Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Q3F25 Earnings Update

ALLIANCE ENTERTAINMENT

Alliance Entertainment Holding Corporation

(Nasdaq: AENT)

Report Date: 05/21/25

12- 24 month Price Target: $6.00

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 05/06/24): $2.00

Closing Stock Price at Target Upgrade (Closing Px: 09/19/24): $2.04

Closing Stock Price at Target Upgrade (Closing Px: 11/19/24): $3.95

Closing Stock Price at This Update (Closing Px: 05/21/25): $2.97

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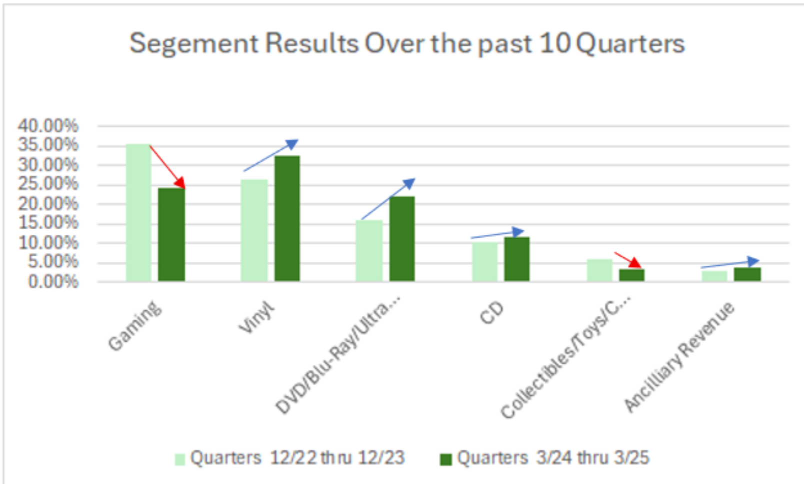
Disclosure: Portions of this report are excerpted from Alliance Entertainment's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

For Q3F25 (ended 03/31/25) Alliance reported revenues of $213 million, Net Income of $1.8 million and fully diluted EPS of $.04. Those results compare to our estimates for revenues of $211 million, Net Income of $354,000 and fully diluted EPS of $.01. The Company reflected a positive Change in Fair Value of Warrants, a charge they reflect each reporting period, but we do not attempt to project. This is a non-cash item, and absent that gain, they would have reflected Net Income of roughly $124,000 or less than $.01 per share, which is more in line with our estimate. On the other hand, we would note, Q3F25 reflected a considerable improvement over Q1F24, where the Company reported a loss of <$.07>. We think that comp supports our general thesis that Alliance is poised to reflect consistently improved earnings and cashflow results going forward.

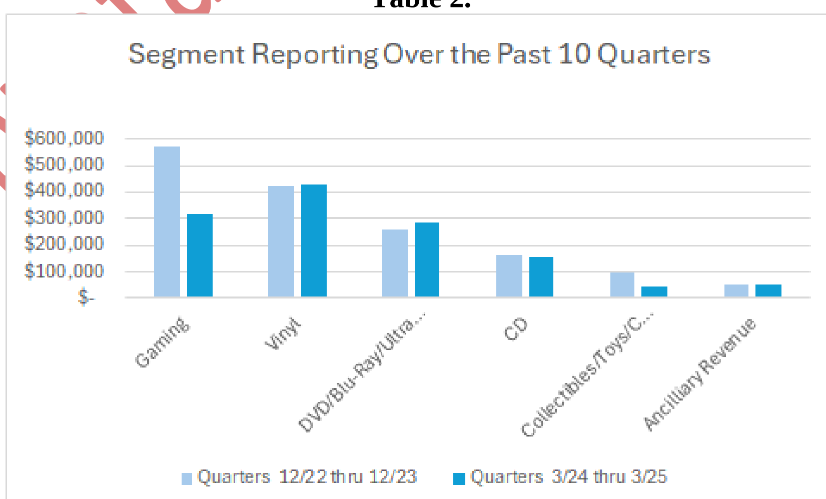
On a more granular level, there were some items worth reviewing.

Table 1.



The table above reflects the trajectory of each product segment over the past 10 quarters, delineated by the percentage of revenues that each segment contributed to the whole. We have further delineated these by comparing the first of these five quarters to the last of these five quarters. Our point here is to illustrate the relative momentum of these segments over the two comparative 5 quarter periods.

Table 2.



As **Table 1** reflects, gaming has underperformed over the past few quarters, as have Collectibles, while Vinyl, DVD and to a lesser extent, CD have picked up some of the slack. **Table 2** reflects some of the same data, but in aggregate dollar terms as opposed to segment percentages of revenues. **Table 2** illustrates that in dollar terms, while the better performing segments have picked up some of the slack from (largely) Gaming, they have not been able to replace all of that. That as much as anything explains the lower revenue comps for the first 9 months of 2025 over 2024. That item requires some additional color.

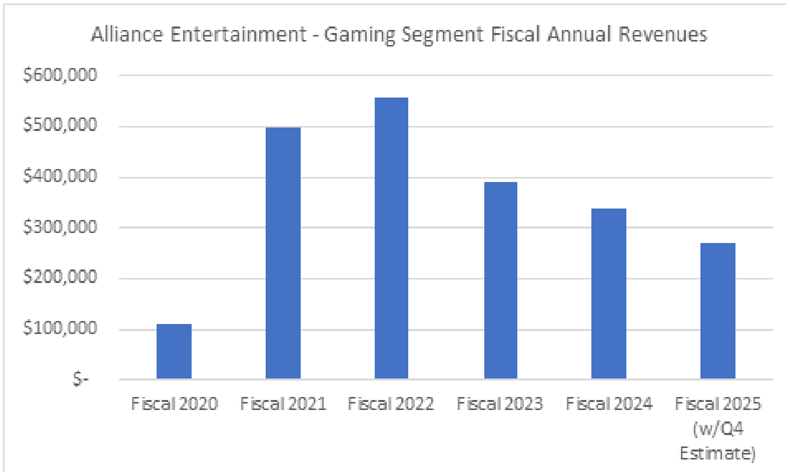
As we covered in the prior update, some of the Gaming comp challenges noted above are a macro issue. That is, the gaming industry has been in contraction over the past several months. From the Toybook, (Gamers Pull Back Wallets as Video Game Spending Dips Again - The Toy Book) :

> *As the seasons move further into 2025, the U.S. is still experiencing a decline in consumer spending on video game hardware, content, and accessories.*
>
> *A March report by Circana reveals that U.S. consumer spending in this sector decreased by 6%, totaling $4.7 billion compared to last year. This decline puts year-to-date spending for 2025 at $13.7 billion, 9% lower than the pace set in 2024.*
>
> *Additionally, spending on video game content has fallen by 4% year-over-year, amounting to $4.2 billion.*
>
> *Despite the sector's overall decline, some categories have shown growth. Non-mobile subscriptions increased by 11%, and digital premium downloads on consoles rose by 12%. The month's best-selling title was Assassin's Creed: Shadows, which has also become the second best-selling game of 2025 year-to-date. MLB The Show 25 took second place.*
>
> *'Assassin's Creed' was the best-selling title in March 2025. In the mobile content category, Sensor Tower reported that Monopoly Go! remained the top game, followed by Royal Match and Candy Crush Saga.*
>
> *"While March 2025 did represent a contraction in the US mobile games market over March 2024, the top games were, in general, doing quite well," says Samuel Aune of Sensor Tower. "Six out of the top ten saw double-digit growth month over month, with Pokémon GO seeing 42% increase in consumer spend thanks to the Unova Tour event. Candy Crush Saga saw 12% growth, allowing the venerable puzzle game to retake the No. 3 spot from Last War: Survival, which only grew 1.6%. Coin Master also had an excellent month, with 15% growth."*
>
> ***Video game hardware spending fell 25% compared to a year ago, to $286 million. This marks the lowest March hardware spending total since 2019. Video game accessory spending in March fell 11% compared to a year ago***.
>
> *PlayStation 5 hardware dollar sales fell 26% compared to a year ago. Despite the fall, the platform held on to its first-place lead in dollar and unit sales within the market.*

The Company has covered some of this weakness on the call(s). Generally, from our vantage point, those concerns have seemed to focus more on the timing (delays) of new high profile games as well as hardware upgrades, but also in the robust comps coming out of the pandemic and carrying through thereafter, and more specifically fiscal 2025 versus fiscal 2024. **Table 3** below reflects the Company's annual respective Gaming Segment revenues through the pandemic as well as following the pandemic. While we can certainly accept that perhaps we should have recognized that dynamic better in using historic data to frame our projections, it still looks to us like the industry is in the throws of some contraction that goes beyond some sort of pandemic digestion or "reversion to the mean". That said, unless we are just reading the wrong industry prognostications, it seems to us that the general expectation is for a return to growth in the industry. On another note, management noted on the recent call that their gaming sales tends to be hardware heavy, which is in line with the paragraph we highlighted above, "***Video game hardware spending fell 25% compared to a year ago, to***

$286 million. This marks the lowest March hardware spending total since 2019. Video game accessory spending in March fell 11% compared to a year ago". That suggests that Alliance may be particularly susceptible to the hardware side of the business, which again, as they also covered on the call, is certainly subject to some lumpiness around the timing (and allocations) of new releases. All that noted, our general view is that visibility in the Gaming segment will likely be challenging, which is problematic given that for the past few years it has been the Company's highest revenue segment. 2025 has been the exception to that, and the challenge for us is to determine if that will be the case going forward as well.

Table 3.



Despite the challenges in Gaming, as we noted above, the Company has handily outperformed our estimates for both Vinyls and DVDs. Recall, in our initiating coverage, we estimated that the DVD and CD segment contributions would decline over time, but that has not been the case in either, especially in DVD. More specifically, for Q3F25, part of the growth in DVD is related to the Company's recent announcement wherein (as of 01/01/25) Alliance became the *"exclusive distributor of Paramount Studio's DVD, Blu-ray, and UHD catalog"*. As management intimated on the call, this is perhaps a milestone event for the Company. To that end, they also noted that nearly 25% of their current revenue comes from exclusive agreements and this arrangement with Paramount speaks to that mix. We also think it provides some guidance with respect to the Company's likely focus going forward. On the face, if we understand this correctly, this should provide the DVD segment with both a revenue and a margin bump. We will revisit this arrangement below, but first we will address their most recent acquisition, as well as the recent acquisition that *did not* get consummated.

Along with adding the Paramount business 01/01/25, the Company also integrated their acquisition of Handmade by Robots, which develops and markets *"unique collectible vinyl figures with a hand-knit or crocheted look. These figures, often featuring licensed characters from pop culture, are designed, molded, and painted to replicate the appearance of soft, hand-knit toys. They offer a fresh take on vinyl figures, appealing to fans and collectors alike"*. We think it is fair to say that management is quite optimistic about the prospects here. Although the Company did not disclose the metrics of the acquisition, looking at the Cash Flow Statement we believe the purchase price was between $7 million and $7.5 million. Given our sense of the Company acquisition parameters, we think that purchase price suggests that the business generates EBITDA in the ±$2 million range. That said, it does not appear that the Handmade acquisition impacted Q1F25 results much. On the other hand, we think the enthusiasm around the addition stems from the Company's view that their advantages in fulfillment, distribution, marketing, licensing and a host of others will create marked synergistic push to the brand. We will look f to verify that going forward.

Inasmuch as they completed the Handmade acquisition, they recently withdrew their offer to buy Diamond Comic Distributors out of bankruptcy. We will not rehash the ugly details of this here, but we have included a link for those who care to learn more about this outcome: [Court Approves New Buyer For Diamond Comic Distributors. Is The Saga Finally Over?] Candidly, given the enthusiasm around this bankruptcy bid (which the Company originally "won") we are a bit taken back by the fact that they did not address it on the call. Granted, Alliance is suing a host of entities around the transaction, so that may explain some of the lack of disclosure, but part of that situation includes an $8.5 million earnest money payment that Alliance needs to recover. We assume they will be able to do that, but it remains topical to the story. Again, in our opinion this situation merited some color.

As we noted above, it seems to us that the strategy here is coming into a more acute focus, and that may be best illustrated by management's comment on the call that they are "in the collectibles business". We believe their focus on exclusivity meshes with that notion. As a simple (hypothetical) example, we think the new Paramount relationship might lead to the development of things like collectible box sets of Paramount titles. That sort of approach (fostered by the exclusive arrangement) could move those titles into (higher margin) "collectibles", as opposed to commodities in the $5 bin at Walmart. (To that end, the Company notes that they have retained some of the Paramount staff). As another example, by *acquiring* Handmade By Robots (the ultimate "exclusivity"), Alliance can almost certainly enhance the brand with its front to back turnkey capabilities. In that regard, we are comfortable with the idea that Alliance will be able to enhance Handmade's opportunities, and we think those types of potential added synergies will likely drive additional acquisitions.

Lastly, to revisit the new Paramount arrangement, on the call Alliance management repeated the notion that the arrangement was a "win/win" for the two enterprises, but we also believe it took a great deal of work to get there. We believe for instance that in the past Alliance approached other well-known studios and/or catalog owners about similar arrangements, but those discussions may have been impaired by Alliance's financial posture at the time. From that perspective, we remain of the view (as we think the Company does as well) that for many of these studios and/or content owners, there are several reasons why doing something similar to what Paramount has done with Alliance might be advantageous. Succicntly, we believe the Paramount deal could lead to other deals of this nature. Again, from a variety of vantage points, this represents a very favorable opening for Alliance.

To summarize, the quarter was in line with our estimates, but between the lines there were some bright spots and some other not-so-bright-spots. For instance, the continued growth in vinyl and the strength of DVD sales lead us to believe that the Company's notion they are "in the collectibles business", is looking more and more accurate with each reporting period. Further, we believe their focus on "exclusivity" is also bearing fruit and is likely to create future bright spots as well. Moreover, we believe the greater likelihood is that additional acquisitions or other arrangements aimed at increasing their exclusive footprint are likely.

On the flip side, we remain guarded about the Gaming segment. We understand the defense the Company has forwarded regarding some of the recent weakness including lumpiness around new hardware releases, lofty comps coming out of the pandemic and general softness in the industry overall. While again, we hear the views of many industry experts who suggest the business is still poised for growth, we think visibility may be challenging for the foreseeable future. Given that the Gaming segment has for the last four complete fiscal years been the largest revenue segment in the Company, that lack of visibility is problematic, and we have made some adjustments to our model and its assumptions to try to mitigate surprises around that.

Given all the above, we remain constructive on Alliance's posture, plan and future prospects and management continues to make progress grinding out efficiencies across the business but also focusing on growth niches in collectively mature spaces where they can create comparative advantages but also extract margin. While we submit, some elements of the business continue to lack visibility, we think we have applied appropriate risk discounts to our assumptions to counter the unknowns. As a result, we reiterate our Allocation of 4 and our 12-24 month price target of $6.00.

Projected Operating Model

Alliance Entertainment Holdings Corp.						
Projected Operating Model ('000's)						
By: Trickle Research						
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)
	09/30/24	12/31/24	03/31/25	06/30/25	Fiscal 2025	Fiscal 2026
Net Revenues	$ 228,990	$ 393,674	$ 213,045	$ 240,581	$ 1,076,289	$ 1,125,490
Cost of Revenues (excluding depreciation and	$ 203,455	$ 351,382	$ 183,984	$ 209,362	$ 948,184	$ 975,655
Operating Expenses:						
Distribution and Fulfillment Expense	$ 9,018	$ 12,419	$ 9,989	$ 10,274	$ 41,700	$ 45,012
Selling, General and Administrative Expense	$ 13,145	$ 13,800	$ 14,187	$ 14,181	$ 55,314	$ 57,051
Depreciation and Amortization	$ 1,258	$ 1,255	$ 1,352	$ 1,227	$ 5,092	$ 4,908
Transaction Costs	$ -	$ -	$ -	$ -	$ -	$ -
IC DISC Commissions	$ -	$ -	$ -	$ -	$ -	$ -
Restructuring Cost	$ 50	$ 19	$ 4	$ -	$ 73	$ -
Loss on Disposal of Fixed Assets	$ (15)	$ -	$ -	$ -	$ (15)	$ -
Total Operating Expenses	$ 23,456	$ 27,493	$ 25,533	$ 25,682	$ 102,164	$ 106,971
Operating (Loss) Income	$ 2,078	$ 14,799	$ 3,528	$ 5,537	$ 25,941	$ 42,864
Other Expenses:					$ -	$ -
Interest Expense, Net	$ 2,839	$ 2,827	$ 2,435	$ 2,416	$ 10,517	$ 8,515
Change in Fair Value of Warrants	$ -	$ 2,545	$ (1,676)	$ -	$ 869	$ -
Total Other Expenses	$ 2,839	$ 5,372	$ 759	$ 2,416	$ 11,386	$ 8,515
(Loss) Income Before Income Tax (Benefit) Expense	$ (761)	$ 9,427	$ 2,769	$ 3,120	$ 14,555	$ 34,349
Income Tax (Benefit) Expense	$ (1,157)	$ 2,354	$ 919	$ 811	$ 2,927	$ 8,931
Net (Loss) Income	$ 396	$ 7,073	$ 1,850	$ 2,309	$ 11,628	$ 25,418
Other Comprehensive Income:						
Foreign Currency Translation	$ -	$ -	$ -	$ -	$ -	$ -
Total Comprehensive (Loss) Income	$ 396	$ 7,073	$ 1,850	$ 2,309	$ 11,628	$ 25,418
Net (Loss) Income per Share - Basic	$ 0.01	$ 0.14	$ 0.04	$ 0.05	$ 0.23	$ 0.50
Net (Loss) Income per Share - Diluted	$ 0.01	$ 0.14	$ 0.04	$ 0.05	$ 0.23	$ 0.50
Shares Used in Computing Net Income per Share, Basic	50,957,370	50,957,370	50,957,370	50,957,370	50,957,370	50,957,370
Shares Used in Computing Net Income per Share, Diluted	50,965,970	50,965,970	50,965,970	50,965,970	50,965,970	50,965,970

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Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Hold" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.