

Good Life Networks Inc.

GOOD \$0.39

TSX.V Exchange | | Market Cap \$36M

Market Overreacts to Strong Fourth Quarter Results: On April 4, 2019, Good Life Networks (GOOD) reported robust full-year 2018 pro forma revenues and solid 4Q results. In addition, the company issued very constructive revenue guidance for 2019. However, the stock market focused on a normalization in GOOD's gross margin from unsustainable mid-40% levels to the 30% range in the quarter, in line with other major participants in the digital advertising industry and consistent with prior company guidance. GOOD shares declined nearly 20% on the day, a significant overreaction in our view. We note the following key points:

- Based on GOOD's 2019 revenue and gross margin guidance (see page 5), as well as our financial modelling, the company's earnings per share should reach about \$0.09 and \$0.12 in 2019 and 2020, respectively. In addition, GOOD's EBITDA in 2019 and 2020 should total about \$11 million and \$14 million, respectively. See Tables 1 and 2 on pages 2-4.
- GOOD shares therefore currently trade at around a 4.5x P/E ratio and at only about 0.7x EV/Revenue and 3.7x EV/EBITDA multiples, all based on 2019 estimates. In comparison, the enterprise values of other digital advertising industry participants trade at averages of well over 2x projected revenue and perhaps 15x estimated EBITDA.
- **As a consequence, we continue to believe that the fair value of GOOD shares is at least \$1.00. At that price, the stock would still be valued at a reasonable 11x 2019 earnings and at substantial EV/Revenue and EV/EBITDA discounts to industry peers.**

Description: GOOD established and operates the world's highest-speed programmatic video ad exchange, which functions much like the Nasdaq for stocks. The efficiency, speed and trustworthiness of the exchange has resulted in impressive market share gains, as well as a strong industry reputation. In December 2018, Good Life Networks closed two key – and immediately accretive -- acquisitions to further its goal of becoming a prominent and highly profitable streaming advertising venue. First, 495 Communications, LLC is a Los Angeles-based digital advertising and video and content company which boasts publishing partners controlling more than 3,500 premium websites. Second, Impression X is a leading connected television (CTV) technology company. This acquisition will help GOOD reach the large and increasing number of consumer TVs that are connected online (see page 5).

Table 1. Pro Forma Earnings Model

(In Thousands of Canadian Dollars,
Except Per Share Data)

	<u>2020E</u>	<u>2019E</u>	<u>2018A</u>
Revenue			
Good Life Networks - Legacy Ad Exchange Business (A)	\$39,900	\$28,500	\$19,000
% Annual Change	40%	50%	105%
495 Communications (B,F)	\$26,676	\$22,800	\$19,000
% Annual Change	17%	20%	
Impression X (D,F)	\$16,900	\$13,000	\$10,000
% Annual Change	30%	30%	
Pro Forma Revenue (G)	\$83,476	\$64,300	\$48,000
% Annual Change	30%		
EBITDA			
Good Life Networks - Legacy Ad Network Business (A,H)	\$5,985	\$4,275	\$2,900
EBITDA Margin	15%	15%	15%
495 Communications	\$4,802	\$4,104	\$3,000
EBITDA Margin	18%	18%	16%
Impression X	\$3,042	\$2,600	\$2,000
EBITDA Margin	18%	20%	20%
Pro Forma Consolidated EBITDA	\$13,829	\$10,979	\$7,900
EBITDA Margin	17%	17%	16%
% Annual Change in EBITDA	26%	39%	
Share-Based Compensation	\$2,500	\$2,000	
Interest Expense	350	350	
Net Income and Comprehensive Income	\$10,979	\$8,629	
Weighted Average Share Outstanding - Diluted	92,000	92,000	
Earnings Per Share - Diluted	\$0.12	\$0.09	

Footnotes:

- (A)** *The projected revenue growth in 2019 primarily reflects the 30 integration agreements which the company reached in 2018. Our projections for 2020 reflect growth from the company's client relationships, coupled with additional projected integrations as Good Life Networks' industry reputation continues to grow.*
- (B)** *On 12/18/2018, Good Life Networks closed the acquisition of 495 Communications, LLC, a leading advertising and content marketing company, for US\$15 million.*
- 495 is a content publisher with a list of partners that includes 3,500 premium websites, as well as proprietary mobile and connected TV applications.*
- (D)** *On 12/18/2018, Good Life Networks closed the acquisition of Impression X, Inc., a leading connected TV advertising company, for a purchase price of up to US\$4.5 million.*
- (F)** *We assume that growing current businesses of 495 Communications and Impression X will be boosted by the integration of Good Life Network's proprietary video ad technology platform into their businesses.*
- (G)** *Our forecast only reflects Good Life Network's announced and closed acquisitions. Further acquisitions would likely be additive to our forecasts.*
- (H)** *Excludes \$800,000 charged to R&D expense in 4Q 2018 to prepare GOOD's exchange to operate on mobile platforms.*

Table 2. Pro Forms Cash Flow Model

(In Thousands of Canadian Dollars)

	<u>2020E</u>	<u>2019E</u>
Reported Net Income	\$10,979	\$8,629
Amortization	5	5
Accrued Interest	0	0
Stock-Based Compensation	2,500	2,000
Transaction Costs		
Gain on Forgiveness of Debt		
Fair Value Change of Derivative Liability		
Unrealized Foreign Exchange (Gains)/Losses		
Other, Including Changes in Working Capital	<u>(7,000)</u>	<u>(7,000)</u>
Operating Cash Flow	\$6,484	\$3,634
Capital Expenditures	<u>(200)</u>	<u>(200)</u>
Free Cash Flow	\$6,284	\$3,434

Details of Fourth Quarter Release: GOOD recorded \$10.1 million of revenues in the quarter, up 80% from \$5.6 million in 4Q 2017. The company's gross margin was 29% in 4Q 2019 versus 45% in the year-ago period. Other key aspects of GOOD's earnings report and management conference call are as follows:

- GOOD's pro forma revenues were about \$48 million for the full-year 2018, up significantly from \$40.2 million for the twelve months ended 9/30/2018. Adjusted pro forma EBITDA was \$7.9 million in 2018 after accounting for \$0.8 million in R&D expenses incurred in 4Q 2018 to prepare GOOD's ad exchange to operate on mobile platforms. A breakdown of 2018 pro forma revenue and EBITDA by business unit is shown in Table 3 on page 4.

Table 3. Revenue and EBITDA Breakdown of Good Life Networks' Key Businesses

	<u>2018 Pro Forma Revenue</u>	<u>2018 Pro Forma Adjusted EBITDA</u>
Ad Exchange Business	\$19 Million	\$2.9 Million
495 Communications	\$19 Million	\$3.0 Million
Impression X	<u>\$10 Million</u>	<u>\$2.0 Million</u>
Total	\$48 Million	\$7.9 Million

- GOOD expects its revenues to grow 30-35% in 2019 off the 2018 pro forma base, implying 2019 sales of more than \$60 million. Gross margins should be 25%-30% in 2019, similar to the 4Q 2018 level. Similarly, quarterly G&A expenses should stay relatively fixed in 2019 at \$1.4-\$1.6 million, in line with \$1.6 million in 4Q 2018. We expect GOOD to generate positive free cash flow in excess of \$3 million in 2019.
- Programmatic digital advertising transactions are finalized in a small fraction of a second, yet payments are frequently not made for up to 90-180 days. GOOD believes that its programmatic digital technology can be applied to shorten these pay cycles. To do so, the company has entered into an agreement with the Einstein Exchange to launch an accounts receivable peer-to-peer initiative using blockchain. The companies' initiative is U.S. patent pending. GOOD's management thinks the initiative could receive the necessary approvals and become operational sometime in the second half of 2019.
- We believe that management is contemplating further M&A transactions to boost the company's growth profile. A possibility: Good Life Networks may in time be invited to reconfigure its programmatic video ad technology so that it can deliver a tailored version of its ad exchange to a "Walled Garden" platform, both within a mobile handset environment and, separately, to a social media giant.
- GOOD management believes that its investment in the CTV business, particularly through Impression X, will boost its growth considerably. Streaming is rapidly increasing as cable TV is being gradually displaced, and if GOOD can capture even a small portion of that business, earnings and cash flow will be positively affected.
- GOOD closed 30 integrations (or close relationships) with customers in 2018 with zero churn, bringing its total to 47 integrations. After completing the 495 Communications transaction and factoring in that company's 50+ integrations, GOOD's overall customer integration now exceeds 100. In 2019, Good Life Networks plans to focus more on deepening its relationships with its existing integration partners than reaching additional agreements. As a result, revenues derived from the company's current client base is expected to grow significantly.

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