Initiating Coverage

BUY

Current Price: C\$0.39

Fair Value: C\$0.95

Risk*: 4

Sector: Technology/Gaming

[Click here for more research on the company and to share your views](#)

Highlights

- ESE Entertainment is a technology/marketing company **focused on attracting gamers/users for its clients**. Its clientele includes video game developers, publishers, and brands, including well-known names such as **Electronic Arts (NASDAQ: EA)**, **Riot Games**, Ubisoft (ENXTPA: UBI), Opera (NASDAQ: OPRA), CD Projekt (WSE: CDR), and Epic Games (owned by **Tencent Holdings**; SEHK: 0700).
- It is estimated that **the global gaming market** will grow from US\$232B in 2022, to US\$504B by 2030, reflecting a CAGR of 10% (Source: Grand View Research).
- ESE attracts gamers by running **ad campaigns through its 350+ partners** (composed of gaming websites, reviewers, social media influencers, and platforms with exposure to gamers), **reaching 30M users every month**. ESE also organizes and broadcasts gaming and esports events/tournaments (to build brand awareness for its clients), and provides call center/support services to gamers of its clients.
- Currently, ESE's campaigns **generate 0.5M users per month** for its 20+ clients, with seven-day retention rates (defined as the percentage of new users active after seven days) ranging between 12% and 22%. We believe these **retention rates are in line with industry standards**.
- We note that competition is very high in the video game ad space, with a wide range of privately held small and large companies. **We note that ESE's Customer Acquisition Cost/CAC of US\$3 is on the lower end of industry standards (US\$1.20-\$7.60)**. Management believes their proprietary technology and data-driven approach, integrating big data, artificial intelligence, and machine learning allow them to achieve superior results.
- In Q3-2022 (quarter ended July), ESE generated \$8.9M in revenue from its core services, implying an annual run rate of \$35.5M, or an **EV/R of 0.84x vs the Entertainment Services sector average of 2.60x** (Source: S&P Capital IQ).
- Management is **planning several growth initiatives**, including entering into sports-betting, and metaverse gaming.
- We are **expecting record Q4 revenue** as the company announced several new deals/contracts in H2-FY2022.

Risks

- Limited operating history
- Yet to achieve profitability**
- Might have to raise capital for working capital, implying potential for share dilution
- Operates in a **highly competitive sector**

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

Alexis Cabel, B.A.Econ
Equity Analyst

Share Price (One-Year)



Company Data

52-Week Range	\$0.30-\$1.32
Shares O/S	78M
Market Cap.	\$30M
Current Yield	N/A
P/E (forward)	N/A
P/B	1.6x

Key Financial Data (\$)			
YE October 31	2021	2022E	2023E
Cash	\$4,825,072	\$2,553,193	\$4,186,978
Working Capital	\$5,217,636	-\$3,553,781	-\$1,384,870
Total Assets	\$15,944,361	\$29,566,401	\$32,107,196
Total Debt	\$0	\$3,601,804	\$5,001,804
Revenue	\$11,384,731	\$54,988,435	\$57,014,521
Net Income/(Loss)	-\$17,329,346	-\$12,976,752	-\$1,981,785
EPS (basic)	-\$0.38	-\$0.17	-\$0.03

***See last page for important disclosures, rating, and risk definitions. All figures in C\$ unless otherwise specified.**

Formed in 2019 by CEO Konrad Wasiela, a former professional football player for the B.C. Lions, Saskatchewan Roughriders, and Montreal Alouettes

Went public through a reverse takeover in 2020

Completed an array of acquisitions in 2021/2022 to assemble its existing business lines

70+ employees and 50+ contractors

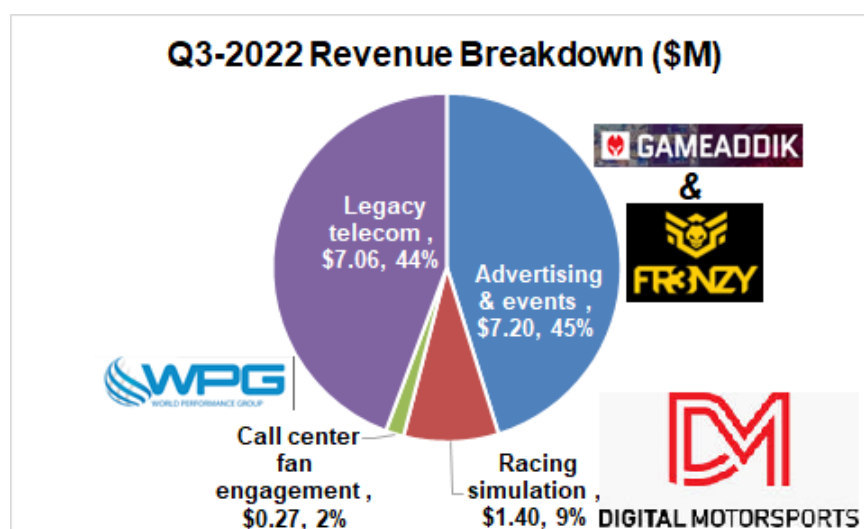
Headquartered in Vancouver, with offices in Montreal, Warsaw, Dublin, and Bucharest

It is estimated that the global gaming market will grow from US\$232B in 2022, to US\$504B in 2030, reflecting a compound annual growth rate (CAGR) of 10%

Asia accounts for 50% of the global market

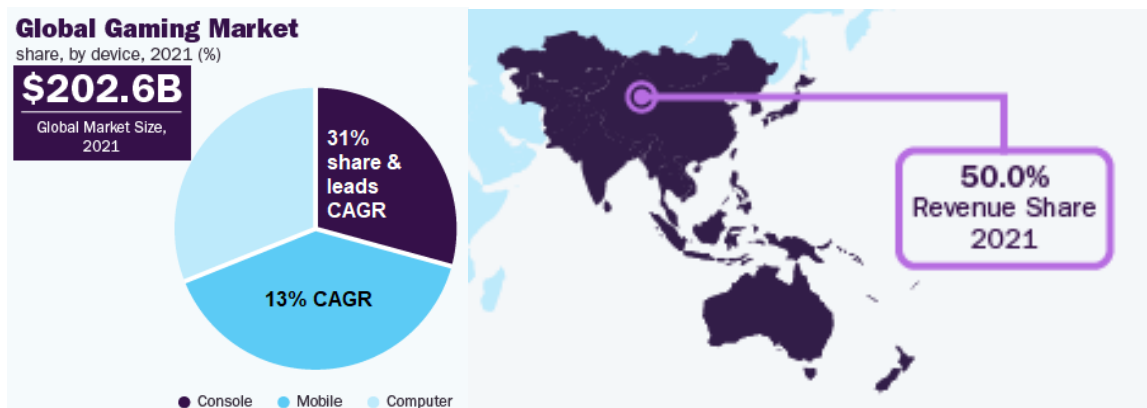
ESE has four key **business segments**:

- **GameAddik** (digital advertising/marketing) and **Frenzy** (organizes and broadcasts events) – both of these divisions are focused on attracting gamers and improving brand awareness of its clients
- **Contact/call center** – offers 24/7 customer support to gamers of its clients
- **Digital Motorsports (DMS)** – a manufacturer and online seller of racing simulation equipment
- **Telecom legacy business** – offers Voice Over Internet Protocol (VOIP) services



Source: Company/FRC

We expect GameAddik and Frenzy to be the company's primary revenue growth drivers going forward.

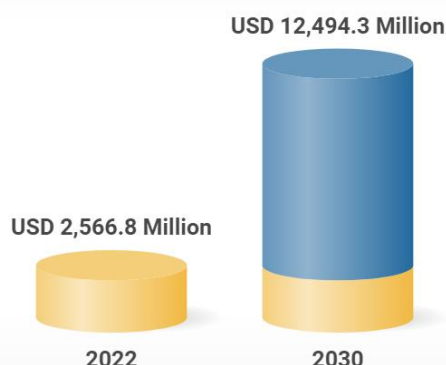


Source: Grand View Research

It is estimated that the global esports market will grow from US\$2.6B in 2022, to US\$12.5B by 2030, reflecting a CAGR of 22%

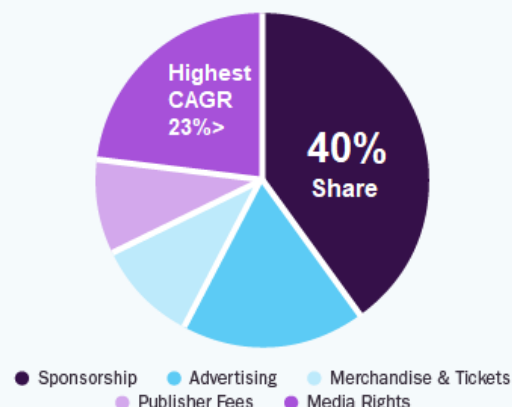
Global Esports Market

Market forecast to grow at a CAGR of 21.9%



Global Esports Market

share, by revenue source, 2021 (%)



Source: Grand View Research

The following sections summarize the key divisions.



(Acquired on January 31, 2022)

Formed in August 2015, GameAddik specializes in video game ads to attract users for game developers.

Has exclusive and non-exclusive contracts with major video game developers, such as EA, Opera, and others

Most game developers typically use both internal and third-party marketing campaigns to promote their games

GameAddik's Strategy to Attract Users

- Runs online and social media **ad campaigns** to reach a wide range of gamers globally
- Utilizes **search engine optimization** for strategic ad placement
- Targeted marketing using **proprietary technology and data-driven approach**, integrating AI, big data, and machine learning

ESE's Reach

Currently acquires 500k+ players per month for its clients

ESE reaches 30M+ gamers a month, implying a conversion rate of 1.7%, which we believe is in line with industry standards (typically 1-3%)



Source: Company

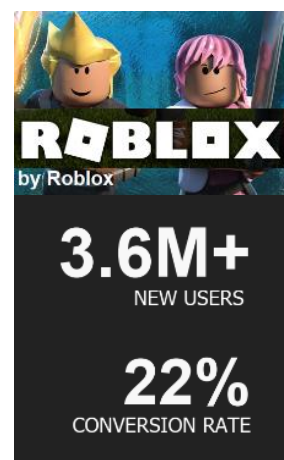
The following are examples of three successful campaigns for clients.

- **Roblox** - a popular online gaming platform, with 40M+ games and 12M+ users.
- **Raid: Shadow of Legends** - a game developed by Plarium Games, an established video game developer (62M installs/4M users).
- **Game of Thrones: Winter is Coming** - a multi-player real-time strategy game

ESE's Operating Metrics

ESE's campaigns generated 6.6M+ users for three clients since initiating their campaigns in FY2019/FY2020

We note that ESE's seven-day retention rates are in line with industry standards



*Conversion rates in this table imply seven-day retention rates

Source: Company

ESE attracts gamers by running **ad campaigns through its 350+ partners** (composed of gaming websites, reviewers, social media influencers, and platforms with exposure to gamers), **reaching 30M users every month.**

Like most ad companies, ESE is paid a fee for each user it attracts.

ESE typically receives an acquisition fee of US\$3 per user from its clients; after paying partners and incurring direct costs, ESE generates 30%, or US\$0.90 in gross profit



CUSTOMERS



Source: Company

Relatively low CAC

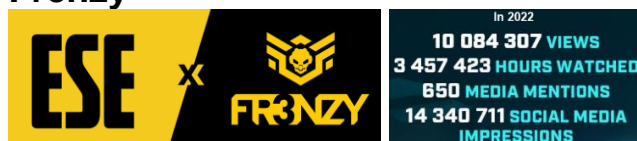
We believe ESE's CAC of US\$3 is on the lower end of industry standards (US\$1.20-\$7.60). GameAddik is considered one of the top **Cost Per Acquisition (CPA) gaming networks in the world for gaming**, according to adtech firm GameSight. We consider this a key competitive advantage, and a strong testimonial for ESE's capabilities.

We note that there is stiff competition in the video game ad space, with a wide range of large and small players. **We believe ESE's primary competitive advantages are its extensive partnership network, and relatively low CAC.**

Frenzy

In FY2022 (9M), this division generated \$2.4M in revenue, or 6% of total revenue

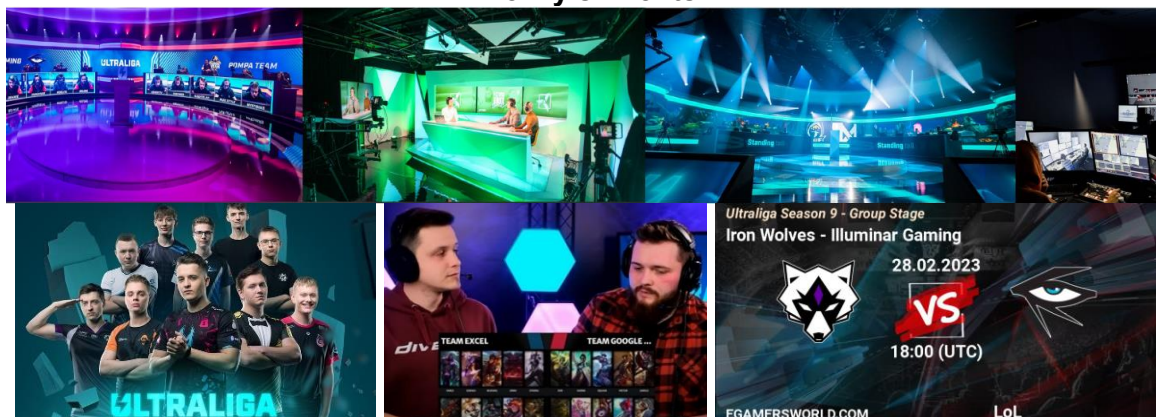
Gross margins average 25%



To further promote their clients' games, ESE's subsidiary Frenzy organizes events and tournaments, broadcasted on third party media outlets, including Twitch and YouTube (NASDAQ: GOOGL), and a Polish television network operated and owned by Polsat Group, one of the largest television and media companies in Europe. **Through such events, Frenzy realizes sponsorship revenue, plus a fee for every new user it attracts for its clients.**

Frenzy's most well-known event is the Ultraliga (launched in 2018), an annual tournament for the League of Legends video game. **This game, which has 180M monthly users, was developed by Riot Games - one of ESE's key clients.** Ultraliga attracted over 10M views and 3.5M hours of watch time over the last five tournaments.

Frenzy's Events



Source: Company, YouTube, egamersworld.com



DIGITAL MOTORSPORTS (Acquired in September 2021)

Formed in 2018, this division manufactures a wide range of products for driving/racing simulation and gaming.

In FY2022 (9M), this division generated \$4.4M in revenue, or 11% of total revenue, at gross margins of 19% vs the Technology Hardware sector average of 36%; Source: S&P Capital IQ

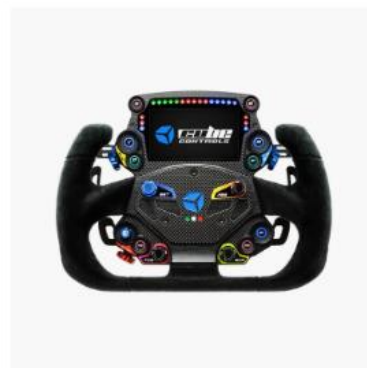
Subsequent to Q3-FY2022, this division achieved record sales of \$1.04M in November 2022 vs the monthly average of \$0.49M in FY2022 (9M)

Sales are mainly from European consumers

As ESE is primarily focused on GameAddik and Frenzy, we do not believe the company will allocate material resources to grow this division



Cockpits



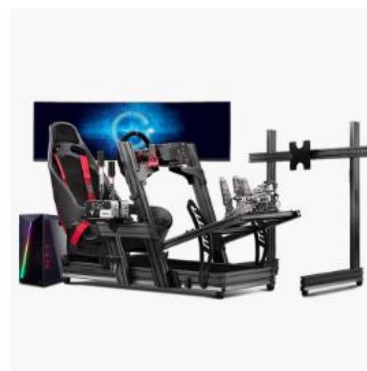
Wheels



Sim Racing Wheelbases



Pedals



Turn Key Sim Rigs & Bundles

Source: Digital Motorsports

Production is outsourced to manufacturers in Europe and China; products are sold online, through DMS's own website. We note that products prices (US\$70-US\$4,500) are generally lower than that of comparable products.

We note that the driving simulator market is highly competitive, dominated by five large players. DMS and several other small players, account for a small share of the global market.

Call Center and Legacy Telecom



(Acquired in April 2021)

In FY2022 (9M), call center, and legacy telecom services, generated \$0.92M, and \$17.43M in revenue, respectively

ESE's call center is based in Romania

WPG provides call center and fan engagement services for clients. In FY2022 (9M), WPG **generated approximately \$100k/month in revenue** from its clients for this business. At these call centers, WPG offers multilingual support, telemarketing, tele-sales, and lead generation services.

This division also has a **51% interest in a VOIP (Voice Over Internet Protocol) business**, which provides wholesale long distance (minutes) products and services to telecommunication companies. This business, which operates on very

low margins, generated \$17M in revenue, but incurred \$233k in losses in FY2022(9M). As ESE is focused on GameAddik and Frenzy, we do not believe management will allocate any resources to grow this legacy telecom business.

Future Plans and Services

- Completed **phase one of an AI platform** to collect and process a large amount of data for real-time analytics, to further lower customer acquisition costs, and enhance conversion/retention rates.
- Launch an **online esports betting platform**
- Enter the **metaverse gaming space**

Management and Board

Name	Position(s)	# Shares Outstanding	% of Total
Konrad Wasiela	CEO and Director	17,386,733	22.42%
Eric Jodoin	COO	2,962,260	3.82%
Andrea Lieuwen	CFO	16,500	0.02%
Rob Kang	Corporate Secretary & Director	215,000	0.28%
Rajeev Dewan	Independent Director	138,745	0.18%
Ron Segev	Independent Director	234,790	0.30%
Rick Brace	Independent Director	20,000	0.03%
Total Shares from Board and Management		20,974,028	27.0%

Source: Company Filing, SEDI, FRC

Brief biographies of the senior management and board members, as provided by the company, follow:

Konrad Wasiela –CEO and Director

Mr. Wasiela is a director and the founder of Wasiela Holdings Ltd., a global private equity and real estate holdings company based in Vancouver, BC, Canada and Wasiela Services Ltd. since January 2014. He was also an Investor, Advisor, and Director of Business Development at APlus Translations Inc. from 2011 to 2019, a global localization, transcription and language translation provider for EA Sports, Take Two Interactive Software, Inc, Full Tilt Poker, The Remote Gaming Association and Betfair.

Andrea Lieuwen – CFO

Ms. Lieuwen is an MBA, CPA, CGA with over 25 years of public company accounting and finance experience, having spent her career in various senior roles at Great Canadian Gaming Corporation (GCGC), a leading Canadian gaming and entertainment company. Most recently, Ms. Lieuwen was responsible for the

ESE is working on multiple initiatives simultaneously

We believe these initiatives are in early stages, and are unlikely to contribute to near-term revenue

Management and the board own 27% of outstanding shares

Three out of five directors are independent

leadership and operations of GCGC's gaming properties across the Province of British Columbia, with almost 3,000 employees.

Eric Jodoin – Chief Operating Officer

Mr. Jodoin has been a business owner and operator in the information technology industry for the last 20 years. He holds a degree in computer programming (graduating with honours) and has been involved in businesses that have generated approximately \$250M in revenues in aggregate. He is also a graduate of the MIT Entrepreneurship Master program (EMP), which he completed in 2016.

Rob Kang – Corporate Secretary and Director

Mr. Kang was previously with the TMX Group and served most recently as the Director of Listings for the TSX Venture Exchange. Mr. Kang was responsible for overseeing all listings functions for issuers on the exchange, as well as developing and implementing policies that were relevant to the financial climate in which issuers participated in the Canadian capital markets. Mr. Kang has also served on the executive board of over 15 publicly traded companies and as a lecturer at Simon Fraser University in Canada.

Rajeev Dewan – Independent Director

Mr. Dewan is a partner in the Capital Markets and M&A group with business law firm McMillan LLP with offices in Canada and Hong Kong. Mr. Dewan is specialized in advising public and private companies in high-growth sectors, investment banks, venture capital funds and family offices. He has significant experience advising on cross-border transactions, specifically in relation to implementing financings, investments and international joint ventures between Canadian companies and corporate groups and family offices in Asia.

Ron Segev – Independent Director

Ron Segev is a founding partner of Segev LLP. Ron is a specialized gaming lawyer and assists online gaming, social gaming, skill games, sports books, daily fantasy sports, esports, v-sports, live-dealer, and other gaming and betting clients worldwide with their commercial, IP, transactional, licensing, regulatory and compliance needs. Ron has worked with all industry participants including developers, studios, publishers, and others. Ron is also a General Member of the International Masters of Gaming Law.

Rick Brace – Independent Director

Rick is an accomplished business leader and innovative pioneer with more than 40 years of experience in the media industry. Rick was with Bell Media/CTV Globe Media for 13 years in senior leadership roles including President of TSN, President of CTV and President of Specialty TV. As President of Rogers Media, he was responsible for driving strategy and overseeing operations for the company's portfolio of media assets.

Financials

STATEMENT OF OPERATIONS (\$)

	2021	2021 (9M)	2022 (9M)	YoY%	Q3-2021	Q3-2022	YoY%
Technology	1,931,272	855,366	16,249,130	1800%	562,765	7,203,853	1180%
Infrastructure	9,453,459	4,288,417	18,352,119	328%	3,672,219	7,328,263	100%
Media	-	-	4,361,473		-	1,402,236	
Total Revenue	11,384,731	5,143,783	38,962,722	657%	4,234,984	15,934,352	276%
Cost of revenue	10,234,688	4,368,491	30,607,634	601%	3,786,479	12,815,884	238%
G&A	5,276,822	3,554,581	7,814,907	120%	1,010,328	2,632,344	161%
Advertising and events	1,101,358	450,628	1,558,659	246%	143,575	541,026	277%
EBITDA	(5,228,137)	(3,229,917)	(1,018,478)	-68%	(705,398)	(54,902)	-92%
Net Profit (Loss)	(13,573,533)	(6,375,661)	(12,755,344)	100%	(1,242,011)	(9,109,508)	633%
EPS	(0.38)	(0.15)	(0.19)		(0.02)	(0.13)	

Margins	2021	2021 (9M)	2022 (9M)	Q3-2021	Q3-2022	Sector
Gross	10%	15%	21%	11%	20%	38%

G&A	46%	69%	20%	24%	17%	25%
Advertising and events	10%	9%	4%	3%	3%	

Source: Company Filings, FRC

Summary of Cash Flows	9M-2021	9M-2022
Operating	(2,088,302)	(489,596)
Investing	(482,263)	(4,003,826)
Financing	11,203,530	3,463,940
Net	8,632,965	(1,029,482)
Free Cash Flows to Firm (FCF)	(2,570,565)	(4,493,422)

Liquidity & Capital Structure	2020	2021	Q3-2022
Cash	\$550,011	\$4,825,072	\$3,666,325
Working Capital	\$348,588	\$4,983,246	-\$1,421,420
Current Ratio	1.71	4.23	0.88
Long-term Debt	\$0	\$0	\$3,490,663
Total Debt	\$0	\$0	\$3,787,847
Long-term Debt-to-Capital	0%	0%	17%
Total Debt-to-Capital	0%	0%	18%

Source: Company Filings, FRC

Stock Options and Warrants

	# Options	Strike Price	Value	Warrants	Strike Price	Value
	2,862,716	\$0.87	\$2,493,804	13,898,171	\$1.42	\$19,780,160
Total Outstanding	2,862,716	\$0.87	\$2,493,804	13,898,171	\$1.42	\$19,780,160
In the Money	600,216		\$150,054			

Source: Company Filings, FRC

FRC Projections and Valuation

(\$)	2022E	2023E	2029E	2030E
GameAddik	19,996,868	25,156,060	72,707,157	86,775,991
Frenzy	3,456,115	4,704,913	22,857,834	29,746,283
DMS	5,815,297	6,082,801	7,966,980	8,333,461
WPG - Call center & legacy telecom	25,720,155	21,070,748	5,725,967	4,887,236
Total Revenue	54,988,435	57,014,521	109,257,938	129,742,971
Gross Profit	11,988,925	12,754,071	34,168,043	41,519,720
Gross Profit Margin	22%	22%	31%	32%

Source: FRC

2022 (9M) revenue
was up 657% due to
acquisitions

EBITDA and EPS
yet to be positive

Although CFO
improved in FY2022
(9M),
FCF declined due to
acquisitions

Working capital
deficit of \$1.42M at
the end of Q3-2022;
subsequently raised
\$3.25M through
private placements

We are expecting
GameAddik and
Frenzy to be the key
revenue drivers

Assuming revenue
to grow 11% p.a.
from 2022-2030 vs
the projected growth
rates of 10% p.a. for
the global gaming
market, and 22% for
the global esports
market

*We are expecting
EPS to turn positive
in FY2024*

*Based on the above
projections, our DCF
returned a fair value
estimate of \$0.87
per share*

*ESE is trading at a
60% discount
relative to larger
players in the
gaming/technology
sector*

*Applying the sector
average EV/R of
1.5x to our FY2023
revenue forecast for
ESE, we arrived at a
comparables
valuation of \$1.04
per share*

DCF Model	Q4-2022E	2023E	2024E	2029E	2030E	Terminal
EBIT(1-tax)	402,007	(819,616)	1,775,468	11,504,163	16,142,529	
Non-Cash Expenses	(1,506,499)	1,450,695	1,523,230	1,944,070	2,041,274	
Change in Working Capital	(127,622)	(535,125)	(631,659)	(1,397,451)	(1,629,422)	
Cash from Operations	(1,232,113)	95,954	2,667,039	12,050,782	16,554,381	
CAPEX	(243,344)	(600,000)	(600,000)	(600,000)	(600,000)	
Free Cash Flow	(1,475,457)	(504,046)	2,067,039	11,450,782	15,954,381	
Present Value	(1,475,457)	(443,436)	1,581,288	4,355,203	5,276,615	45,290,942
Discount Rate	15.0%					
Terminal Growth	3%					
Present Value	70,415,078					
Cash - Debt	(2,968,139)					
Fair Value	67,446,939					
Shares O/S	77,761,468					
Value per Share (US\$)	\$0.87					

Source: FRC

ESE Vs Larger Players in the Sector	EV/ Rev
Gamelancer Media Corp.	29.26
Madison Square Garden Sports Corp.	6.64
VerticalScope Holdings Inc.	2.42
Just Dial Ltd	1.84
OverActive Media Corp.	1.52
Enthusiast Gaming Holdings Inc.	0.82
ESE (based on our 2023 revenue forecast)	0.58
Acquity Ads Holdings Inc.	0.48
Entertainment Services Sector Average	2.60x
Average Market Multiples (excluding outliers)	1.47x
ESE's Premium/(Discount)	-60%

Source: S&P Capital IQ / FRC

Valuation Summary	Fair Value per Share (\$)	Weight
DCF Valuation	\$0.87	50.0%
Comparables Valuation - Average EV/R Multiple	\$1.04	50.0%
Fair Value Estimate (\$)		\$0.95

Source: FRC

We are initiating coverage with a BUY rating, and a fair value estimate of \$0.95 per share (the average of our DCF and comparables valuations). We believe the company's extensive partnership network and relatively low CAC should allow it to ramp up its client-base quickly. We are expecting record Q4 revenue.

*We are assigning a
risk rating of 4*

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- Limited operating history
- **Yet to achieve profitability**
- Technological innovations are key for long-term sustainability
- Might have to raise capital for working capital, implying potential for share dilution
- Operates in a highly competitive sector

Appendix

STATEMENTS OF OPERATIONS (\$) YE October 31	2021	2022E	2023E
Advertising and events	1,931,272	23,452,983	29,860,973
Call center and legacy telecom	9,453,459	25,720,155	21,070,748
Racing simulation	-	5,815,297	6,082,801
Total Revenues	11,384,731	54,988,435	57,014,521
Cost of Revenue	10,234,688	42,999,510	44,260,450
Gross Profit	1,150,043	11,988,925	12,754,071
G&A	5,276,822	10,419,876	10,940,870
Advertising and events	1,101,358	2,078,212	2,182,123
EBITDA	(5,228,137)	(509,163)	(368,921)
Depreciation	38,974	429,233	450,695
Amortization	-	-	-
D&A	38,974	429,233	450,695
EBIT	(5,267,111)	(938,396)	(819,616)
Net financing expense	37,786	233,873	310,112
EBT	(5,304,897)	(1,172,269)	(1,129,728)
Income tax expense	614	1,071,083	-
Minority interest	(1,447,678)	(153,515)	(147,944)
Share-based expenses	9,630,008	10,623,885	1,000,000
Other income	(29,562)	10,705	-
Gain on foreign operations	113,112	-	-
Forex loss/(gain)	2,142	(83,230)	-
Unusual/Non-recurring expense	3,755,813	335,555	-
Net Income (Net Loss)	(17,329,346)	(12,976,752)	(1,981,785)
EPS	(0.38)	(0.17)	(0.03)

BALANCE SHEET (\$) YE October 31	2021	2022E	2023E
Assets			
Cash	4,825,072	2,553,193	4,186,978
Accounts receivables	844,148	4,737,798	5,448,467
Prepaid expenses and others	448,616	493,478	518,151
Inventory	406,549	447,204	469,564
Current Assets	6,524,385	8,231,672	10,623,161
PP&E	346,995	2,517,762	2,667,067
Deposit	311,219	311,219	311,219
Other long term assets	8,761,762	18,505,749	18,505,749
Total Assets	15,944,361	29,566,401	32,107,196
Liabilities & Shareholders' Equity			
Accounts payables and accrued liabilities	1,000,785	3,935,917	4,132,712
Acquisition Payment Commitment	-	6,096,817	6,096,817
Current portion of borrowings	-	297,184	297,184
Current portion of lease liabilities	71,574	378,565	378,565
Deferred revenue	234,390	257,829	283,612
Current portion derivative liability	-	-	-
Other current liabilities	-	819,141	819,141
Current Liabilities	1,306,749	11,785,453	12,008,031
Borrowings	-	757,571	757,571
Convertible notes	-	2,547,049	3,947,049
Derivative liability	-	-	-
Lease liabilities	126,551	126,551	126,551
Other long term liabilities	-	-	-
Total Liabilities	1,433,300	15,216,624	16,839,202
Share capital	28,707,147	41,522,616	43,422,616
Share subscriptions	1,050	1,050	1,050
Commitment to issue shares	4,755,754	4,755,754	4,755,754
Surplus and others	2,388,107	2,388,107	3,388,107
Minority interest	(31,600)	(31,600)	(31,600)
Deficit and AOCI	(21,309,397)	(34,286,149)	(36,267,934)
Total Liabilities and Shareholder's Equity	15,944,361	29,566,401	32,107,196

STATEMENTS OF CASH FLOWS (\$)	2021	2022E	2023E
YE October 31			
Operating Activities			
Net loss for the period	(18,663,912)	(12,976,752)	(1,981,785)
Items not involving cash			
Depreciation	38,974	429,233	450,695
Share-based payments	9,630,008	10,623,885	1,000,000
Accretion on lease liabilities	3,785		
Finder's fees	1,475,956		
Impairment of assets	3,755,813		
Provisions for income tax	614		
FFO	(3,758,762)	(1,923,634)	(531,090)
Accounts receivables	(1,503)	(3,893,650)	(710,670)
Inventory	(187,660)	(40,655)	(22,360)
Prepaid expenses and others	(59,222)	(44,862)	(24,674)
Accounts payable and accrued liabilities	(449,556)	3,754,273	196,796
Deferred revenue	(33,530)	23,439	25,783
Others			
Changes in WC	(731,471)	(201,455)	(535,125)
Cash from (used in) Operations	(4,490,233)	(2,125,088)	(1,066,215)
Investing activities			
PP&E	(17,731)	(600,000)	(600,000)
Others	(2,321,904)	(3,647,170)	-
Cash used in Investing Activities	(2,339,635)	(4,247,170)	(600,000)
Financing activities			
Equity	12,699,643	191,584	1,900,000
Debt	(509,086)	3,601,804	1,400,000
Lease	(23,953)	306,991	-
Others	(963,628)	-	-
Cash provided by Financing Activities	11,202,976	4,100,379	3,300,000

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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