



## Function(x), Inc. (Nasdaq CM: FNCX, Target Price: \$3.20)

We initiate coverage on Function(x), Inc. (Nasdaq CM: FNCX, \$0.76) with a price target of \$3.20. Function(x) Inc., is a special situation in the diversified media and entertainment industry. Headquartered in New York, Function(x) is led by Chairman and CEO Robert Sillerman, an industry entrepreneur known for his sale of SFX Entertainment, Inc., to Clear Channel for \$4.4 billion in 2000. At Function(x), Sillerman is seeking to create a high growth business leveraging a social publishing and interactive media platform. Through its lead web properties **Wetpaint** and **Rant**, Function(x) delivers engaging content based on relationships with social influencers and celebrities. On March 8th, 2017, the company announced its intention to acquire **BumpClick LLC**. An 8K filed by the company on April 3, 2017, outlines that, assuming the close of the BumpClick acquisition, the combined company would have 27mn unique visitors, representing 40mn sessions and 230mn pageviews. In addition, the company would have over 90mn social media followers reaching 340mn people on social networks each month. We see Function(x) as an intriguing speculative turnaround company in the digital media space, with an experienced management team targeting a large end market. The company has made considerable progress over the last several months, with a strategic financing of \$4.8mn, the conversion of a preferred share overhang, and plans to shed non-core businesses while refocusing on growth and profitability in coming quarters.

### INVESTMENT HIGHLIGHTS

#### Attractive end market, execution support growth opportunity

Function(x), Inc. is building a social and interactive media platform aimed at capitalizing on the shifting landscape of media consumption, and particularly the intersection of social media, entertainment, and advertising. Indeed, according to data from MediaKix, provided by the company, US digital advertising spending is expected to reach \$100 billion by 2020, representing a compounded annual growth rate (CAGR) of 15% per year. Function(x) appears positioned to target this opportunity through media properties Wetpaint and Rant, where it attracted approximately 210mn page views in March, and has accumulated 10mn+ social media followers. Importantly, according to company data, Function(x) has a clearly defined user base, with 80% of its traffic stemming from mobile devices, and a gender breakdown of 85% women and 15% men.

The company's lead web property is Wetpaint, an online destination for millennial women covering entertainment news and pop culture. Rant is a network of sites with content focused on sports, pets and lifestyle. Function(x) also holds an interest in fantasy sports gaming through DraftDay Gaming Group, Inc. (DDGG), though recent announcements suggest this unit may be shed in coming quarters. In addition to its native audience, Function(x) also leverages a social media platform that includes access to exclusive content from celebrities and influencers, patented technology, and optimized integration with advertisers and consumer brands. If consummated, the March 8 announcement that Function(x) would acquire BumpClick would likely accelerate the growth of this platform. Management estimates that, post-acquisition, the combined company would have 27mn monthly unique users.

#### Financing, preferred conversion are first steps in turnaround

Function (x) appears to be a turnaround situation in which the company has recently taken important steps to restructure its balance sheet and streamline its business lines, with an aim to focus on its most promising growth businesses and likely seek complementary acquisitions. As part of this process, Function(x) recently raised \$4.8mn in new equity capital in February. Additionally, Function(x) CEO and founder Robert Sillerman converted his \$37mn in preferred stock holdings into common equity at a conversion price of \$2.34 per share, removing an overhang and increasing his alignment with common shareholder interests. The company's strategic moves are

not yet complete, as Function(x) has stated that it is in the process of renegotiating its debt, and is also evaluating the sale of non-core assets, which could include its interest in DDGG.

#### Initiate coverage with a price target of \$3.20

We see Function(x) as offering a combination of high risk and high reward considering both concerns over its financing status as well as an experienced management team targeting a large opportunity. The target of \$3.20 assumes the company is successful in generating value from non-core businesses and reducing debt, while driving growth and meeting its aspirations for profit in the core Wetpaint and Rant properties. Considering management's past companies, we also expect Function(x) to look to accelerate growth with acquisitions such as BumpClick when opportunities are presented.

#### Stock Details (4/9/2017)

Nasdaq CM:	FNCX
Sector / Industry	Technology / Digital Media
<b>Price target</b>	<b>\$3.20</b>
Recent share price	\$0.43
Shares o/s (mn)	23.6
Market cap (in \$m)	10.1
52-week high/low	\$11.60 / 0.35

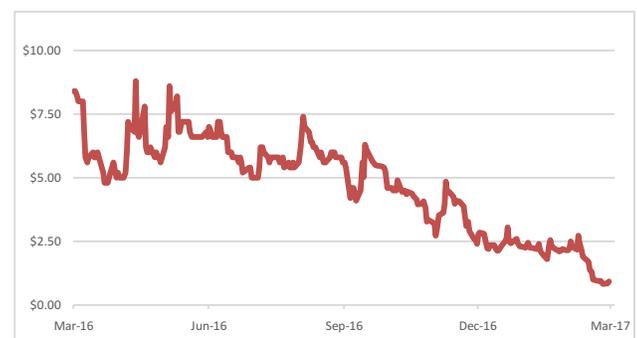
#### Key Financials

	F2017E	F2018E	F2019E
Revenues (000s)	\$3,859.0	\$6,730.2	\$10,973.9
EBITDA	(\$10,286.0)	(\$6,555.9)	(\$3,166.0)
EBIT	(\$10,641.0)	(\$7,444.3)	(\$4,834.0)
Net Income	(\$17,158.7)	(\$9,639.5)	(\$7,029.2)
EPS (\$)	(\$0.57)	(\$0.24)	(\$0.17)

#### Key Ratios

	F2017E	F2018E	F2019E
EBIT (%)	(275.7)	(110.6)	(44.0)
EBITDA (%)	(266.5)	(97.4)	(28.9)
Net margin (%)	(444.6)	(143.2)	(64.1)
P/Revenue (x)	1.5	1.9	1.3
EV/Revenue (x)	3.0	1.9	1.3

#### LTM Performance





## SUMMARY TABLE

Figure 1. Summary Table (Pricing data as of April 9, 2017)

Share data		Balance Sheet data (FY 2Q17)		Key personnel:	
Recent price:	\$0.43	Total assets:	\$31.8	CEO	Robert Sillerman
Price target:	\$3.20	Total debt:	\$10.8	President	Birame Sock
52-week range:	0.50 - 11.60	Equity:	\$3.9	CFO	Michelle Lancken
Average volume:*	419,043	W/C:	(\$21.9)	COO	Brian Rosin
Market cap:	\$10.1	ROE:	-94%	CIO	Reaz Islam
Book value/share:	\$0.16	ROA:	-11.4%	Counsel	Mitchell J. Nelson
Cash/share	\$0.03	Current ratio:	0.1x		
Dividend yield:	N/A	Asset turnover:	0.0x		
Risk profile:	High / Speculative	Debt/Cap:	73.7%		

\* 30-day average volume (number of shares)

FY JUNE	Estimates				Valuation	
	Rev (\$000)	EBITDA (\$000)	EPS (\$)	P/Rev (x)	EV/Rev (x)	P/E (x)
1Q17A	659.0	(2,694.0)	(2.53)	7.7x	3.8x	NM
2Q17A	1,215.0	(1,213.9)	(1.13)	4.2x	2.1x	NM
3Q17E	933.0	(1,687.7)	(0.12)	5.4x	2.7x	NM
4Q17E	1,052.0	(1,364.5)	(0.10)	4.8x	2.4x	NM
2017E	3,859.0	(10,286.0)	(0.57)	5.3x	2.6x	NM
2018E	6,730.2	(6,555.9)	(0.24)	3.0x	1.5x	NM
2019E	10,973.9	(3,166.0)	(0.17)	1.9x	0.9x	NM
2020E	15,444.3	1,286.5	(0.09)	1.3x	0.7x	NM

Source: SeeThruEquity Research

## INVESTMENT THESIS

We initiate coverage on Function(x), Inc. (Nasdaq CM: FNCX, \$0.56) with a price target of \$3.20. Function(x) Inc., is a special situation in the diversified media and entertainment industry. Headquartered in New York, Function(x) is led by Chairman and CEO Robert Sillerman, an industry entrepreneur known for his sale of SFX Entertainment, Inc., to Clear Channel for \$4.4 billion in 2000. At Function(x), Sillerman is seeking to create a high growth business leveraging his extensive media experience in a social publishing and interactive media platform. Through its lead web properties **Wetpaint** and **Rant**, Function (x) generates over 7mn unique visitors and had approximately 210mn page views in March 2017, by delivering engaging content based on key relationships with social influencers and celebrities. On March 8th, 2017, Function(x) announced it planned to acquire BumpClick LLC. An 8K filed by the company on April 3, 2017, outlines how the acquisition would add scale and reach. Assuming the close of the BumpClick acquisition, management estimates that the combined company would have 27mn unique visitors, with 40mn sessions and 230mn pageviews. We see Function(x) as an intriguing speculative turnaround company in the digital media space, with an experienced management team targeting a large end market. The company has made considerable progress over the last

several months, with a strategic financing of \$4.8mn, the conversion of a preferred share overhang, and plans to shed non-core businesses while refocusing on growth and profitability in coming quarters.

## Company History

Function(x) is a diversified media and entertainment company that provides digital publishing and content. FNCX conducts three primary lines of businesses. These include: 1) **Digital Publishing**, a unit that includes Wetpaint.com, an online entertainment news medium for millennial women, and **Rant**, a network of web properties focused on sports, pets and lifestyle; 2) **Fantasy Sports**, which is led by DraftDay Gaming Group, a business-to-business operator of daily fantasy sports; and 3) **Choose Digital**, a marketplace platform that allows companies to incorporate digital content into existing rewards and loyalty programs. Additionally, on March 8, 2017, Function(x) announced that it would acquire **BumpClick, LLC**, a digital platform with a sizeable social media network, which FNCX CEO Robert FX Sillerman indicated would help growth and be accretive to operations.

With headquarters in New York, NY, Function (x) has been led by well-known entertainment executive Robert Sillerman since June 19th, 2012. Originally, FNCX was quoted on the OTC QB Electronic Quotation Service. The company was previously known as Viggie Inc. (ticker: VGGL), and was listed on the Nasdaq in April 2014. It traded under VGGL until late January, 2016 when the Company changed its name and ticker to DraftDay Fantasy Sports Inc. and DDAY, respectively, following the sale of Viggie to Perk.com and acquired DraftDay from MGT Capital. Subsequently, on June 10, 2016, the Company changed its name from DraftDay Fantasy Sports, Inc. to Function(x) Inc., and changed its ticker symbol from DDAY to FNCX.

## Segment Overview

### Digital Publishing Segment

Wetpaint is premiere property in Function(x) Inc.'s digital publishing business, which is the current focus of the company. The segment includes web properties and is comprised of Wetpaint and Rant. We expect the company will likely seek to make future acquisitions in this area, such as the March announcement of its intention to acquire BumpClick. Wetpaint.com is the premiere brand at Function (x) and is an entertainment news destination website targeting millennial women age 18-34. Through Wetpaint, FNCX publishes myriad news articles, videos and galleries each day covering the latest in television, music and pop culture. Wetpaint leverages proprietary social technology to drive users to its site, which allows Wetpaint to know what content its users wants and when to deliver it. In addition, the technology allows Wetpaint to gain new users virally through sharing.

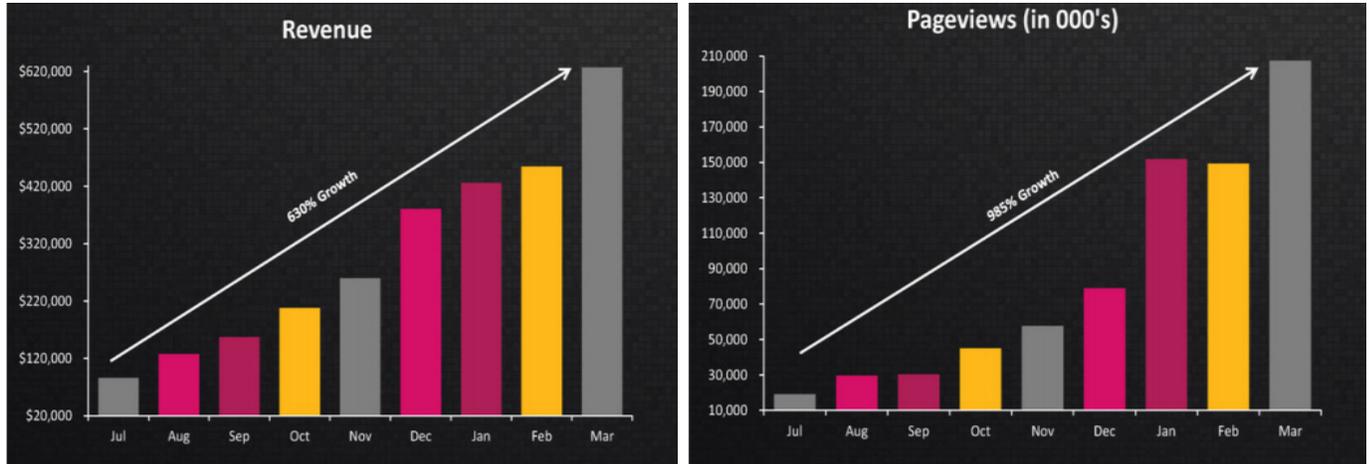
 wetpaint

The second core web publishing property in the digital publishing business is **Rant**. Rant publishes content through 13 different verticals, most notably targeting sports, entertainment, pets, cars and food. Function(x) acquired Rant.com on July 12, 2016 to enhance its digital publishing business. According to *Adweek*, RantSports.com was ranked #1 by Quantcast for target digital ad buying for the 2015 holiday season. Rant was also recently named #18 overall on Inc 500's Fastest Growing Companies (#1 in Media) and #31 on Forbes' Most Promising Companies of 2015.

 Rant SPORTS

The combined properties have a social media following of approximately 210mn page views per month ( a figure which management believes would increase with the acquisition of BumpClick), and have experienced a significant increase in traffic and monetization over the last several months. As noted in a recent presentation filed with the SEC on April 3, 2017, FNCX has benefitted from efforts to improve engagement and monetization. Indeed, as illustrated in the following graphic, the company was able to increase pageviews

by more than 980% from July to March – with 210mn page views on its properties in March alone. Revenues per month also increased, rising from \$157,175 in September to approximately \$620,000 in March 2017, as depicted below.

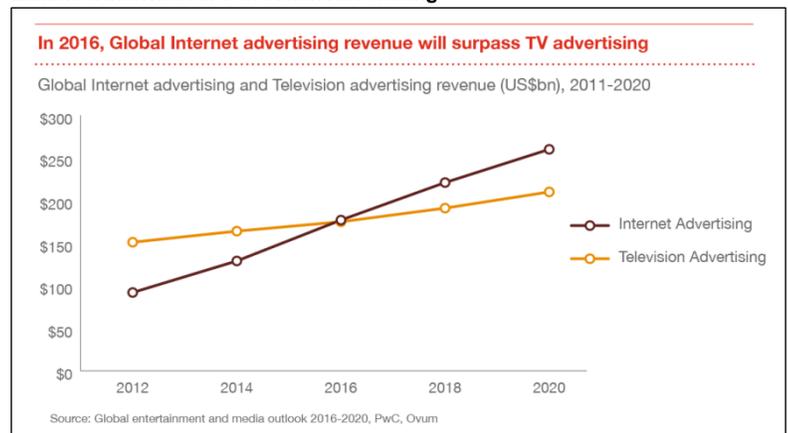


Source: Company results announcement

We believe the Digital Publishing segment is management's primary focus, and expect strategic decisions at the company to be centered around building this business, likely through operational improvements and future acquisitions (like BumpClick) to accelerate growth. The Digital Publishing segment grew revenues to \$0.8m in FY2Q17, versus \$0.5mn in FY2Q16. The unit generates revenue by working directly with advertisers, advertising agencies and third working party ad networks to display their content to FNCX's users. Typically, advertisements are priced as a base priced per thousand views (Cost-Per-Mile [CPM]). However, advertisements can be priced per click (Cost-Per-Click [CPC]) or price per intended action (Cost-Per-Action [CPA]). FNCX reported both an increase in page views and monetization per page view in FY2Q17, a positive trend.

FNCX is targeting a large and growing market, which reflects sweeping changes that have taken place in the way people view and consume media over the last several years. Not surprisingly, Online/mobile advertising spend is following this consumption trend. Online / mobile advertising represents the fastest growing advertising medium, and surpassed television advertising in 2016, according to a study by PwC. PwC projects online advertising to grow at a 11.1% CAGR from

Exhibit 3: Internet vs. Television Advertising



Source: PwC

2015 through 2020, which PwC expects will cause total global advertising spend to increase from \$153.65B in 2015 to \$260.36B in 2020 (see enclosed Exhibit). Within global internet advertising, mobile advertising is expected to grow faster than the overall market, at an estimated 19.6% CAGR to reach \$84.8B in 2020. The continued growth in online and mobile advertising should provide support for growth in FNCX's Digital Publishing segment as it derives its revenue from advertising and its focus on social content optimization should allow for relatively high exposure to mobile consumption and ad dollars. Our model assumes FNCX

can take advantage of this growth given the positive trends in content growth, projecting Digital to grow high rates for the next several years.

**Fantasy Sports Segment**

Function(x)'s Fantasy Sports segment is anchored by its majority investment in Draft Day Gaming Group (DDGG), which operates a daily fantasy sports website at DraftDay.com and other white-label websites on behalf of its business-2-business (B2B) clients. While this segment appears to be growing, it has operated at a loss, and recent announcements by the company suggest it may be shed to focus on the core digital publishing business. FNCX's DDGG business focuses on the B2B market allowing consumer brands entry into the fantasy sports market with turnkey solutions in the U.S. and Canada. In addition, the Company operates DraftStars daily fantasy platform for CrownBet, the leading sports betting operation in Australia. FNCX acquired the daily fantasy business from MGT Capital Investments in September, 2015. DDGG allows current daily fantasy sites and companies looking to enter the daily fantasy market to focus on building their brand, while using DDGG's network to run daily fantasy sports games and exposes players to larger prize pools and more daily fantasy games. In addition, DDGG can provide whatever else the company needs, from customer support to payouts among others.

FNCX's daily fantasy model differs from DraftKings and others as it provides three unique benefits to white label customers: 1) significantly reduces customer acquisition costs, 2) partner liquidity sharing that provides opportunity for large prize tools via aggregation and 3) the latest in consumer protections in the industry. Over the last few years, daily fantasy sports usage has grown as sites like DDGG and others have allowed players to win money. As daily fantasy sports have gotten more popular, it has attracted under more scrutiny and regulatory attention. While the extent of possible regulation is difficult to project, management expects regulations to be enacted on a state-to-state basis. Increased regulation has the potential to affect revenues and costs in this segment.

In the Company's most recent quarter, 2Q:F17, DDGG generated revenue of \$256,000, up from \$243,000 in the prior year quarter. However, we note that the segment is operating at a loss, and may potentially be included in strategic efforts to divest non-core businesses, according to recent announcements by management. Exhibit 4 below shows the daily sports offered at DDGG.

Exhibit 4: Sports Available At DDGG



Source: <http://www.draftdaygaming.com/daily-fantasy-sports-white-label/>

**Choose Digital Segment**

Choose Digital is a digital marketplace platform that allows companies to incorporate digital content into existing rewards and loyalty programs in support of marketing and sales initiatives allowing major programs (airline frequent flier, banks and hotel loyalty programs among others) to offer digital content as a reward redemption option. The business was founded in 2011 by Mario Cruz as a supply chain to the loyalty and incentive industry. FNCX acquired Choose Digital in June, 2014.

Choose Digital is a white-label digital marketplace featuring a recent and wide range of digital content, including music, eBooks and audiobooks. The segment offers several custom and turnkey products for creating e-commerce web apps for selling digital music, eBooks, and audiobooks within small or large loyalty

programs. Choose Digital's products and services allow any reward program to integrate their large digital media marketplace, giving members the ability to browse, redeem, and download the latest releases or classic favorites. Today, Choose Digital's marketplace powers a number of loyalty programs in the U.S. and Canada allowing customers and participants to enjoy the latest in digital content instantly. Content is sourced from leading record companies and book publishers.

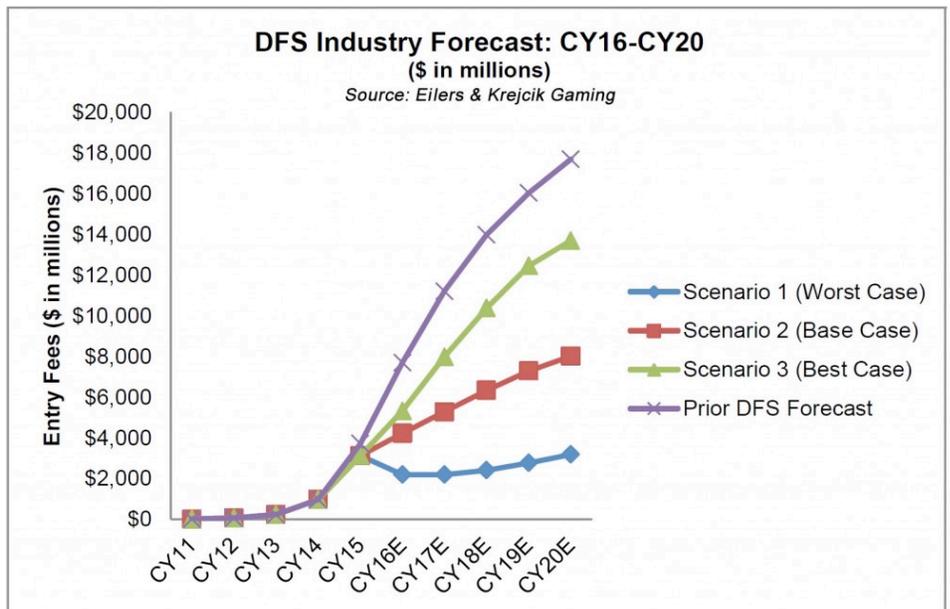
Choose Digital generates revenues when participants in its clients' loyalty programs redeem loyalty credits for digital content provided by Choose Digital. For example, if a participant in a loyalty program redeems credits for a song download provided by Choose Digital, the client loyalty program pays Choose Digital for the download.

## COMPETITIVE LANDSCAPE

Function(x) Inc. operates in the information technology industry and is most focused on digital media and advertising. FNCX has competitors in each of its three business segments. Within the Digital Publishing segment, FNCX competes with a variety of media outlets that provide entertainment, sports, cars, food and pets among others. Competitors include Vox, BuzzFeed, Refinery29, Business Insider, VanityFair, and ESPN, among other large well-known brands. While FNCX has seen page views increase, there is a great deal of competition in the verticals Wetpaint competes in. It will take a lot of time, effort and money to increase its viewers. In addition, the U.S. online advertising market is dominated by two players; Google and Facebook. In 2015 they accounted for \$30B and \$8B, respectively, in advertising revenue of \$59.6B available.

Within FNCX's Fantasy Sports business, there are two main competitors: DraftKings and FanDuel. While FNCX doesn't provide direct daily fantasy like DraftKings and FanDuel, the daily fantasy operators DDGG generates its revenue from do. DraftKings and FanDuel are the two largest players in the industry and their announcement to merge is likely to present both challenges and opportunities for DDGG. While the market is dominated by two players (soon to be one), there will be room for DDGG to take share over the next few years. According to Eilers & Krejcik Gaming Forecasts shown in Exhibit 5, the new base case scenario for the daily fantasy industry by 2020 is projected to be \$8 billion from \$18 billion prior. The other scenarios show the best and worst case forecasts. Even though the market is projected to grow at a slower rate, if FNCX is able to convince smaller daily fantasy providers to use their service this segment can see strong growth.

Exhibit 5: Daily Fantasy Industry Forecast Through 2020



Source: Eilers & Krejcik Gaming Forecasts

FNCX's last segment, Choose Digital, competes with a number of reward and loyalty programs. Some of Choose Digital's main competitors are Bridge2Solutions, Aeroplan, Ox&Pen and Avirate Fashion. These four firms are well established firms within the reward and loyalty programs industry, with Ox&Pen generating \$1.4mn in revenue on the low end and Aeroplan making \$150mn in revenue on the high end.

## FINANCIALS AND FUTURE OUTLOOK

### Recent Results

Function(x) reported 2Q:F17 results in February 2017. The Company reported revenue of \$1,215,000, versus \$1,782,000 in the year-ago period. The primary reason for the decline in revenue was due to the sale of Viggle to Perk, which was offset by an increase in Wetpaint and DDGG revenues. Turning to the segments, digital publishing revenues were \$834,000, up from \$530,000 in the year-ago period, due to growth at Wetpaint. Fantasy Sports revenue increased to \$256,000 from \$243,000 in the year-ago period.

During FY 2Q17, Function(x) trimmed SG&A expenses to \$3.6mn versus \$10mn in FY2Q16, which allowed the company to narrow its operating loss. FY2Q16 results were affected by a \$30.4mn impairment, and included results of Viggle, making them largely not comparable to FY 2Q17. In FY2Q17, EPS came in at (\$1.13) per share with 3.2mn average common shares outstanding during the period. The higher recent share count reflects the conversion of preferred shares to common, and we expect shares to increase in the future as the company seeks to convert debt to equity and also will issue shares as part of the BumpClick acquisition.

### F2017 and F2018 Outlook

For F2017, we assumed revenue of \$3.9 million, down from FY2016 due to the sale of Viggle, which masks improvements in the small and growing Wetpaint revenue base. If revenue from Viggle is excluded from F2016 results, pro forma adjusted revenue is expected to show healthy growth, as Viggle represented \$1.92 million of revenue in F2016. Wetpaint revenue is projected to increase behind both an increase in page views and revenue per 1,000 visits. We expect DDGG revenue is projected to increase from \$528,000 to \$661,000 due to the competitive nature of the industry and increased regulation. Revenue from Choose Digital is expected to be \$376,000.

**Exhibit6: Estimated Segment Sales Trends, Mix Breakdown F2017E-F2021E**

Revenue by Segment	F2017E	F2018E	F2019E	F2020E	F2021E
Wetpaint	\$2,310	\$5,000	\$9,000	\$13,200	\$18,900
Y/Y Growth	50.7%	116.5%	80.0%	46.7%	43.2%
Choose Digital	\$376	\$432	\$497	\$557	\$624
Y/Y Growth	-80.7%	15.0%	15.0%	12.0%	12.0%
DDGG	\$661	\$760	\$912	\$1,095	\$1,314
Y/Y Growth	25.2%	15.0%	20.0%	20.0%	20.0%
Other	\$512	\$538	\$564	\$593	\$622
Y/Y Growth	2.6%	5.0%	5.0%	5.0%	5.0%
<b>Total</b>	<b>\$3,859</b>	<b>\$6,730</b>	<b>\$10,974</b>	<b>\$15,444</b>	<b>\$21,460</b>
<b>Y/Y Growth</b>	<b>-14.4%</b>	<b>74.4%</b>	<b>63.1%</b>	<b>40.7%</b>	<b>38.9%</b>
Business Mix (%)	F2017E	F2018E	F2019E	F2020E	F2021E
Wetpaint	59.9%	74.3%	82.0%	85.5%	88.1%
Choose Digital	9.7%	6.4%	4.5%	3.6%	2.9%
DDGG	17.1%	11.3%	8.3%	7.1%	6.1%
Other	13.3%	8.0%	5.1%	3.8%	2.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: SeeThruEquity Research

### **Balance Sheet & Financial Liquidity**

We see the balance sheet and financial liquidity as key areas to watch for FNCX. The company received a going concern qualification on its latest financial statements. Additionally, FNCX has significant debts outstanding, including default status on two outstanding debentures. In a March presentation with investors, FNCX has stated that the company is in the process of negotiating a settlement, and that it has bought all debentures except for two, who hold 15% of the original issue.

FNCX ended 2QF17 with cash and restricted cash of \$0.6mn and \$23.1mn in current liabilities. Following the end of 2Q17 the company recently raised gross proceeds of \$4.8mn in new equity capital in February. Additionally, Function(x) CEO and founder Robert Sillerman converted his \$37mn in preferred stock holdings into common equity at a conversion price of \$2.34 per share, removing an overhang and increasing his alignment with common shareholder interests. The company's strategic moves are not yet complete, as Function(x) has stated that it is in the process of renegotiating its debt - including the \$3mn secured convertible note related to the Rant acquisition that is now in default, recently announced the acquisition of BumpClick, and is also evaluating the sale of non-core assets, which could include its interest in DDGG.



## VALUATION

We decided to look at multiple valuation methods as part of determining a price target for FNCX. The primary valuation method considered was discounted cash flow analysis (DCF), although we also included an analysis of companies in the industry examining revenues and active users.

### DCF

The DCF analysis runs through the end of fiscal 2024E (June 2024E). Key assumptions to the model include: 1) that revenue accelerates beginning in F2017E primarily driven by Digital Publishing; and 2) cost cuts and operating efficiencies that will help drive adjusted profitability in FY2018.

The valuation model assumes the company will start to generate FCFF starting in F2019E and will continue through F2024E. We assumed the company uses working capital on balance in our forecast, reflecting an assumption of high growth, with relatively low capital expenses given the benefits of cloud infrastructure services. We assumed a weighted average cost of capital (WACC) of 17.3% and a terminal growth rate of 3%, arriving at a target of \$3.20 using this analysis, as illustrated in the tables below.

**Exhibit 7: Discounted Cash Flow Analysis**

\$ In Thousands	F2017E	F2018E	F2019E	F2020E	F2021E	F2022E	F2023E	F2024E
EBIT	(7,444.3)	(4,834.0)	(1,369.8)	3,437.3	8,331.7	15,135.8	18,522.9	22,450.2
Less: Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>NOPLAT</b>	<b>(7,444.3)</b>	<b>(4,834.0)</b>	<b>(1,369.8)</b>	<b>3,437.3</b>	<b>8,331.7</b>	<b>15,135.8</b>	<b>18,522.9</b>	<b>22,450.2</b>
Changes in working capital	(6,296.1)	(6,036.1)	4,870.7	(2,346.0)	2,615.9	(1,985.3)	(1,407.4)	1,924.7
Depreciation & Amortization	3,703.0	3,793.9	3,998.4	4,271.1	4,600.7	4,943.4	5,299.9	5,670.5
Capex	0.0	(400.0)	(900.0)	(1,200.0)	(1,450.0)	(1,508.0)	(1,568.3)	(1,631.1)
<b>FCFF</b>	<b>(10,037.4)</b>	<b>(7,476.2)</b>	<b>6,599.3</b>	<b>4,162.5</b>	<b>14,098.3</b>	<b>16,585.9</b>	<b>20,847.1</b>	<b>28,414.4</b>
Discount factor	1.0	0.8	0.7	0.6	0.5	0.4	0.4	0.3
PV of FCFE	(9,574.6)	(6,079.8)	4,575.4	2,460.3	7,104.3	7,125.4	7,635.4	8,872.3
Sum of PV of FCFE								22,118.7
Terminal cash flow								204,710.9
PV of terminal cash flow								63,920.6
<b>Enterprise value</b>								<b>86,039.3</b>
Less: Debt								10,794
Add: Cash								122
<b>Equity value</b>								<b>75,367.3</b>
Shares Outstanding (mn)								23.6
<b>Fair value per share (\$)</b>								<b>3.20</b>

Source: SeeThruEquity

**Exhibit 8: DCF Assumptions & Conclusions**

Summary Conclusions		Key Assumptions	
DCF FV (\$ per share)	3.20	Beta	2.0
Recent price (\$ per share)	0.78	Cost of equity	18.5%
Upside (downside)	310.0%	Cost of debt (post tax)	16.5%
WACC	17.3%	Terminal Growth Rate	3.0%

		WACC (%)				
		16.3%	16.8%	17.3%	17.8%	18.3%
Terminal growth rate (%)	2.00%	\$3.42	\$3.20	\$3.00	\$2.81	\$2.63
	2.50%	\$3.53	\$3.30	\$3.09	\$2.90	\$2.72
	3.00%	\$3.66	\$3.42	<b>\$3.20</b>	\$2.99	\$2.80
	3.50%	\$3.80	\$3.54	\$3.31	\$3.09	\$2.89
	4.00%	\$3.95	\$3.68	\$3.43	\$3.20	\$2.99
	4.50%	\$4.11	\$3.82	\$3.56	\$3.32	\$3.10

**Peer Group Analysis**

We also evaluated Function(x) on using a relative valuation analysis with its peer group. When comparing Function(x) to its peer group we examined price-to-sales (P/S) and Enterprise Value-to-Sales (EV/S) ratios. We felt this appropriate as FNCX does not have positive earnings or EBITDA at this time. As illustrated in Exhibit 10 below, Function(x) Inc. trades at a 32% discount to its peer group on a forward P/S sales basis and an 18% premium on an EV/Sales basis.

**Exhibit 10: Peer Analysis**
**\$ In Thousands (MRQ)**

TCKR	Name	Price	Shares	Market Cap	EV	Next Year	Price/Sales	EV/Sales
TWTR	Twitter	\$ 15.21	708.4	\$ 10,774.8	\$ 8,694.8	\$ 2,540.00	4.24x	3.42x
FB	Facebook	\$ 139.60	2,890.0	\$ 403,440.0	\$ 373,990.0	\$ 47,940.00	8.42x	7.80x
YELP	Yelp	\$ 34.58	79.6	\$ 2,752.6	\$ 2,273.6	\$ 1,070.00	2.57x	2.12x
MEET	MeetMe	\$ 5.21	66.9	\$ 348.7	\$ 285.5	\$ 123.07	2.83x	2.32x
GRPN	Groupon	\$ 3.98	571.6	\$ 2,275.0	\$ 1,611.0	\$ 3,280.00	0.69x	0.49x
Z	Zillow	\$ 36.13	178.2	\$ 6,440.0	\$ 6,430.0	\$ 1,270.00	5.07x	5.06x
<b>Peer Group Average</b>							<b>3.97x</b>	<b>3.54x</b>
FNCX	Function(x) Inc	\$ 0.78	23.1	\$ 18.02	\$ 28.19	\$ 6.73	2.68x	4.19x
<b>Peer Group Average</b>							<b>-32.6%</b>	<b>18.4%</b>

**Private Company Comparisons:** Worth noting is that Function(x) is much smaller than comparable public companies in the space. Function(x) management sees a more appropriate base for comparison as valuation per user relative to private peers. Its investor materials reference Refinery29's recent valuation of \$500mn with 27mn unique users, and, Business Insider's valuation of \$442mn with 44.5mn unique users (source: FNCX Investor Materials). We believe Function(x) has over 7mn active users, by comparison (27mn after the acquisition of BumpClick). Given the imperfection of peer valuations at this time, our price target is primarily influenced by the DCF valuation. It seems possible Function(x) could narrow the gap on this metric if it is able to address its distressed balance sheet and meet its high growth goals including increased monetization of its user base.

## RISK CONSIDERATIONS

### Liquidity

In its most recent 10-Q, FNCX announced it is in default status under the Debentures issued in the Private Placement and the note issued in connection with the Rant Acquisition. In a March presentation with investors, FNCX has stated that the company is in the process of negotiating a settlement, and that it has bought all debentures except for two, who hold 15% of the original issue.

FNCX ended 2QF17 with cash and restricted cash of \$0.6mn and \$23.1mn in current liabilities. Following the end of 2Q17 the company recently raised \$4.8mn in new equity capital in February. The company's strategic moves are not yet complete, as Function(x) has stated that it is in the process of renegotiating its debt, recently announced the acquisition of BumpClick, and is also evaluating the sale of non-core assets, which could include its interest in DDGG.

### Going Concern

In Function(x) Inc. most recent 10-Q, the Company noted that its auditors included a paragraph regarding the Company's ability to remain a going concern. As noted Function(x) has raised \$4.8mn since the end of the quarter. We have assumed the company will require at least \$10mm more in new financing.

### Internal Control Issues

FNCX disclosed that its internal controls over disclosure controls and procedures are not effective. In addition, management identified material weakness as follows: 1) inadequate segregation of duties and ineffective risk assessment, 2) insufficient levels of supervision and review of the disclosure controls and procedures process, and 3) failure to design, implement and maintain adequate operational and internal controls and processes to identify complex transactions requiring specialized accounting expertise. The inability for the Company to establish and maintain an effective system of internal control means FNCX may not be able to report its financial results accurately and timely or to prevent fraud. While, the Company plans to have the issues fixed by year end June 30<sup>th</sup>, 2017, we are hesitant that they will be able to meet this deadline given all the issues surrounding the firm and the Company's limited resources and small staff.

### Nasdaq listing status

On February 23<sup>rd</sup> 2016, Function(x) Inc. was notified by the Nasdaq Hearings Panel (The Panel) that the Company did not satisfy the minimum stockholders' equity requirement and that its securities were therefore subject to delisting. However, on November 1<sup>st</sup>, 2016 FNCX was notified by The Panel that it has shown compliance with all requirements for continued listing on The Nasdaq Capital Market but will remain under monitor through November 1<sup>st</sup>, 2017. Management has stated that the company would seek to raise equity capital or convert debt to equity in order to meet the shareholder's equity requirement of \$2.5 million, which could cause dilution. If Function(x) is delisted, liquidity in the stock will likely be impaired and the stock price will likely decline.

### History of Losses

Function(x) Inc. has incurred large net losses and negative cash flow from operations since its inception. In F2015 and F2016, the Company lost \$78.5M and \$63.7M, respectively. While management has indicated that the company is seeking to reach breakeven by the end of calendar 2017, if the company continues to incur losses it will likely need to raise additional capital.



## Management Team

### **Robert Sillerman, Chief Executive Officer and Executive Chairman**

Mr. Robert Sillerman has served as the Chief Executive Officer of FNCX since June, 2012 and Executive Chairman of the Board of Directors since February, 2011. Mr. Sillerman has served as CEO of many different firms. Mr. Sillerman's most successful venture was SFX Entertainment Inc., a company that owned and operated live entertainment venues. Mr. Sillerman served as CEO from its formation in December 1997 through its sale to Clear Channel in August 2000. He still serves as Chairman of the Board of Directors of the new SFX Inc.

Mr. Sillerman has been a director of Circle Entertainment Inc., a company developing location-based entertainment venues, since January, 2008 and served as CEO from January, 2008 to January, 2013. Mr. Sillerman also served as the Chief Executive Officer and Chairman of CKX, Inc., a company that owns, develops, manages and commercially uses entertainment content, from February, 2005 until May, 2010. From August, 2000 to February, 2005, Mr. Sillerman was Chairman of FXM, Inc., a private investment firm. Mr. Sillerman is the founder and has served as managing member of FXM Asset Management, LLC, the managing member of MJX Asset Management, from November, 2003 through April, 2010.

### **Birame N. Sock, President**

Ms. Birame Sock has been a part of the FNCX since February, 2013 as a Non-Executive Board Member of the Company. She also served on the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. She held this role for a little more than three years until August 1, 2016, when she was named President and COO as part of her employment agreement. The Board of Directors selected Ms. Sock as a director because it believes her experience in technology and consumer marketing will benefit the FNCX.

Prior to joining FNCX, Ms. Sock founded Flyscan, a real-time interactive mobile marketing platform. She was also the founder and CEO of Third Solutions, Inc., a leading digital receipts company, which she founded in 2007. In 2002, Ms. Sock founded Musicphone, a wireless entertainment company, which she led until its acquisition by Gracenote, Inc. in 2007. She served as a member of the Board of Directors of CKX Inc. from 2005 until 2006, when she became a consultant for CKX Inc. and affiliated companies. Ms. Sock attended the University of Miami, where she studied computer science and broadcasting.

### **Brian Rosin, Chief Operating Officer**

Brian Rosin was named Chief Operating Officer of Function(x) on January 19 2017. Mr. Rosin came to the Company as a result of its July 2016 acquisition of Rant, Inc., which he co-founded in 2011. While at Rant, Mr. Rosin served as Chief Operating Officer, Vice President Finance & Accounting, and Vice President of Operations. Prior to beginning full-time employment at Rant in February 2012, Mr. Rosin was an Annuity Specialist and LTC Claims Operations Analyst at Banker's Life and Casualty Company in Chicago, Illinois. Mr. Rosin earned bachelors' degrees in International Relations and Economics from Northern Illinois University.

### **Michelle Lanken, Chief Financial Officer**

Michelle Lanken joined Function(x) as the Company's Chief Financial Officer on July 5, 2016. Ms. Lanken previously worked as a consultant for The Siegfried Group, LLC. Prior to that, she worked at Saba Software, Inc., as Accounting Manager from May, 2011 until September, 2013, and as a finance consultant from March, 2014 until March, 2015. Before joining Saba Software in May, 2011, Ms. Lanken held various consulting and Assistant Controller roles. Between September, 2013 and March, 2014, she was the Assistant Controller at Dome Construction Corporation. From January, 2010 to May, 2011, she provided finance and accounting consulting services Cisco Systems, The Gap, and Wells Fargo Corporation. Ms. Lanken served as Senior

Manager, Accounting Policy at Charles Schwab from September, 2008 to November 2009, as Assistant Controller at Bebe Stores, Inc. from March, 2007 to September, 2008, and at various positions at KPMG LLP from August, 2001 to March, 2007.

Ms. Lanken has extensive experience in the preparation of SEC filings, financial statements, accounting and audit management, budgeting, payroll and benefits management, and implementation and monitoring of accounting standards. Ms. Lanken is a Certified Public Accountant in the State of California and holds a B.S. in Business Administration with a Concentration in Accounting from California Polytechnic State University.

**Mitchell J. Nelson Executive Vice President and Legal Counsel**

Mitchell J. Nelson is a Director, Executive Vice President, General Counsel, and Secretary of Function(x). Mr. Nelson also served as Executive Vice President, General Counsel and Secretary of Circle Entertainment, Inc., having served in such capacity since January, 2008, and served as President of its wholly-owned subsidiary, FX Luxury Las Vegas I, LLC which was reorganized in bankruptcy in 2010. He has been a Senior Legal Advisor to SFX since January 1, 2012. He also served as President of Atlas Real Estate Funds, Inc., a private investment fund which invested in United States-based real estate securities, from 1994 to 2008, as Senior Vice President, Corporate Affairs for Flag Luxury Properties, LLC from 2003. Prior to 2008, Mr. Nelson served as counsel to various law firms, having started his career in 1973 at the firm of Wien, Malkin & Bettex. At Wien, Malkin & Bettex, which he left in 1992, he became a senior partner with supervisory responsibility for various commercial real estate properties. Mr. Nelson is an Adjunct Assistant Professor of Real Estate Development at Columbia University. He was a director of The Merchants Bank of New York and its holding company until its merger with Valley National Bank. Additionally, he has served on the boards of various not-for-profit organizations, including as a director of the 92nd Street YMHA and a trustee of Collegiate School, both in New York City.

**Reaz Islam, Chief Investment Officer and Chief of Staff**

Reaz is an advisor to the leadership team and oversees strategic investments, due diligence, execution, integration and related financial matters. Reaz is a seasoned investment professional with over 25 years of leadership, innovation, restructuring/turnaround and development expertise across various public and private markets.

## FINANCIAL SUMMARY

**Figure 7. Income Statement**

Figures in \$000 unless specified	FY17E	FY18E	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>\$3,859.0</b>	<b>\$6,730.2</b>	<b>\$10,973.9</b>	<b>\$15,444.3</b>	<b>\$21,459.6</b>
YoY growth	(73.2%)	74.4%	63.1%	40.7%	38.9%
Cost of sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Gross Profit</b>	<b>\$3,859.0</b>	<b>\$6,730.2</b>	<b>\$10,973.9</b>	<b>\$15,444.3</b>	<b>\$21,459.6</b>
Margin	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses	\$14,500.0	\$14,174.4	\$15,807.9	\$16,814.0	\$18,022.3
<b>EBIT</b>	<b>(\$10,641.0)</b>	<b>(\$7,444.3)</b>	<b>(\$4,834.0)</b>	<b>(\$1,369.8)</b>	<b>\$3,437.3</b>
Margin	(275.7%)	(110.6%)	(44.0%)	(8.9%)	16.0%
<b>EBITDA</b>	<b>(\$6,555.9)</b>	<b>(\$3,166.0)</b>	<b>\$1,286.5</b>	<b>\$6,913.7</b>	<b>\$12,572.7</b>
Margin	(169.9%)	(47.0%)	11.7%	44.8%	58.6%
Other income/ (expense)	(\$5,438.6)	(\$2,195.3)	(\$2,195.3)	(\$2,195.3)	(\$2,195.3)
Profit before tax	(\$16,079.6)	(\$9,639.5)	(\$7,029.2)	(\$3,565.1)	\$1,242.0
Tax	0.0	0.0	0.0	0.0	0.0
<b>Net income to Common</b>	<b>(\$17,158.7)</b>	<b>(\$9,639.5)</b>	<b>(\$7,029.2)</b>	<b>(\$3,565.1)</b>	<b>\$1,242.0</b>
Margin	(444.6%)	(143.2%)	(64.1%)	(23.1%)	5.8%
<b>EPS (per share)</b>	<b>(\$0.57)</b>	<b>(\$0.24)</b>	<b>(\$0.17)</b>	<b>(\$0.09)</b>	<b>\$0.03</b>

Source: SeeThruEquity Research.

**Figure 8. Balance Sheet**

Figures in \$000, unless specified	FY17E	FY18E	FY19E	FY20E	FY21E
Current assets	\$5,313.6	\$9,589.0	\$15,196.0	\$23,434.7	\$42,032.8
Other assets	\$30,293.5	\$31,091.1	\$32,655.1	\$34,464.8	\$36,938.9
<b>Total assets</b>	<b>\$35,607.1</b>	<b>\$40,680.1</b>	<b>\$47,851.1</b>	<b>\$57,899.5</b>	<b>\$78,971.7</b>
Current liabilities	\$19,948.0	\$22,143.3	\$26,036.8	\$28,882.5	\$34,862.0
Other liabilities	\$24,478.5	\$26,262.5	\$29,815.2	\$32,175.2	\$35,272.3
Shareholders' equity	(\$8,819.4)	(\$7,725.7)	(\$8,000.9)	(\$3,158.2)	\$8,837.5
<b>Total liab and shareholder equity</b>	<b>\$35,607.1</b>	<b>\$40,680.1</b>	<b>\$47,851.1</b>	<b>\$57,899.5</b>	<b>\$78,971.7</b>

Source: SeeThruEquity Research

**Figure 9. Cash Flow Statement**

Figures in \$mn, unless specified	FY17E	FY18E	FY19E	FY20E	FY21E
Cash from operating activities	<b>(\$4,402.3)</b>	<b>(\$4,890.9)</b>	<b>\$4,353.1</b>	<b>\$7,153.6</b>	<b>\$16,957.2</b>
Cash from investing activities	1,300.0	(400.0)	(900.0)	(1,200.0)	(1,450.0)
Cash from financing activities	6,338.0	7,500.0	0.0	0.0	0.0
<b>Net incl(dec) in cash</b>	<b>3,235.7</b>	<b>2,209.1</b>	<b>3,453.1</b>	<b>5,953.6</b>	<b>15,507.2</b>
Cash at beginning of the year	537.0	3,772.7	5,981.8	9,434.9	15,388.5
<b>Cash at the end of the year</b>	<b>3,772.7</b>	<b>5,981.8</b>	<b>9,434.9</b>	<b>15,388.5</b>	<b>30,895.7</b>

Source: SeeThruEquity Research

## **About Function(x), Inc.**

Function(x) operates Wetpaint.com and Rant. Wetpaint is the leading online destination for entertainment news for millennial women, covering the latest in television, music, and pop culture. Rant is a leading digital publisher with original content in multiple different verticals, most notably in sports, entertainment, and pets. Function(x) Inc. is also the largest shareholder of DraftDay Gaming Group, which is well-positioned to become a significant participant in the expanding fantasy sports market, offering a high-quality daily fantasy sports experience both directly to consumers and to businesses desiring turnkey solutions to new revenue streams. Function(x) Inc. also owns Choose Digital, a digital marketplace platform that allows companies to incorporate digital content into existing rewards and loyalty programs in support of marketing and sales initiatives. For more information, visit [www.functionxinc.com](http://www.functionxinc.com).



## Contact

Ajay Tandon  
SeeThruEquity  
[www.seethruequity.com](http://www.seethruequity.com)  
(646) 495-0939  
[info@seethruequity.com](mailto:info@seethruequity.com)

## Disclosure

This research report has been prepared and distributed by SeeThruEquity, LLC ("SeeThruEquity") for informational purposes only and does not constitute an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any transaction. This report is based solely on publicly-available information about the company featured in this report which SeeThruEquity considers reliable, but SeeThruEquity does not represent it is accurate or complete, and it should not be relied upon as such. All information contained in this report is subject to change without notice. This report does not constitute a personal trading recommendation or take into account the particular investment objectives, financial situation or needs of an individual reader of this report, and does not provide all of the key elements for any reader to make an investment decision. Readers should consider whether any information in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, many of which are beyond the company's control. Actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain industry, economic, regulatory or other factors.

SeeThruEquity is not a FINRA registered broker-dealer or investment adviser and does not provide investment banking services. SeeThruEquity does not accept or receive fees or other compensation for preparing its research reports. SeeThruEquity has not been retained or hired by the company featured herein or by any other party to prepare this report.

In some but not in all instances, SeeThruEquity and/or its officers, directors or affiliates may receive compensation from companies featured in its reports for non report-related services which may include charges for presenting at SeeThruEquity investor conferences, distributing press releases and performing certain other ancillary services. The company featured in this report paid SeeThruEquity its standard fee described below for distributing a press release on this report. Such compensation is received on the basis of a fixed fee and made without regard to the opinions and conclusions in its research reports. The fee to present at SeeThruEquity conferences is no more than seven thousand dollars, and the fee for distributing press releases is no more than fifteen hundred dollars. The fees for performing certain other ancillary services vary depending on the company and service provided but generally do not exceed five thousand dollars. In no event is a company on which SeeThruEquity has issued a report required to engage it with respect to these non report-related services. SeeThruEquity and/or its affiliates may have a long equity position with respect to a non-controlling interest in the publicly traded shares of companies featured in its reports, and follows customary internal trading restrictions pending the release of its reports.

SeeThruEquity's professionals may provide verbal or written market commentary that reflects opinions that are contrary to the opinions expressed in this report. This report and any such commentary belong to SeeThruEquity and are not attributable to the company featured in its reports or other communications. The price and value of a company's shares referred to in this report may fluctuate. Past performance by one company is not indicative of future results by that company or of any other company covered by a report prepared by SeeThruEquity. This report is being disseminated primarily electronically and, in some cases, in printed form. An electronic report is made simultaneously available to all recipients. The information contained in this report is not incorporated into the contents of our website and should be read independently thereof. Please refer to the Disclosures section of our website for additional details.

Copyright 2011-2017 SeeThruEquity, LLC. No part of this material may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of SeeThruEquity, LLC.