LITCHFIELD HILLS RESEARCH

LiveOne, Inc.

LVO - Buy $4 Price Target

Results Report – May 30, 2024

LiveOne – Becoming the Global Leader in Bespoke, Leaned-Back Audio for Partners

Analyst: Barry M. Sine, CFA, CMT

- This morning, LiveOne hosted one of the most important calls in the company's history outlining a bold, but profitable, B2B, wholesale strategy for its Slacker streaming music business.
- CEO Rob Ellin noted that LiveOne is active in five large industry verticals with a total TAM of over $300 billion. We note that these are all growing, like streaming and influencer marketing, and in the early stages of adoption.
- New head of business development Bill Witress discussed eight target markets where it is in discussions ranging from airlines to children's media.
- The company has already announced one $24 million annual revenue contract with a $25 billion streaming company, has landed four smaller deals that will come online later this year, and is close to a deal with a $100 billion media company.
- Mr. Ellin wrapped up by stating his aspiration that this new strategy could take LiveOne to a billion-dollar revenue business, versus $150 million currently. The other major streaming music companies are building their own brands, and are not actively pursuing the B2B route. LiveOne has the music royalty agreements, technology, and pricing flexibility to work with partners.
- We reiterate our Buy rating and $4 price target, implying more than 100% upside.

Rating	Buy
Target Price	$4.00
Ticker Symbol	LVO
Market	NASDAQ
Stock Price	$1.78
52 wk High	$2.19
52 wk Low	$0.84
Shares Outstanding:	98.6 M
Public Market Float:	96.3 M
Avg. Daily Volume	311,158
Market Capitalization:	$175 M
Institutional Holdings:	38.3%
Dividend Yield:	0.0%

Earnings Per Share	**Normalized to exclude unusual items**			
FYE - March	**FY2023**	**FY2024**	**FY2025E**	**FY2026E**
1Q - June	$0.02	($0.01)	($0.02)	($0.01)
2Q - Se9tember	($0.04)	($0.09)	($0.00)	$0.01
3Q - December	($0.03)	($0.03)	$0.00	$0.01
4Q - March	($0.06)	($0.03)	$0.00	$0.01
Year	**($0.12)**	**($0.15)**	**($0.02)**	**$0.02**
Revenue ($mm)	**$99.6**	**$118.4**	**$148.4**	**$179.5**
EV/Rev	1.7X	1.5X	1.2X	1.0X
EBITDA ($mm)	**$10.9**	**$11.0**	**$21.0**	**$24.0**
EV/EBITDA	15.8X	15.7X	8.2X	7.2X

Risks/Valuation

- The dominant risk is that revenue from Tesla, for whom Slacker provides the in-car streaming music app included in the connectivity package on a white label basis, comprises 40% to 50% of revenue. Mitigating this risk are the facts that Tesla just renewed for an 11th straight year, Slacker is an important and highly utilized part of the driver/passenger experience (personally selected by Elon Musk) and represents a negligible portion of Tesla's cost base.
- We value LVO shares at 2.6x our F25 revenue estimate. Comps trade at 3.0x implying a $4.65 per share valuation, but we round this down out of conservatism to get to our $4.00 12-month price target.

Company description: LiveOne is a dynamic media company headquartered in Beverly Hills, California with differentiated businesses in streaming music and podcasting. Music goes under the Slacker brand but is mainly sold on a white-label basis to customers such as Tesla. Podcasting is done via 73%-owned publicly traded PodcastOne (PODC - NASD).

LiveOne Outlines Bold New Strategy

This morning, LiveOne provided an update on its new strategy of pursuing B2B contracts rather than targeting individual consumers as a B2C strategy. CEO Rob Ellin started by noting that the company participates in five market verticals with a total addressable market of $322 billion. We would add that each of these is in the relatively early stages of consumer adoption, with strong growth expected for at least the next decade.

LiveOne Serves Five Markets with a Collective $322 Billion TAM

Total Addressable Market
in billions

$45	Music streaming
25	Podcasting
150	Influencer marketing
72	Video streaming
30	Digital publishing
$322	

Source: Company reports and Litchfield Hills Research LLC

Brad Konkol, the head of the Slacker music streaming business at LiveOne described a strategic review process the company undertook last year. He noted the following points:

- LiveOne has excellent Net Promoter Scores (NPS) with customers
- It has strengths in the following:
    - Bespoke programming capabilities
    - Broad and customizable technology platform
    - Reliable infrastructure
    - Operating efficiencies
    - Pricing flexibility architecture

As a result of the review, the team decided to refocus Slacker on B2B, becoming “the global leader in innovative, bespoke audio for businesses seeking creative solutions to engage customers and drive growth.”

He was followed by relatively new hire Bill Witress. Mr. Witress has a long history of technology deal-making, beginning his career and Real Networks and then spending 12 years at Microsoft working on key initiatives such as Xbox.

He also outlined the current state of the pipeline for this new business:

- 50+ companies in discussions
- One $25 billion streaming company signed a contract that should be worth $24 million annually in recurring revenue
- Four smaller contracts signed
- One pending contract with a $100 billion media company

Contracts may take multiple forms. For example, Tesla bundles Slacker Radio into its connectivity package and pays LiveOne about $3.50 per month for each customer. Other deals may see the partner market the service as an optional add-on. But in all of these, the partner will take on the costly role of consumer acquisition. Mr. Witress noted that for streaming music companies, direct consumer acquisition is unprofitable, whereas LiveOne is focused on profitable deals.

It is working both simple and complex deals. Simple deals may involve little customization for modest revenue amounts but would come online more quickly. Deals where the product requires customization to meet the partner requirements would bring on more revenue but takes about a year before they can start coming online. We noted a definite focus on building this business profitably. To build, LiveOne has already hired Mr. Witress and four salespeople, but their overhead is supported by already-signed deals. As revenue ramps, management envisions ramping up to ten sales reps. These reps have a lot of ground to cover.

LiveOne outlined eight broad partner categories where it is working on deals and gave some color on some. Remember, it already has royalty agreements in the U.S. for pretty much all music and this music is the same across every streaming provider, undifferentiated the way video is so it's ideal for a white label strategy.

Automotive – LiveOne already boasts Tesla as a customer and is working with eight of the ten largest automakers globally. Mr. Witress cautioned that automakers have a long, deliberative sales cycle, so nothing appears imminent. One opportunity is that nearly all cars today come with a surround sound music system, but almost no content companies utilize this. We can see an auto salesperson demoing a bespoke sound product utilizing the vehicle sound system from automotive brands such as Cadillac, BMW, and Mercedes and think this would enhance the vehicle sales process. Several years ago, we attended the General Motors analyst day when the company was announcing its new connectivity agreement with AT&T, and the managers we spoke to talked about the importance of adding new, value-added revenue streams that differentiate GM's brands. Today, most consumers just connect their Android or Apple devices to their cars, bypassing the automaker's default screen and its monetization potential.

On the call, we noted that the ten largest automakers include companies from Japan, Germany, and Korea. LiveOne already works with Hyundai in other areas such as sponsorship. So LiveOne would need to obtain streaming rights in Europe and Asia to serve these customers globally. Mr. Ellin noted that this is now possible, now that LiveOne has cleaned up its balance sheet. We would also note that in the past, the company has said that if it obtained European royalty rights, it is confident in being able to expand its Tesla customer relationship to the continent.

Mobile carriers – LiveOne has worked with some of the major U.S. carriers in the past and is in discussions with one now. We can foresee a custom, high-fidelity music offering from a carrier such as T-Mobile. In an era of intensive price competition for basic connectivity, carriers are looking for ways to grow revenue.

Consumer electronics devices – Mr. Witress mentioned headphones, soundbars, and mobile devices as potential partner products. It is most advanced in discussions with TV manufacturers. It already has a partnership with startup OTT Studio, a free, ad-supported streaming television (FAST) provider with over 250-plus offerings. It is in discussions with one of the three largest TV manufacturers globally with over 27 million TVs in service to embed Slacker Music into its operating system. In our opinion, the best partner would be Roku, given its ubiquity.

Associations – collectively, associations have tens of millions of members, and a relatively low-cost add-on, such as music streaming, would improve member engagement and retention. We can envision an AARP-branded music offering featuring the oldies music their members love.

Travel – hotels and short-term rentals. What if you checked into an Airbnb or Hilton and your favorite music was playing, available on demand? That would likely increase consumer loyalty to particular brands.

Air – airlines already offer inflight content, but it's generally not bespoke and does not carry their brand. For example, American Airlines offers free Apple Music, but it carries Apple's brand, not American's. LiveOne could offer a bespoke music offering branded by an airline. It could also tailor music to each frequent flier, for example when an American Airlines ConciergeKey member sat down in their first-class seat, their own music preferences would be offered to them.

Fleet – rental cars are another opportunity. The major chains already offer multiple add-ons such as fuel, tolls, or insurance. What if they offered something fun? And what if they included this for their frequent renters? For example, Avis could include this in rentals for its President's Club members so that when they got in their car, their preferred music was playing with a full array of choices.

Kids – video streaming providers tell investors that children's programming is the stickiest part of their offerings. If, for example, the parents want to cancel Netflix, but their toddler is addicted to its children's programming, they will tend to keep it. Music is important to childhood development and numerous companies are catering to this market. For example, what if CBS partnered with LiveOne to create a Nickelodeon-branded children's music channel? Or if Disney partnered to target the large but overlooked female tweens who much of its programming is targeted.

CEO Rob Ellin wrapped up by opining that these initiatives could propel LiveOne to a billion dollars in revenue over the next four years, although for now, F25 guidance stands at $140 to $155 million. With 50+ partners in discussions, many of whom are massive auto, consumer, or media companies, it's not hard to model out how they get to Mr. Ellin's goal, although a lot has to go right. Today, its largest streaming competitors, like Spotify, are focused on marketing directly to consumers and building their own brands, so they show no signs of pursuing the white-label strategy LiveOne has articulated.

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LiveOne, Inc. – Income Forecast

Dollars in thousands, except per share data			FY2024					FY2025E					FY2026E		
Fiscal years ended March 31	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
	June	Sept	Dec	March		June	Sept	Dec	March		June	Sept	Dec	March	
Revenue	**27,767**	**28,528**	**31,245**	**30,900**	**118,440**	**33,799**	**36,434**	**38,914**	**39,259**	**148,406**	**42,935**	**44,612**	**45,813**	**46,171**	**179,531**
YoY growth	19.6%	21.2%	14.4%	20.9%	18.9%	21.7%	27.7%	24.5%	27.1%	25.3%	27.0%	22.4%	17.7%	17.6%	21.0%
Seq growth	8.7%	2.7%	9.5%	-1.1%		9.4%	7.8%	6.8%	0.9%		9.4%	3.9%	2.7%	0.8%	
Total Cost of Sales	19,563	20,547	23,267	23,014	86,391	22,984	23,682	25,294	25,518	97,478	29,196	28,998	29,778	30,011	117,983
	70.5%	72.0%	74.5%	74.5%	72.9%	68.0%	65.0%	65.0%	65.0%	65.7%	68.0%	65.0%	65.0%	65.0%	65.7%
Gross Margin	8,204	7,981	7,978	7,886	32,049	10,816	12,752	13,620	13,740	50,928	13,739	15,614	16,034	16,160	61,548
As a percent of revenue	29.5%	28.0%	25.5%	25.5%	27.1%	32.0%	35.0%	35.0%	35.0%	34.3%	32.0%	35.0%	35.0%	35.0%	34.3%
Sales and Marketing	1,904	2,253	1,514	2,167	7,838	5,070	5,465	5,837	5,889	22,261	6,440	6,692	6,872	6,926	26,930
As a percent of revenue	6.9%	7.9%	4.8%	7.0%	6.6%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Product Development	1,246	1,439	694	1,302	4,681	2,366	2,550	2,724	2,748	10,388	3,005	3,123	3,207	3,232	12,567
As a percent of revenue	4.5%	5.0%	2.2%	4.2%	4.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
General and Administrative	5,063	6,352	5,880	4,973	22,268	3,000	3,000	3,000	3,000	12,000	3,000	3,000	3,000	3,000	12,000
As a percent of revenue	18.2%	22.3%	18.8%	16.1%	25.8%	8.9%	8.2%	7.7%	7.6%	12.3%	7.0%	6.7%	6.5%	6.5%	10.2%
Amortization	246	452	528	589	1,815	1,500	1,500	1,500	1,500	6,000	1,500	1,500	1,500	1,500	6,000
Operating income	**(255)**	**(2,515)**	**(638)**	**(1,145)**	**(4,553)**	**(1,120)**	**236**	**559**	**604**	**279**	**(207)**	**1,300**	**1,456**	**1,502**	**4,051**
Operating margin	-0.9%	-8.8%	-2.0%	-3.7%	-3.8%	-3.3%	0.6%	1.4%	1.5%	0.2%	-0.5%	2.9%	3.2%	3.3%	2.3%
Interest expense	(1,418)	(780)	(1,279)	(889)	(4,366)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
Fair value of warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt extinguishment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-	(115)	-	(115)	-	-	-	-	-	-	-	-	-	-
Other	1,237	(4,653)	(207)	(536)	(4,159)	-	-	-	-	-	-	-	-	-	-
	(181)	(5,433)	(1,601)	(1,425)	(8,640)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
Pretax Income	(436)	(7,948)	(2,239)	(2,570)	(13,193)	(2,120)	(764)	(441)	(396)	(3,721)	(1,207)	300	456	502	51
Taxes	79	(21)	(15)	75	118	-	-	-	-	-	-	-	-	-	-
Minority interest	-	347	650	348	1,345	650	650	650	650	1,950	650	650	650	650	1,950
Net income - continuing ops	**(515)**	**(7,580)**	**(1,574)**	**(2,297)**	**(11,966)**	**(1,470)**	**(114)**	**209**	**254**	**(1,771)**	**(557)**	**950**	**1,106**	**1,152**	**2,001**
Net income margin	-1.9%	-26.6%	-5.0%	-7.4%	-10.1%	-4.3%	-0.3%	0.5%	0.6%	-1.2%	-1.3%	2.1%	2.4%	2.5%	1.1%
Diluted shares outstanding	86,895	87,222	87,882	88,391	87,658	88,391	88,391	88,391	88,391	88,391	88,391	88,391	88,391	88,391	88,391
Seq change	46.7	327.0	660.2	-		-	-	-	-		-	-	-	-	
EPS diluted	**($0.01)**	**($0.09)**	**($0.03)**	**($0.03)**	**($0.15)**	**($0.02)**	**($0.00)**	**$0.00**	**$0.00**	**($0.02)**	**($0.01)**	**$0.01**	**$0.01**	**$0.01**	**$0.02**
Adjusted EBITDA															
GAAP Net Inocme	(515)	(7,580)	(1,574)	(2,645)	(13,311)	(1,470)	(114)	209	254	(1,771)	(557)	950	1,106	1,152	2,001
Addback:															
Depreciation and amortization	1,055	1,244	1,485	1,554	5,222	2,500	2,500	2,500	2,500	10,000	2,500	2,500	2,500	2,500	10,000
Stock-based comp	877	2,716	2,255	2,117	7,965	2,200	2,200	2,200	2,200	8,800	2,500	2,500	2,500	2,500	10,000
Other non-recurring	793	6,752	1,797	1,759	11,101	1,000	1,000	1,000	1,000	4,000	500	500	500	500	2,000
Adjusted EBITDA	**2,210**	**3,132**	**3,963**	**2,785**	**10,977**	**4,230**	**5,586**	**5,909**	**5,954**	**21,029**	**4,944**	**6,450**	**6,606**	**6,652**	**24,001**
Growth	12.2%	-28.7%	29.2%	86.3%	0.4%	91.4%	78.4%	49.1%	113.8%	91.6%	16.9%	15.4%	11.8%	11.7%	14.1%
Margin	8.0%	11.0%	12.7%	9.0%	9.3%	12.5%	15.3%	15.2%	15.2%	14.2%	11.5%	14.5%	14.4%	14.4%	13.4%

Source: Company reports and Litchfield Hills Research LLC

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