



LiveOne, Inc.

LVO - Buy \$4 Price Target

F2Q Results Commentary – November 18, 2024

LiveOne Well Positioned to Win Tesla Subscribers – Reiterate Buy

Analyst: Barry M. Sine, CFA, CMT

- After the company posted surprisingly strong September Q results, we caught up with CEO Rob Ellin to discuss the pending transition of its agreement with its largest customer, Tesla (NASDAQ – TSLA).
- September Q revenue was up 14.3% while EBITDA was flat sequentially, and down slightly year over year to \$2.9 million.
- Management had cut guidance when it announced the new Tesla terms, and we adjusted our model accordingly. We have updated our model for the September quarter actuals and to reflect our best guess on the financial impact of the transition. While we model a down year for F26, we still see positive EBITDA. We see double-digit growth resuming with F27.
- As the screenshots in this report show, the company has prime “beachfront” real estate on Tesla screens with its green X logo just to the right of the phone logo. LiveOne states that this arrangement will continue in perpetuity.
- Tactics to convert wholesale Tesla subscribers to direct include a QR code on the in-car screen, audio reminders when users skip songs, and the hiring of a marketing firm with a financial incentive to convert 250k of the roughly 2 million Tesla subs by year-end.
- Direct customers will carry higher ARPU and margins and, most importantly, share their info with LiveOne for the first time, allowing it to upsell and cross-sell other services.
- Risk is clearly elevated at this time, but so is the potential reward. We think it will be at least two quarters before we can see the likely long-term impact. As Rob Ellin noted, the company has seen similar major challenges before such as when Covid destroyed its streaming live music business, but as with prior major strategic transitions, we expect this one to go well.
- While Ellin was more circumspect about what he could say, we believe that efforts with other major wholesale customers such as Walmart, Costco, and Amazon are on track. We believe that an announcement of just one would likely dramatically change the trajectory of the shares and we would be buyers at this time.

| | | | | | | | | | |
|-------------------------|---------|---------------------------|--|--|-----------------|--|-----------------|-----------------|----------------|
| Rating | Buy | Earnings Per Share | | | | Normalized to exclude unusual items | | | |
| Target Price | \$4.00 | FYE - March | | | | FY2023 | FY2024 | FY2025E | FY2026E |
| Ticker Symbol | LVO | 1Q - June | | | \$0.02 | (\$0.01) | (\$0.02) A | (\$0.05) | |
| Market | NASDAQ | 2Q - September | | | (\$0.04) | (\$0.09) | (\$0.02) A | (\$0.05) | |
| Stock Price | \$0.78 | 3Q - December | | | (\$0.03) | (\$0.03) | (\$0.04) | (\$0.04) | |
| 52 wk High | \$2.15 | 4Q - March | | | (\$0.06) | (\$0.03) | (\$0.05) | (\$0.04) | |
| 52 wk Low | \$0.56 | Year | | | (\$0.12) | (\$0.15) | (\$0.13) | (\$0.18) | |
| Shares Outstanding: | 95.7 M | Revenue (\$mm) | | | \$99.6 | \$118.4 | \$125.0 | \$118.8 | |
| Public Market Float: | 92.1 M | EV/Rev | | | 0.8X | 0.7X | 0.6X | 0.6X | |
| Avg. Daily Volume | 600,081 | EBITDA (\$mm) | | | \$10.9 | \$11.0 | \$8.2 | \$7.2 | |
| Market Capitalization: | \$75 M | EV/EBITDA | | | 7.1X | 7.0X | 9.4X | 10.7X | |
| Institutional Holdings: | 42.8% | | | | | | | | |
| Dividend Yield: | 0.0% | | | | | | | | |

Risks/Valuation

- The dominant risk, and opportunity, is how well the transition of Tesla subscribers from an indirect wholesale model to a direct retail model will occur.
- We value LVO shares at 2.6x our F26 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, Inc.

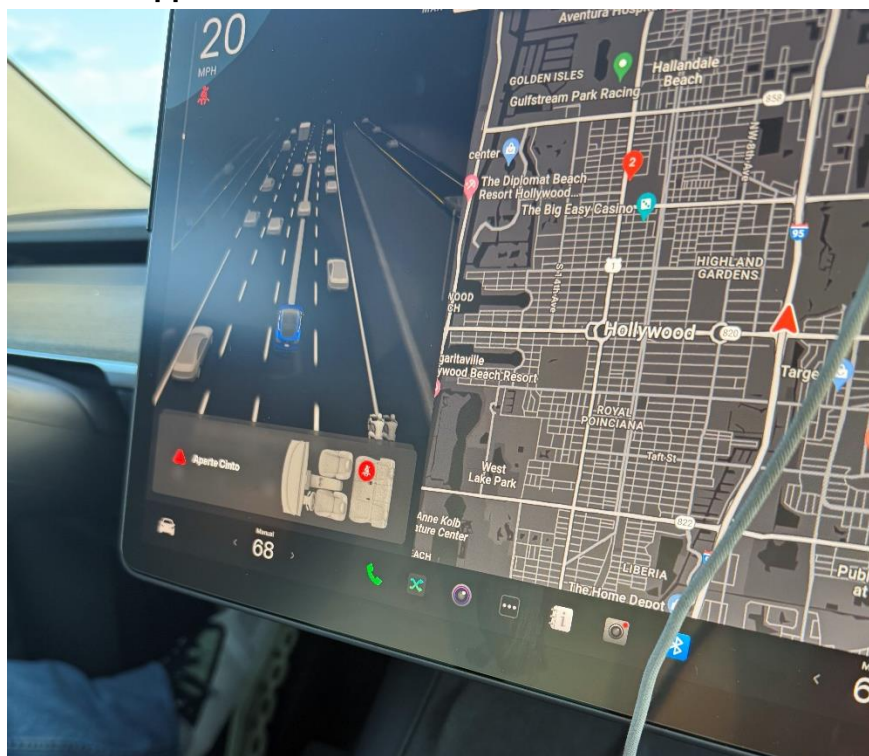
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LiveOne Well Positioned to Convert Tesla Subscribers

Last week, we caught up with LiveOne CEO Rob Ellin on the beach in Miami Beach and he explained how the company has “beachfront property” with its distinctive green X logo getting prime placement on Tesla screens.

As shown in the photo below, LiveOne’s green X logo has replaced the generic Tesla music app and has prime placement to the right of the phone icon. Back when Sirius and XM were separate companies and starting out, they fought aggressively for prominence for their services with the major car companies (in the days before in-car screens and apps). When they announced a new partnership, their shares reacted positively. So, this “beachfront” real estate is highly valuable, in our opinion.

Familiar Green X LiveOne App Has a Prominent “Beachfront” Location on the Tesla Home Screen



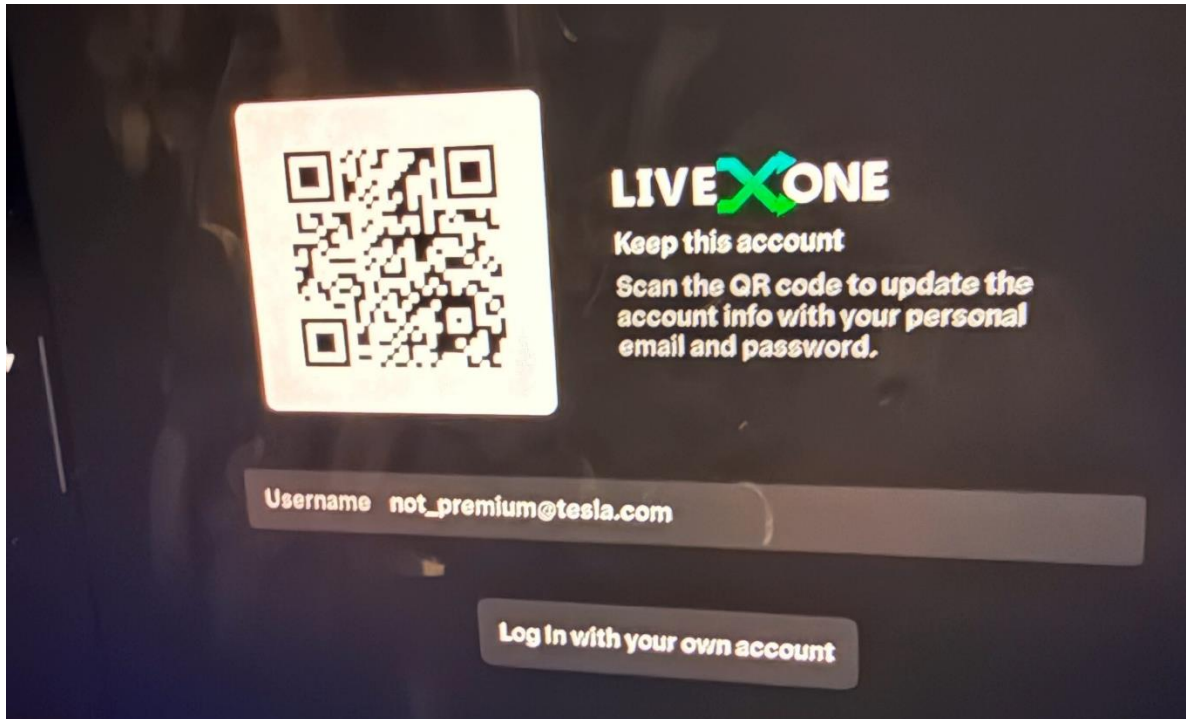
Source: Company reports and Litchfield Hills Research LLC

Tesla now prompts its customers with an on-screen QR code to sign up to continue the LiveOne music service they have been receiving as part of the connectivity package. LiveOne also provides a verbal reminder every time they skip songs, that they lose this service on December 1 if they don’t subscribe. So, we think that LiveOne will win a good portion of the estimated 2 million Tesla subscribers.

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QR Code Pops Up On Screen Directly Tesla Owners to Subscribe to LiveOne



Source: Company reports and Litchfield Hills Research LLC

LiveOne has also retained a marketing firm and highly incentivized them to sign up 250k subscribers by year-end. We estimate that paid Tesla subscribers will generate around \$6 per month in revenue, versus \$3 under the old Tesla subsidized model. By this estimate, LiveOne needs to win over around half of the 2 million Tesla subscribers it now has today to get back to prior revenue levels. But LiveOne would now directly own these subscribers, and have all of their data, so they could upsell and cross-sell other services. And most importantly, LiveOne should start to be valued more along the lines of the \$1,000 per subscriber benchmark of other streaming music services such as industry giant Spotify (NYSE – SPOT).

But Tesla is not the only game in town. As LiveOne has repeatedly stressed, it is in discussions with as many as 60 major new customers in a range of industries. The loss of exclusivity with Tesla has actually made LiveOne more attractive to other automakers as it is seeing renewed interest in partnerships. We see industry retail giants like Walmart (NYSE – WMT) and Costco (NASDAQ – COST) as the most likely, as they seek to keep up with Amazon which already offers music. But even Amazon (NASDAQ – AMZN) is a prospective partner too as it lacks the highly popular podcasts that LiveOne owns through its 72% owned PodcastOne (NASDAQ – PODC) subsidiary. Podcasts are not as generic as music as they cannot be easily licensed and LiveOne is the only major source wholesaling its podcasts. The popularity of podcasts was reinforced during the election cycle with Vice President Harris appearing on *Call Her Daddy* and now President-elect Trump appearing on the Joe Rogan podcast. While neither is a PodcastOne property, these appearances show the growing popularity of the media, and PodcastOne is the only US pure play in the space.



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LiveOne, Inc. – Income Forecast

Dollars in thousands, except per share data
Fiscal years ended March 31

| | FY2025E | | | | | FY2026E | | | | | FY2027E | | | | |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 1QA | 2QA | 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 | 33,078 | 32,594 | 31,475 | 27,860 | 125,007 | 27,545 | 28,330 | 30,115 | 32,825 | 118,815 | 29,945 | 30,730 | 32,515 | 35,225 | 128,415 |
| YoY growth | 19.1% | 14.3% | 0.7% | -9.8% | 5.5% | -16.7% | -13.1% | -4.3% | 17.8% | -5.0% | 8.7% | 8.5% | 8.0% | 7.3% | 8.1% |
| Seq growth | 7.0% | -1.5% | -3.4% | -11.5% | | -1.1% | 2.8% | 6.3% | 9.0% | | -8.8% | 2.6% | 5.8% | 8.3% | |
| Total Cost of Sales | 25,087 | 24,518 | 23,606 | 20,895 | 94,106 | 20,659 | 21,248 | 22,586 | 24,619 | 89,111 | 22,459 | 23,048 | 24,386 | 26,419 | 96,311 |
| | 75.8% | 75.2% | 75.0% | 75.0% | 75.3% | 75.0% | 75.0% | 75.0% | 75.0% | 75.0% | 75.0% | 75.0% | 75.0% | 75.0% | 75.0% |
| Gross Margin | 7,991 | 8,076 | 7,869 | 6,965 | 30,901 | 6,886 | 7,083 | 7,529 | 8,206 | 29,704 | 7,486 | 7,683 | 8,129 | 8,806 | 32,104 |
| As a percent of revenue | 24.2% | 24.8% | 25.0% | 25.0% | 24.7% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| Sales and Marketing | 1,431 | 1,491 | 2,518 | 2,229 | 7,669 | 2,204 | 2,266 | 2,409 | 2,626 | 9,505 | 2,396 | 2,458 | 2,601 | 2,818 | 10,273 |
| As a percent of revenue | 4.3% | 4.6% | 8.0% | 8.0% | 6.1% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Product Development | 1,071 | 1,160 | 1,120 | 1,254 | 4,605 | 1,240 | 1,275 | 1,355 | 1,477 | 5,347 | 1,348 | 1,383 | 1,463 | 1,585 | 5,779 |
| As a percent of revenue | 3.2% | 3.6% | 3.6% | 4.5% | 3.7% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| General and Administrative | 5,505 | 6,283 | 6,283 | 6,283 | 24,354 | 6,000 | 6,000 | 6,000 | 6,000 | 24,000 | 6,000 | 6,000 | 6,000 | 6,000 | 24,000 |
| As a percent of revenue | 16.6% | 19.3% | 20.0% | 22.6% | 25.9% | 21.8% | 21.2% | 19.9% | 18.3% | 26.9% | 20.0% | 19.5% | 18.5% | 17.0% | 24.9% |
| Amortization | 592 | 542 | 1,000 | 1,000 | 3,134 | 1,000 | 1,000 | 1,000 | 1,000 | 4,000 | 1,000 | 1,000 | 1,000 | 1,000 | 4,000 |
| Operating income | (608) | (1,400) | (3,052) | (3,801) | (8,861) | (3,557) | (3,459) | (3,236) | (2,897) | (13,148) | (3,257) | (3,159) | (2,936) | (2,597) | (11,948) |
| Operating margin | -1.8% | -4.3% | -9.7% | -13.6% | -7.1% | -12.9% | -12.2% | -10.7% | -8.8% | -11.1% | -10.9% | -10.3% | -9.0% | -7.4% | -9.3% |
| Interest expense | (859) | (808) | (900) | (900) | (3,467) | (900) | (900) | (900) | (900) | (3,600) | (900) | (900) | (900) | (900) | (3,600) |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt extinguishment | 135 | - | - | - | 135 | - | - | - | - | - | - | - | - | - | - |
| Impairment loss | (176) | - | - | - | (176) | - | - | - | - | - | - | - | - | - | - |
| Other | - | (118) | - | - | (118) | - | - | - | - | - | - | - | - | - | - |
| | (900) | (926) | (900) | (900) | (3,626) | (900) | (900) | (900) | (900) | (3,600) | (900) | (900) | (900) | (900) | (3,600) |
| Pretax Income | (1,508) | (2,326) | (3,952) | (4,701) | (12,487) | (4,457) | (4,359) | (4,136) | (3,797) | (16,748) | (4,157) | (4,059) | (3,836) | (3,497) | (15,548) |
| Taxes | 49 | (9) | - | - | 40 | - | - | - | - | - | - | - | - | - | - |
| Minority interest | 388 | 458 | 650 | 650 | 1,758 | 650 | 650 | 650 | 650 | 1,950 | 650 | 650 | 650 | 650 | 1,950 |
| Net income - continuing ops | (1,169) | (1,859) | (3,302) | (4,051) | (10,769) | (3,807) | (3,709) | (3,486) | (3,147) | (14,798) | (3,507) | (3,409) | (3,186) | (2,847) | (13,598) |
| Net income margin | -3.5% | -5.7% | -10.5% | -14.5% | -8.6% | -13.8% | -13.1% | -11.6% | -9.6% | -12.5% | -11.7% | -11.1% | -9.8% | -8.1% | -10.6% |
| Diluted shares outstanding | 98,420 | 94,658 | 94,658 | 94,658 | 95,599 | 94,658 | 94,658 | 94,658 | 94,658 | 94,658 | 94,658 | 94,658 | 94,658 | 94,658 | 94,658 |
| Seq change | 10,028.8 | 7,000.4 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| EPS diluted | (\$0.02) | (\$0.02) | (\$0.04) | (\$0.05) | (\$0.13) | (\$0.05) | (\$0.05) | (\$0.04) | (\$0.04) | (\$0.18) | (\$0.04) | (\$0.04) | (\$0.04) | (\$0.04) | (\$0.16) |
| Adjusted EBITDA | | | | | | | | | | | | | | | |
| GAAP Net Income | (1,557) | (2,317) | (3,302) | (4,051) | (10,769) | (3,807) | (3,709) | (3,486) | (3,147) | (14,798) | (3,507) | (3,409) | (3,186) | (2,847) | (13,598) |
| Addback: | | | | | | | | | | | | | | | |
| Depreciation and amortization | 1,588 | 1,353 | 1,353 | 1,353 | 5,647 | 2,500 | 2,500 | 2,500 | 2,500 | 10,000 | 2,500 | 2,500 | 2,500 | 2,500 | 10,000 |
| Stock-based comp | 1,700 | 2,291 | 2,291 | 2,291 | 8,573 | 2,500 | 2,500 | 2,500 | 2,500 | 10,000 | 2,500 | 2,500 | 2,500 | 2,500 | 10,000 |
| Other non-recurring | 1,172 | 1,558 | 1,000 | 1,000 | 4,730 | 500 | 500 | 500 | 500 | 2,000 | 500 | 500 | 500 | 500 | 2,000 |
| Adjusted EBITDA | 2,903 | 2,885 | 1,342 | 594 | 8,181 | 1,693 | 1,791 | 2,014 | 2,353 | 7,202 | 1,993 | 2,091 | 2,314 | 2,653 | 8,402 |
| Growth | 31.4% | -7.9% | -66.1% | -78.7% | -25.5% | -41.7% | -37.9% | 50.2% | 296.5% | -12.0% | 17.7% | 16.7% | 14.9% | 12.7% | 16.7% |
| Margin | 8.8% | 8.9% | 4.3% | 2.1% | 6.5% | 6.1% | 6.3% | 6.7% | 7.2% | 6.1% | 6.7% | 6.8% | 7.1% | 7.5% | 6.5% |

Source: Company reports and Litchfield Hills Research LLC



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