

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

December 18, 2018

The Wonderfilm Media Corp. (TSXV: WNDR/OTCPK: WDRFF/ FRA: 25Y): Strong Track Record and Celebrity Relationships to Drive Growth for Film Production Company– Introductory Note

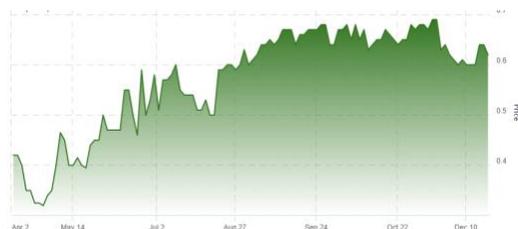
Sector/Industry: Special Situations

www.wonderfilm.com

Market Data (as of December 18, 2018)

Current Price	C\$0.63
52 Week Range	\$0.32 - \$0.72
Shares O/S	32,697,958
Market Cap	\$20.60 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.87x
YoY Return	52.38%
YoY ASX	-31.22%

*see back of report for rating and risk definitions
 **all \$ amounts are C\$ unless otherwise specified.



Investment Highlights

- The Wonderfilm Media Corp. (“Wonderfilm”, “company”) is a film and TV production company that develop, packages and produces its own pre-sold content for world-wide distributors, networks, studios and streaming services. The company has offices in Vancouver, Los Angeles and South Korea.
- Management consists of established Hollywood producers who have combined their strong profiles in the entertainment industry to collaborate under the Wonderfilm umbrella. Among the team’s notable film credits including “The Hurt Locker”, which won six Academy awards and grossed US\$49.20 million against a US\$15 million budget.
- The producing team retains strong relationships with A-list celebrities and agencies, and works with actors such as Bruce Willis, Charlize Theron, Anthony Hopkins and Sylvester Stallone.
- The company currently have a US\$90 million slate of movies green-lit for production in the next 12 months. Some of the films on the slate star actors such as Nicolas Cage and John Travolta.
- The CEO of the company has a track record of achieving 5% EBITDA on total production budgets.
- The company have entered into a Letter of Intent to undertake a \$30 million transaction, diversifying revenue streams and boosting core operations with sports personalities and social media influencers with millions of followers. Included in the transaction are 25 film production script packages that will add to the US\$90 million slate.
- We will be initiating coverage on the company in the coming weeks, upon completion of our due diligence.

Key Financial Data (FYE - Jun 30)

(C\$)	Q1-2019
Cash	\$ 111,759
Working Capital	\$ 1,523,175
Assets	\$ 11,572,757
Total Debt	\$ -
Revenues	\$ 62,600
Net Income	\$ -1,025,072
EPS (basic)	\$ -0.05

Company Overview

Wonderfilm, incorporated in 2014, is a film production company that develops, finances, and produces its own TV and movie content for domestic and international distribution. The company retains a network of distribution and sales relationships around the world to ensure that the slate of film production under development is high demand content with A-list Hollywood actors.

CELEBRITY RELATIONSHIPS



Source: Company

The company is led by a number of experienced producers with impressive films to reinforce their credentials. The company’s leaders include:

Kirk Shaw – CEO/ Founder/ Producer

Mr. Shaw brings an impressive credit list of 230 movies and seven TV series to the company. Mr. Shaw led Canada’s largest independent film and TV production company, “Insight Film Studios”, achieving \$100 million in sales and an 8% Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) margin for two consecutive years, the years being 2007 and 2008.

Dan Grodnik – Founder/ Producer

Mr. Grodnik is the former chairman/ CEO of National Lampoon. He has produced over 50 feature films with stars such as Robert DeNiro, Keanu Reeves, Michael Caine, Katie Holmes and Jason Biggs.

Jeff Bowler – Founder/ Producer

Mr. Bowler is a 2017 Emmy Award winning producer. He is also the Vice-President of Acquisitions and Production for The Exchange, one of the top film sales and finance companies in the world.

Bret Saxon – Founder / Producer

Mr. Saxon has generated M&A deals worth more than US\$750 million, according to the company. He has also created campaigns for products that have collectively grossed billions of dollars globally. In the media space, he has financed and produced dozens of TV and film projects.

In addition to a management team with a strong track record, the company’s development team is also preparing a significant number of movies and TV series to form its next production slate, including a new TV series from the creator of “CSI: Crime Scene Investigation”, called “Merchant of Death”. The series is to be distributed by Lionsgate and is based off the best-selling book with the same title. “CSI” ran for 15 seasons on CBS (NYSE: CBS) and is considered as one of the most iconic crime TV series to date.

Wonderfilm currently has approximately US\$90 million of total film production budgets for completion before the end of 2019, including:

- “Primal” starring Nicolas Cage, to be distributed by Lionsgate Entertainment Corp. (NYSE: LGF).
- “Moose” starring John Travolta, to be distributed by Amazon Prime (NASDAQ: AMZN) and AMBI Pictures.
- “Disturbing the Peace” starring Guy Pearce, to be distributed by Entertainment One Ltd. (LSE: ETO).

The company’s film slate is shown below:



Source: Company

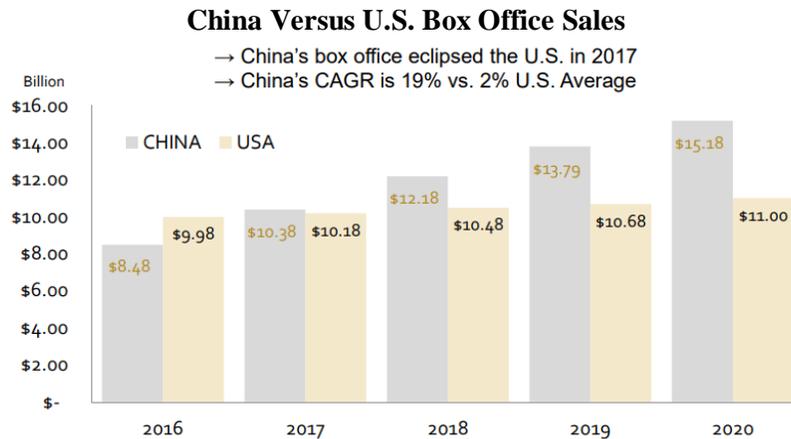
Acquisition to Diversify Revenue Streams and Bolster Core Operations

With strong management and an established relationship with some of Hollywood’s highest grossing stars, the company have made moves to diversify their business and set up catalysts for growth. The company announced on November 29, 2018, that they had entered into a Letter of Intent (“LOI”) to acquire 100% of Starbury Media (“Starbury”) from Sun Seven Stars Investments Group (“SSSI”), 34% of Grapevine Logic Inc. (“Grapevine”) and a slate of over 25 movie production script packages from WOL Productions Inc. (“WOL”) in an arm’s length transaction valued at \$30 million.

Starbury is a sporting brand and media company founded by Dr. Bruno Wu and Stephon Marbury, and provides the company with immediate access to a network of high profile athletes and sports personalities. According to Wonderfilm, Starbury’s network includes athletes with the desire to capitalize on their success in sports to further develop their personal brand through acting roles, branding services, merchandizing and events. This provides the

company with a pool of well-known, and potentially high traction, personnel that can be leveraged to increase the appeal and potential valuation of films produced by the company. However, the true business of Starbury lies in innovative digital asset production and distribution, which we will outline in our future initiating report. As past of the acquisition of Starbury, the company will also acquire significant business relationships with Chinese billionaire Dr. Bruno Wu and former NBA All-Star Stephon Marbury, with Mr. Marbury to become Wonderfilm’s chairman upon completion of the transaction.

Mr. Marbury possesses an iconic track record as a basketball athlete, where he excelled in both the U.S. and in China, and became the first foreign athlete in China to receive a green card, as well as numerous other accolades. Dr. Wu is perhaps the most significant aspect of the acquisition – the billionaire founder of SSSI (annual sales of US\$10 billion), former chairman and co-CEO of Ideanomics Inc. (NASDAQ: IDEX), and current vice-chairman of the National Committee for China-U.S. relations. Dr. Wu possesses significant growth assets globally and has identified Wonderfilm as the production company that is most suited to bring global distribution to his Chinese media projects. With Mr. Wu aiding the company, we believe that Wonderfilm gains significant access to the Chinese Box Office, which has eclipsed the U.S. Box Office recently as the world's largest Box Office by sales. This is summarized in the chart below:



Source: Chinafile.com

Given the outsized growth that the Chinese Box Office is expected to exhibit, especially versus a low-growth U.S. Box Office, the entrance into the Chinese film market via the connection with Dr. Wu could provide Wonderfilm with a substantial growth catalyst.

Grapevine is the world’s leading end-to-end social media influencer marketing platform, leveraging access to over 170,000 social media influencers to help marketers reach consumers and expand their audience beyond traditional marketing methods. Social media influencers, or individuals with large followings on social media, are able to provide sponsors with increased exposure due to their unique level of popularity and trust with their following. **According to the company, Grapevine provides access to over 3.2 billion social media followers across the globe, granting substantial exposure to marketers interested in the Grapevine platform.** Marketers are able to reach out to these influencers through the

Grapevine platform and collaborate in developing a sponsored message promoting the marketer's products to the influencer's audience, using the influencer and their social media posts as the medium. The acquisition of a large ownership interest in Grapevine by Wonderfilm provides Wonderfilm with the production outlet necessary to bring their 4,700 corporate brands into broader media channels, while the company receives direct advertising, marketing, analytics and expanded distribution channels for their own original film content.

The movie production script packages acquired by the company from WOL, which includes both English and Chinese language films, are also valuable assets as some of these packages are already fully packaged deals. This means that the company are able to immediately pre-sell these packages to film distributors, turning a portion of the acquired packages into revenue streams in a fairly immediate fashion. One of the included production packages is "Ana", stars internationally-recognized Gong Li with Martin Campbell (best known for directing Bond Movies Golden Eye and Casino Royale) attached as the intended director. In addition to representing near-term revenue sources, the slate of production packages also gives the company ammunition with which to break into the Chinese film production space, the growth of which we highlighted earlier.

The \$30 million acquisition price will be paid via the issue of 30 million common shares of the company at \$1 per share. As part of the agreement, a non-brokered private placement for \$2 million in proceeds will be completed, with unit prices to be determined by market prices at the time of the placement. Units will contain a common share of the company and a warrant exercisable at a 25% premium to the unit's issue price. In addition, the vendors of Starbury will retain a royalty of 50% of the audited EBITDA directly generated by Starbury. The company will have the option to acquire this royalty, subject to the company having \$30 million in cumulative audited EBITDA by December 31, 2021, prior to accounting for the vendor's royalty.

Though we are unsure of the potential revenues from this deal, we believe that the primary business of Wonderfilm, which is currently film production, may change fundamentally to reflect the business of Starbury. This is based on the importance of the acquired business relationships with Mr. Marbury and Dr. Wu, who are likely to be key components of Wonderfilm's forward growth. Until we complete our due diligence, we will be unable to provide a preliminary value on the Starbury and Grapevine businesses, nor provide initial revenue forecasts.

In addition to the transformative acquisition LOI outlined above, the company also announced on November 19, 2018 the acquisition of Agatha Media Corp. ("Agatha"), a private arm's length company with exclusive rights to participate and receive net proceeds from advertising video on demand ("AVOD") themed movie channels ("Movie channel") which are distributed directly to 50 million U.S. homes. The Movie Channels are distributed via a leading, undisclosed internet retailer. The acquisition allows the company to expand future revenue streams to include content creation on the Movie Channel, providing an expanded audience for the company's film projects.

This is another significant acquisition for the company, vertically integrating their core operations to further improve the selling power of the film projects under development. Apart from vertical integration, the acquisition also grants substantial growth prospects to the company, as management disclosed in the press release that the Movie Channel in question is expected to reach 50 million households in the U.S. by mid-2019 upon launch and anticipated to double to reach 100 million households in the U.S. by the end of the first year of broadcasting. Agatha was acquired for a total of 6 million common shares at \$0.60 per share, for total consideration of \$3.60 million. The name of the undisclosed retailer distributing the Movie Channel is expected to be released in upon launch of the Movie Channel. At current, we cannot forecast revenues from this deal as it is unclear what sort of revenue share Agatha has rights to with the distributing party. **However, we would like to highlight to investors that the opening of this vertical is substantial for Wonderfilm as it increases the potential sales of the company's film production projects, whilst also opening up another revenue stream.**

Valuation

With regards to initial valuation and financial performance, as a film production company, Wonderfilm's core revenue stream is from the pre-selling of film production packages and subsequent royalties on box office performance and digital sales. When film production companies market their projects to distributors in the pre-selling process, production is often at the early stage. As a result, the criterion for pricing the film production package is often reliant on the starring celebrities, the track record of the producers behind the project, and the genre of film. **Based on the company's established relationships with A-list celebrities and strong track record, we believe that the company are likely to exhibit success in securing premium pricing on film production package pre-sales.** As mentioned before, the company currently have US\$90 million in total production budgets for 17 films. This, however, does not include the 25 production packages acquired from WOL in the November transaction. Furthermore, in a recent letter to shareholders, the company also updated the market with news that the first season of the "Merchant of Death" series has been estimated at US\$40 million and is anticipated to be delivered for broadcast in 2020.

In the same shareholder letter, the company outlined that CEO Mr. Shaw had a track record of achieving 5% EBITDA on total production budgets. Based on the current total production budget (US\$90 million, converted at a USD/CAD spot rate of \$1.35) and a range of EBITDA multipliers and EBITDA margins, the following table outlines potential valuations of the company. Note however, that this is based on current total shares outstanding, prior to the completion of the major transaction outlined further above. **Furthermore, as earlier noted, the acquisition of Starbury and Grapevine may fundamentally change the core business of the company, and as a result the valuation below may not accurately reflect the company as a whole, post-transaction.** Instead it serves as a preliminary valuation of what the company has publicly disclosed to the market.

		Multiplier				
		2	4	6	8	10
EBITDA Margin	1.00%	\$ 0.07	\$ 0.15	\$ 0.22	\$ 0.30	\$ 0.37
	2.50%	\$ 0.19	\$ 0.37	\$ 0.56	\$ 0.74	\$ 0.93
	5.00%	\$ 0.37	\$ 0.74	\$ 1.11	\$ 1.49	\$ 1.86
	7.50%	\$ 0.56	\$ 1.11	\$ 1.67	\$ 2.23	\$ 2.79
	10.00%	\$ 0.74	\$ 1.49	\$ 2.23	\$ 2.97	\$ 3.72

Source: FRC

Based on the track record of Wonderfilm’s management, strong relationships with Hollywood A-listers and film distributors, and the existence of growth catalysts, we believe that Wonderfilm may provide investors with a robust growth story. We will be initiating coverage on Wonderfilm in the new year.

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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.

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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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