

Initiation Report

COLOR STAR TECHNOLOGY CO., LTD.



11/19/2020

Company Sponsored Research
Initiation of Coverage

Color Star Technology Co., Ltd. (NASDAQ: CSCW)

A Comprehensive Online and Offline Entertainment Education Provider with Broad Market Prospects and Industry Resources

Initiation of Coverage:

Color Star is targeting the enormous online education market, which is experiencing rapid growth, as a result of the COVID-19 pandemic. According to Research and Markets, the global online education market size is projected to reach over \$319.17 billion by 2025, growing at a CAGR of 9.23%¹. The continued shift of education from in person to virtual is driving higher demand and significant revenue for market vendors in the industry. Color Star targets a large addressable market driven by the rapid expansion of global online education, and the rise of the “fan economies” in Asia where the younger generation is more willing to attend their idol’s livestream and spend money on their idols. Meanwhile, the popularity of talent competition shows in Asia has also inspired more ordinary people to enter the entertainment industry and pursue their dreams of being a star. *Color Star as a comprehensive entertainment education services provider, could address the growing demand from both fans and talents, and provide professional entertainment education to more than 2 billion people worldwide.* We view the company, along with its alliance, with strong industry resources and influence to equip the rising stars and provide more users and students with an entry point into the entertainment industry.

Color Star is well positioned to capture market share with an experienced management team, all-star instructor lineup, and the combination of online and in-person training. The company strives to offer students the most professional artists training platform featured by exclusive content and live interaction and is well connected with artists from Asia and U.S., establishing strategic partnerships with top record companies and entertainment agencies. *We view Color Star as a high risk, high reward investment opportunity for investors seeking exposure to the online education industry and entertainment industry, which is likely to benefit from the growing market with institutional money flowing into the online education technology. We also view the recent financing and NASDAQ listing, as indicative of overall appeal of the company to institutional investors.*

Valuation models indicate upside potential. As more international stars join the platform and its online concerts, coupled with the international version App launching in December 2020, we expect the company to continue to expand its subscriber base and gain market share. Our valuation model indicates a fair value of \$1.60 per share, which is contingent on successful execution by Color Star.

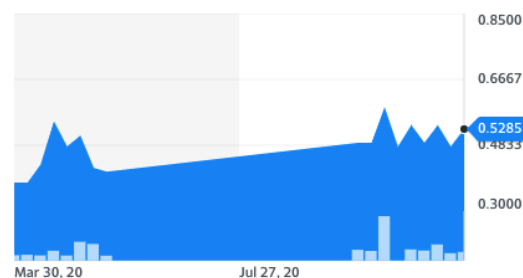
Company Description

Color Star offers online and offline paid knowledge services for media, entertainment and culture industries globally. Its business operations are conducted through its wholly owned subsidiaries Color China Entertainment Ltd. And CACM Group NY, Inc. The company’s online education is provided through its Color World music and entertainment education platform. Color Star also offers after-school entertainment tutoring in New York via its joint venture entity Baytao LLC. The company was formerly known as Huitao Technology Co., Ltd., and changed its name to Color Star Technology Co., Ltd. in May 2020. Color Star Technology Co., Ltd. was founded in 2002 and is based in New York, New York.

China Emerging Growth

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Price- Volume History



Source: Yahoo Finance

Key Statistics

Closing Price (As of 11/18/2020)	\$0.5285
52 Week Range	\$0.36-\$0.79
Average Daily Volume	1,999,114
Shares Outstanding (M)	54.16
Market Capitalization (M)	28.99
Number of Analysts Covering	1
Enterprise Value/Revenue	N/A

Revenue(\$ in millions)

Jun. FY	2020A	2021E	2022E
FY	N/A	24.00E	40.48E

EPS(\$)

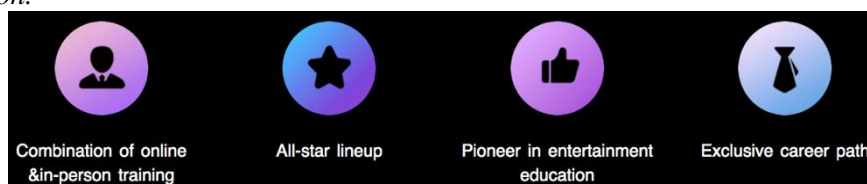
Jun. FY	2020A	2021E	2022E
FY	N/A	(0.04)E	(0.14)E

Investment Thesis

Color Star is targeting the large online education market driven by the increased internet penetration around the world, reduced infrastructure costs and increased scalability using online learning, coupled with the growing demand for microlearning. The recent outbreak of COVID-19 further drove the demand for online learning and its adoption by students, which is driving significant revenue for market vendors, with the presence of a large number of service and content providers in the market bringing huge volumes of educational content online. We view Color Star as operating in a large addressable market driven by the rapid growth of global online education, and the rise of the “idol economies” as well as “fan culture” in Asia when younger generation is more willing to attend their idol’s livestream and spend money on their idols. Entgroup forecasts that China’s idol market will be worth \$14 billion by 2020, with fans contributing about half that amount through consumption of products and services related to the stars². Meanwhile, the popularity of talent competition shows in Asia has also inspired more ordinary people to enter the entertainment industry and pursue their dreams of becoming a star. Color Star, thus as a global comprehensive entertainment education services provider, could address the growing demand from both fans and talent, and potentially provide professional entertainment education to more than 2 billion people worldwide. The company is looking to offer students a professional artist training platform, featuring exclusive content and live interaction, with all-star instructor lineup and combination of online learning and in-person training. The company is positioned as a pioneer in industry with proven track record of organizing over 100 concerts annually, as well as extensive connections. Currently, Color Star has entered into educational licensing and performance agreements with over 40 global artists and professionals in industry for their services as instructors on its proprietary Color World platform. The Color World platform generates revenue primarily through paid membership subscriptions, which are priced at \$9.9 per user per month, and has expanded to online concert and online store business to diversify its revenue composition. *We are specifically impressed by the success of its Color World Online Concert held in September 2020, when they officially launched the Color World app, which generated revenue of over \$2.2 million with an ROI of over 10%. The online concert by 20 top artists/celebrities including Larry Carlton, Ashanti, and Na Ying attracted over 500,000 global viewers to pay and watch online, reaching over 10 million hits on global social media networks, which we believe is a milestone to the company and presents investors an opportunity to invest in the global economy of educational and entertaining content-sharing with a large addressable market.* As more international stars join in over the next few months, Color Star, in our view, will continue to attract more paying subscribers with improved revenue generation and profitability in future. *Given Color Star’s growth potential and relatively inexpensive valuation, the company in our view offers investors a high-risk high reward opportunity to invest in growing online education market, alongside a highly experienced management team and with relatively high liquidity considering its market capitalization.*

Color Star is operating in a large addressable market driven by the rapid growth of global online education, and the rise of the “idol economies” as well as “fan culture” in Asia where younger generation is more willing to attend their idol’s livestream and spend money on their idols

We are specifically impressed by the success of the Color World Online Concert which generated revenue of over \$2.2 million with an ROI of over 10%, reflecting the company's strong operational capabilities to scale up its concert business



Source: Company Investor Presentation October 2020

Company Overview

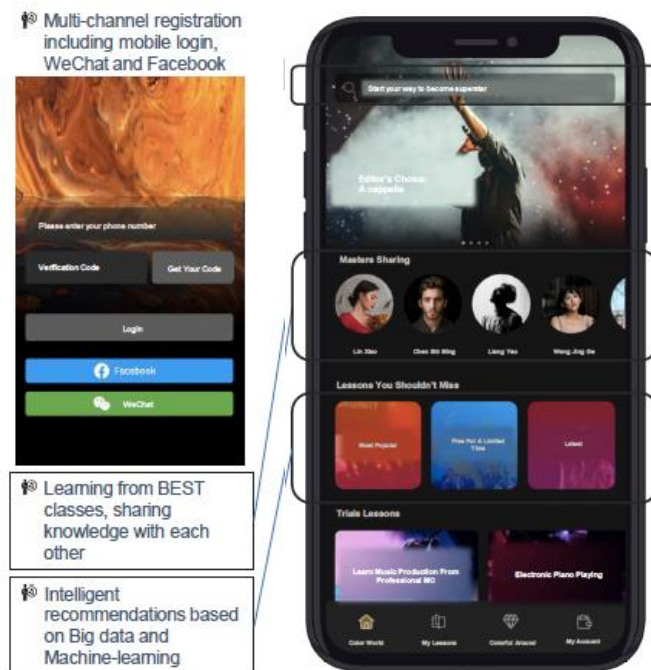
Color Star is an entertainment and education company providing online and offline innovative music education through its wholly-owned subsidiaries Color China Entertainment Ltd. (Color China) and CACM Group NY, Inc (CACM). The company strives to offer students the most professional artist training platform featured by exclusive content and live interaction, with the mission of delivering world-class entertainment learning experiences and promoting entertainment exchange between U.S. and China with its strong resources and deep connections in industry. With branches in Beijing, Taiwan, Hong Kong, Shanghai, Shandong, South Korea, Thailand, Indonesia, Cambodia, and other places, the company, along with its alliance, has strong industry resources and influence to become a comprehensive online academy for global “future stars”, with proven track record of organizing over 100 concerts annually in industry. The company was formerly known as Huitao Technology Co., Ltd., and changed its name to Color Star Technology Co., Ltd. in May 2020. Color Star Technology Co., Ltd. was founded in 2002 and is based in New York, New York.

Color Star has strong industry resources and influence to become a comprehensive online academy for global “future stars”, with proven track record of organizing over 100 concerts annually in industry

Online Business

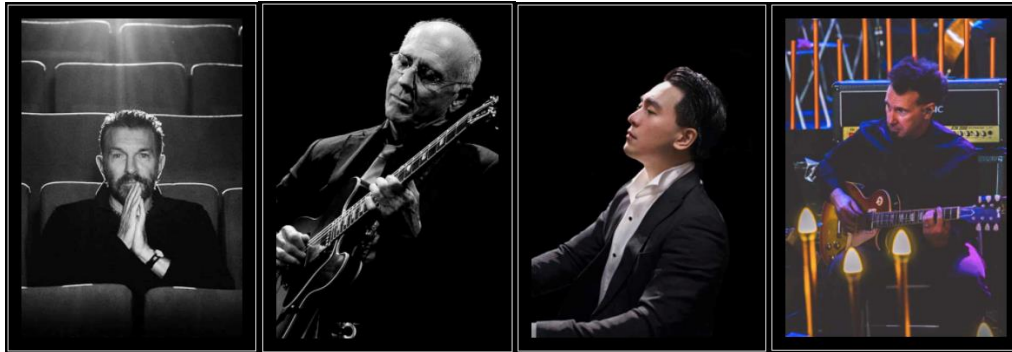
Online Education Academy: The core content of "star online + entertainment teaching" offers a large variety of stars and a relatively rich entertainment teaching experience. By registering online, students can select their favorite tutors to conduct accurate and efficient learning, and access to exclusive online video classes and tutorials by top artists globally.

The core content of "star online + entertainment teaching" offers a large variety of stars and a relatively rich entertainment teaching experience



User Interface of APP. Source: Company Investor Presentation October 2020

The Color World platform generates revenue primarily through paid membership subscriptions priced at \$9.90 per user per month. Members can access most video courses on the platform for free and will be charged the tuition fee of \$30/hour for taking classes of tier 1 artists and \$15/hour for learning from Tier 2 artists. First three months of launch costs only \$1.5/hour to attract downloads and there have been over 500,000 registered users to date. The company will share certain percent of tuition fees with artists, and forecast there will be 81, 132, and 264 artists on board by the end of years of 2020, 2021, and 2022 respectively, which will further facilitate its growth.



Instructor Lineup. Source: Company Website

Color Star is well connected with artists from Asia to the U.S., and has built strategic partnerships with top record companies and entertainment agencies, which enable the company to group a number of artists into its Color World platform and secure the rights to the exclusive streaming of online lessons taught by the star teachers. Currently, Color Star has entered into educational licensing and performance agreements with approximately over 40 global artists and professionals in industry for their services as instructors on the Color World platform, and is seeking out and contracting more star teachers in a variety of fields such as music, film, sports, animation, television, presentations, dance, and art to provide its prospective student subscribers with a large repertoire of first-hand exposure to and lessons from professionals in their desired fields.

Online Concert: The company has its own music festival brand "Color International Music Festival" and holds more than 100 star concerts with its partners every year. On September 9th, 2020, Color Star broadcasted the Color World Online Concert with ten Eastern and ten Western top artists/celebrities including Grammy-winning jazz guitarist Larry Carlton, R&B singer-songwriter Ashanti, and "Pop Music Queen" Na Ying from mainland China to global audiences via its official platform "Color World" and attracted over half a million viewers from mainland China and all over the world to watch online, reaching over 10

Color Star is well connected with artists from Asia to U.S., and has built strategic partnerships with top record companies and entertainment agencies, which enable the company to attract a number of artists into its platform and secure the rights to the exclusive streaming of online lessons taught by the star teachers

million hits on global social media networks, which we believe is a milestone to the company and presents investors an opportunity to invest in the global economy of educational and entertaining content-sharing within a large addressable market.

Skills sharing session are also available from performing celebrities, who bring professional performance to global audiences and students with the help of FLAC quality music, AI backed technology stage design and top-notch audio equipment in concerts. According to the company, the Color World Online Concert held on September 9th generated revenue of over \$2.2 million and has achieved impressive return with the ROI of over 10%. As more international stars join in over the next few months, the online concert business, in our view, will continue to help attract more paying subscribers and contribute to the company's revenue generation and profitability in future, albeit taking potentially longer than company guides.

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2020 风雨无阻 彩色世界 线上演唱会
COLOR WORLD
 Air Time
 Eastern time 09/09 21:00

Hayashi Ryuta & ZHU ZHHAO	21:00
NA YING	21:15
George Lam	21:25
Syncopated Ladies	21:45
Ashanti	21:50
Machine Gun Kelly	22:40
Wiz Khalifa	22:50
Larry Carlton	23:00
ID&MASA	23:15
WU MUYE	23:30
Dimitri&Like	23:55

(彩色星球 NASDAQ / HHT) 
 www.colorstarinternational.com

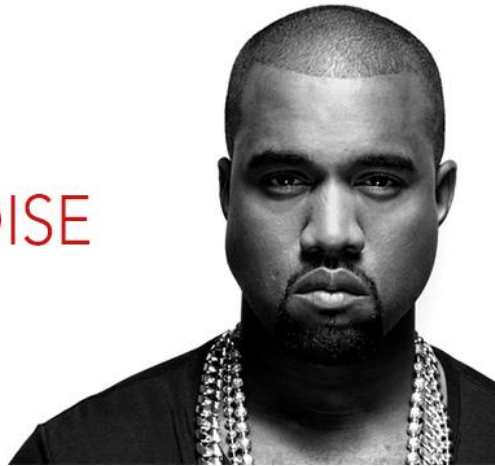
Poster of Concert. Source: Company Website

The online store business could be an additional source for the company to potentially generate revenue and diversify income of its Color World platform

Online Store: Color Star announced that its Color World App is expected to add an online store feature on October 25th, 2020, mainly selling celebrity co-branded peripheral products including clothing, shoes, hats, watches, digital products, wine, and other categories, which we view as an additional source to potentially generate revenue and diversify income of Color World. An increased number of active users can also be expected, as more fans join and use the App, allowing the company in a more competitive position to provide complete experience for global users.

rushorderteets

THE TOP 5 CELEBRITY MERCHANDISE BRANDS



Source: Rushorderteets

Offline Business

Education Center: Color Star is also developing offline training centers in New York (first one), Beijing, Taiwan, Shanghai, Shandong, South Korea, Thailand, Indonesia, and Cambodia. Combining the online courses and offline in-person teaching by artists and entertainment professionals, the company provides students a comprehensive and coherent entertainment learning experience and a potential way to enter the entertainment industry. Students can compete by uploading practice videos under their artist instructors' guidance. Winning candidates from internal competitions would have the opportunity to perform on stage with other artists in live concerts.

With the continuous expansion of the celebrity tutor library, Color Star is seeking to build a comprehensive online and offline platform that becomes an integral part of the lifestyle and culture of its community—notably at its core is the self-improvement phenomenon that rose out of pandemic lockdowns. We view Color Star is well positioned in industry with its unique “star online + entertainment teaching” core content and extensive experience leveraging its strong industry resources to break past the boundaries between celebrity entertainment and online knowledge-sharing, and bring innovative changes to the current state of music education and entertainment industry.

Combining the online courses and offline in-person teaching by artists and entertainment professionals, the company provides students a comprehensive and coherent entertainment learning experience and a potential way to enter the entertainment industry

Corporate Timeline

- 10/25/2020 Color Star will open online store in its Color World App*
- 10/15/2020 Color Star will add interactive live video streaming feature to its App*
- 10/01/2020 Color Star changed its ticker symbol to “CSCW”
- 09/21/2020 Color Star entered an MOU to acquire FENT, a South Korean artist agency and live entertainment company
- 09/15/2020 Color Star announced pricing of \$6.6 million registered direct offering
- 09/09/2020 Color Star launched its "Color World" online cultural entertainment platform and held the "Fearless, Color World" Cloud Concert in the App
- 08/28/2020 The company announced collaboration with Red Phoenix Entertainment to strategically expand into sports education
- 08/03/2020 The company launched its official website
- 07/20/2020 The company announced pricing of approximately \$4.2 million registered direct offering
- 07/17/2020 Color Star announced the appointment of Biao Lu as the new CEO
- 07/07/2020 Color Star added renowned musician Larry Carlton to its Color World platform
- 07/01/2020 Color Star announced having Bobby Roth to join its education platform
- 06/03/2020 Color Star announced closing of Color China Entertainment acquisition
- 05/11/2020 Color Star announced pricing of approximately \$1.43 million registered direct offering
- 05/04/2020 Huitao Technology Co., Ltd. changed name to Color Star Technology Co.,Ltd.
- 03/10/2020 CACM entered into the JV Agreement with Baydolphin to establish Baytao LLC (the “JV”) engaged in the after-school education business in the U.S.
- 2002 Color Star Technology Co., Ltd. was incorporated in China

Potential Catalysts

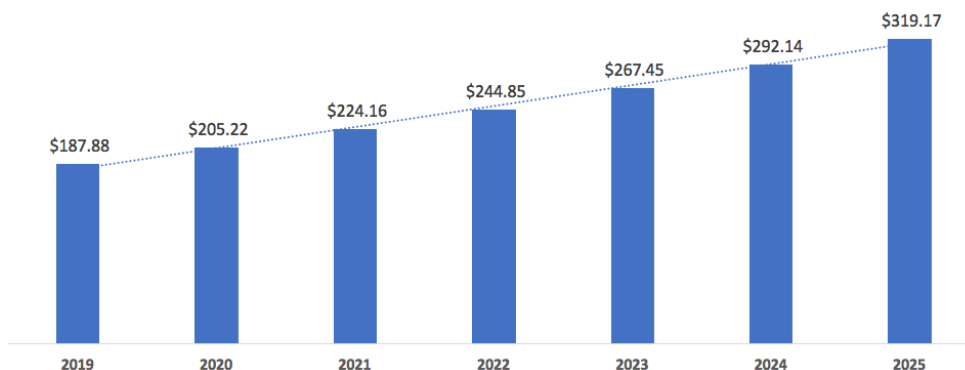
- Continuous expansion of the celebrity tutor library
- More online concerts and events to be held on platform, attracting new paid subscription members
- U.S. and international version App to be launched in December, 2020
- Increasing subscriber base and market share by taking advantages of company’s strong resources and wide connections in industry
- Potential increase in institutional interest
- Increased corporate visibility via management outreach, including conference attendance and non-deal roadshows
- Additional analyst coverage
- Successful acquisitions further expanding the company’s product and service offerings
- Continued strong top line growth and profitable bottom-line growth
- New innovative product introductions and educational content
- New strategic partnerships taking advantage of company’s years of experience in industry
- Acquiring and integrating other complementary businesses on attractive terms

Large Market Opportunity

The online education market, which Color Star primarily targets, has witnessed exponential growth over the last decade, as the internet allows new capabilities to be developed. According to Research and Markets, the global online education market was valued at \$187.88 billion in 2019 and is expected to reach over \$319.17 billion by 2025, growing at a CAGR of around 9.23% during the forecast period¹. Major factors driving this market growth include increased internet penetration around the world, reduced infrastructure cost and increased scalability using online learning, coupled with the growing demand for microlearning. The recent outbreak of COVID-19 further has driven the demand for online education and expanded its adoption by students, as most teaching has had to be undertaken remotely and on digital platforms with many schools closed.

The global online education market is expected to expand due to COVID-19 pandemic

Global Online Education Market Size (\$ in Billion)



Source: Research and Markets/ Diamond Equity Research Chart

The global online education market is expected to expand due to the COVID-19 pandemic. The World Economic Forum believes that worldwide there are currently more than 1.2 billion learners in 186 countries affected by school closures due to the pandemic². The expansion of containment efforts is leading to higher demand, which is driving significant revenue for market vendors, with the presence of a large number of service and content providers in the market bringing huge volumes of educational content online.

We believe this adoption of online education will continue to increase, with significant advantage of online learning now being seen. In comparison to traditional methods, online education often provides additional qualitative advantages in the form of

¹ Research and Markets. April 16, 2020. <https://www.globenewswire.com/news-release/2020/04/16/2017102/0/en/Global-Online-Education-Market-Worth-319-Billion-by-2025-North-America-Anticipated-to-Provide-the-Highest-Revenue-Generating-Opportunities.html>

² The World Economic Forum. April 29, 2020. <https://www.weforum.org/agenda/2020/04/coronavirus-education-global-covid19-online-digital-learning/>

learning anytime anywhere, access to worldwide mentoring tools for optimal skill growth, and administration, as well as control of the training calendar from various locations. Declining hosting cost and growing need for accessing educational content is further fueling the adoption of this technology, thus augmenting the market growth. Advancements in the field of artificial intelligence and rapid growth of Internet of Things (IoT) will also enhance the user experience on online education platforms, which is anticipated to drive market growth throughout the forecast period.

We view Color Star as operating in a large addressable market driven by the rapid growth of global online education industry, and the rise of the “idol economies” in China, which is directly related to a digital transformation in the country, as well as the emergence of a new, younger consumer base. Growing up in a world where consumers are always connected via their mobile devices, many people in the younger generation in China like engaging video content and livestreaming as the core of their social media habits, and are more willing to buy products that their idols endorsed, attend their idol’s livestream, and spend money on their idols. Entgroup forecasts that China’s idol market will be worth \$14 billion by 2020, with fans contributing about half the total through consumption of products and services related to the stars³. Meanwhile, the popularity of talent competition shows in Asia such as Produce 101 and Idol Producer, have also inspired many ordinary people to enter the entertainment industry and pursue their dreams of becoming a star. Color Star, thus as a comprehensive entertainment education services provider, could address the growing demand from both fans and talents, and provide professional entertainment education to more than 2 billion people worldwide. We view the company, along with its alliance, having strong industry resources and influence to equip the rising stars, and provide more users and students with a quick step into the entertainment industry.

Color Star as a comprehensive entertainment education services provider, could address the growing demand from both fans and talents, and provide professional entertainment education to more than 2 billion people worldwide



Talent Competition Shows in Asia. Source: Entgroup

³ Jing Daily. November 18, 2019. <https://jingdaily.com/the-rise-of-the-idol-economies-in-china/>

Competition

The online education market is rapidly expanding and estimated to reach \$320 billion by 2025⁴. With the acceleration of online learning due to social distancing, this industry is experiencing huge growth. Color Star operates in a highly competitive and fragmented industry that is sensitive to price, content (i.e. curriculum) and quality of service. With online learning adoption accelerating and creating new opportunities, competition is heating up for companies actively competing to capture market share, with the presence of a large number of service and content providers in the market bringing huge volumes of educational content online.

Color Star faces intense competition in their online business and competes primarily with online education providers and content sharing platforms who are already established and who are beginning to target entertainment education, with a trend of “fan culture” and “idol economies” in Asia where talent shows are popular and have launched a large number of amateur stars. *We view Color Star as uniquely positioned, as a comprehensive online and offline entertainment education services provider with all-star teacher lineup, as well as the strong resources and wide connections in industry.* Given that it is hard to find an exact full-service company like Color Star that targets entertainment education with synergies between its business lines, we have selected the closest peer set available, against whom we believe Color Star could have an opportunity to achieve the type of scale advantages that come with a larger subscriber base and balance sheet to support each business line. We have listed Color Star’s closest competitors below and the unique ways Color Star is differentiated in our view.

We view Color Star as uniquely positioned, as a comprehensive online and offline entertainment education services provider with all-star teacher lineup, as well as the strong resources and wide connections in industry

- **MasterClass** is an American online education platform on which students can access tutorials and lectures pre-recorded by experts in various fields. Unlike Color Star who offers students a professional artists training platform featured by exclusive content and live interaction, MasterClass’ classes are typically not interactive, though at least one course included "interactive assignments" where the student acted with other students, either in person or over Skype. Classes cover topics like writing, sports, and cooking, with 33 artist instructors focused on entertainment and music teaching. MasterClass’ member subscription fee is \$15/month, a little more expensive than Color Star.
- **LearnWorlds** is a stand-alone online course platform for instructors to create, sell and promote their online courses. Users will be charged at least

⁴ Research and Markets. April 16, 2020. <https://www.globenewswire.com/news-release/2020/04/16/2017102/0/en/Global-Online-Education-Market-Worth-319-Billion-by-2025-North-America-Anticipated-to-Provide-the-Highest-Revenue-Generating-Opportunities.html>

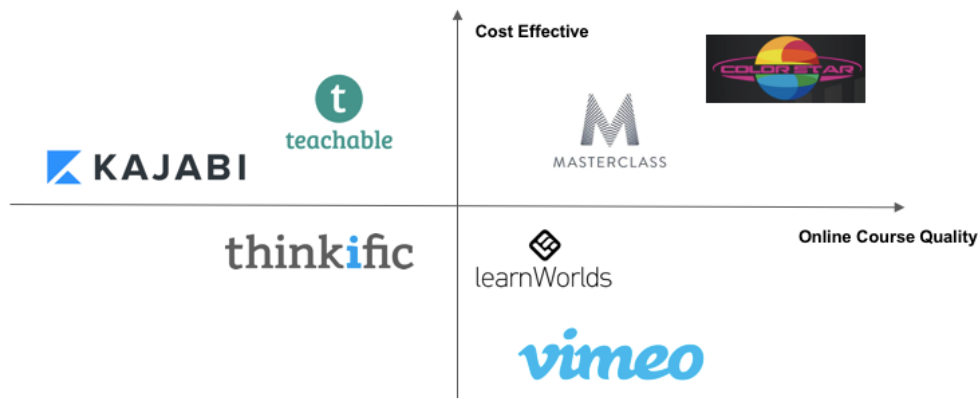
\$79 per month to either sell courses or get access to free courses, which means that everyone who is qualified (not just experts and celebrities) could create and sell their courses on the platform. Users are not offered abundant tools for marketing their courses.

- **Vimeo** is an American video hosting, sharing, and services platform headquartered in New York City. Vimeo operates on an ad-free basis, and instead derives revenue by providing subscription plans for video content producers and offering software as a service (SaaS) with video creation, editing, and broadcasting tools, enterprise software solutions, as well as the means for video professionals to connect with clients and other professionals.

Color Star overall differs from various other competitors in its core content of "star online + entertainment teaching" and the combination of online and offline teaching. The company is set to break past the boundaries between celebrity entertainment and online knowledge-sharing, and offers students a professional artists training platform featured by exclusive content and live interaction by top artists and celebrities globally, as the first online platform to bring western artists to attract Asian students and meanwhile enabling Asian artists to enter the Western markets. The company is well connected with artists from Asian to Western, and is able to group over 200 international superstars into its proprietary platform "Color World". As more international stars join in, coupled with its international version App to be launched over the next few months, we expect the company will continue to expand its subscriber base and gain market share, and bring innovative changes to the current state of music education and entertainment industry. *We view Color Star as well positioned in the industry with its all-star instructor lineup, perfect combination of online and offline learning, as well as the strong resources and extensive connections, which most competitors lack.*

As more international stars join in, coupled with its international version App to be launched over the next few months, we expect the company will continue to expand its subscriber base and gain market share, and bring innovative changes to the current state of music education and entertainment industry

Competitive Landscape



Source: Diamond Equity Research Analysis

Valuation

It is challenging to value Color Star given its early stage and the limited number of publicly traded entertainment education services providers in China. In our comparable company analysis, we screened for small capitalization companies within online education industry. We used a blend of these companies to arrive at a median enterprise value to revenue multiple. From our analysis and based on reasonable assumptions *which investors can alter given their expectations*, we arrived at a valuation. *By using our forecasted 2021 revenue and median enterprise value revenue multiple of 3.26x revenue of Color Star's peer group, we arrive at a valuation of \$1.50 per share, which is contingent on company execution.*

Color Star appears undervalued using both trading multiple and discounted cash flow valuation methods

Comparable Company Analysis

Valuation	MCAP	EV	EV / Sales	Price / Earnings
	(\$ in million)	(\$ in million)	LTM	LTM
K12 Inc.	1,222	1,010	0.97x	43.90x
2U, Inc.	2,397	2,202	3.26x	-
Arco Platform Limited	2,125	2,091	14.26x	37.45x
Pluralsight, Inc.	2,548	2,142	5.97x	-
Perdoceo Education Corporation	863	569	0.87x	8.35x
GP Strategies Corporation	189	177	0.33x	15.86x
Grand Canyon Education, Inc.	3,901	3,714	4.56x	15.11x
Mean			4.32x	24.1x
Median			3.26x	15.9x

Source: Diamond Equity Research Analysis/ Yahoofinance/Factset Data Systems

USD in thousands except per share data	
Median Enterprise Value to Revenue	3.26x
FY2021 Revenue	\$ 23,998
Enterprise Value	\$ 78,277
Add: Cash and Equivalents	\$ 989
Less: Total Debt	\$ -
Equity Value	\$ 79,266
Number of Shares Outstanding	54,160
Valuation per Share	\$ 1.5

Source: Diamond Equity Research Analysis

Given the uniqueness of Color Star’s business model and the limited number of public companies to compare it to, we have built a standalone discounted cash flow analysis in order value the business (full assumptions in appendix). Given Color Star has a limited operating history with their business transformation, we built a bottom-up model to value the business. *Our model indicates a fair value per share of \$1.7.*

CSCW : Discounted Cashflows & Valuations

\$ '000	FY21E	FY22E	FY23E	FY24E
Operating Income (EBIT)	(2,400)	(8,096)	(5,940)	3,419
Less: CAPEX	240	405	594	855
Add: D & A	247	466	736	1,074
Current Assets excl. cash	8,319	14,438	20,593	28,431
Less: Current Liabilities	11,903	20,564	29,464	40,954
Working Capital	(3,584)	(6,126)	(8,871)	(12,523)
Increase/ (Decrease) in Working Capital:	(2,387)	(2,542)	(2,745)	(3,652)
Less: Taxes	0	0	0	718
Free Cash Flow for the Firm/Equity =	(6)	(5,492)	(3,053)	6,572
Terminal Value =				131,196
Present Value of Free Cash Flows =	(6)	(4,604)	(2,366)	98,712

Source: Diamond Equity Research Analysis/Color Star Financials

(\$ in thousands except per share data)	
Total Present Value of Free Cash Flows =	93,701
Add: Cash & cash equivalents =	989
Less: PV of Total Debt o/s (latest filings) =	0
Less: Preferred Shares	0
Less: Minority Interest	0
Equity Value (Present Value) =	94,689
Number of shares outstanding (in thousands)=	54,160
DCF Fair Value per Share (\$)=	1.7
Comparable Analysis Fair Value per Share (\$)=	1.5
Combined Fair Value per Share (\$)=	1.6

Source: Diamond Equity Research Analysis

Given the inherent assumptions in valuation models, we selected to use an average of our discounted cash flow valuation and our comparable company analysis valuation. We arrive at a valuation of \$1.60 per share, which is in line with Color Star’s most recent equity institutional financing round. *Investors need to understand the risks of investing in China and small capitalization equities, as such this is intended for high risk tolerant investors.*

Experienced Management Team

Color Star's management team brings years of experience growing established businesses and start-ups within global entertainment industry. We are encouraged specifically by the blend of investment and relevant operational experience the team brings.

Risk Factors

- Color Star's business, results of operations and financial condition may be adversely affected by global public health epidemics, including the strain of coronavirus known as COVID-19
- Color Star may not be able to oversee its new joint venture and the combined entity efficiently, realize anticipated profits or effectively implement their growth and operating strategies, which could have a material adverse effect on the company's rate of growth and operating performance
- Color Star's revenues may not be sufficient to cover the costs of its recruitment of Star Teachers, if they are unable to reach a critical mass of subscribers
- Color Star's education service revenue model depends on developing a subscriber base of users. If they fail to reach a critical mass of subscribers, their net revenues may decline, and they may not be able to implement their business plan
- Color Star's performance will be negatively affected, if they are unable to recruit Star Teachers as planned, or if these instructors do not perform according to their agreements with the company
- The company faces regulatory risks and uncertainties with respect to the licensing requirement for the online transmission of internet audio-visual programs in China
- The company faces intense competition which could adversely affect their results of operations and market share
- Color Star is subject to cybersecurity risk factors, including data breaches and hacking
- Color Star may not be able to obtain and maintain approvals, licenses or permits in China applicable to its business, which could adversely impact the company's business and results of operations
- As a company with operations in PRC, investors are subject to additional risks
- The company is subject to PRC related business risks including but not limited to the trade war, regulations on offshore holdings companies, restrictions on remittance of currency, enforcement of business laws and labor laws, and preferential tax treatments
- The company may have difficulty in expanding or retaining its subscriber base and may struggle to innovate relative to competitors
- Color Star has a limited cash balance and may struggle to obtain additional financing or obtain financing at attractive terms

- The company has limited sell side coverage and overall awareness, limiting its ability to obtain fair valuation and liquidity
- The company faces the risks inherent in establishing new business lines and acquisition related risks

These Risk Factors Are Not Comprehensive. For Full List of Risk Factors Please Read Color Star's Latest Prospectus and/or Annual Filings

Appendix

Income Statement:

CSCW : P&L

FY Ends on June 30

\$ '000	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
REVENUES:						
Total Revenues	23,998	40,480	59,404	85,464	113,015	151,744
Fee Paid to Instructors/Artists	7,199	12,144	17,821	25,639	33,904	45,523
Gross Profit	16,799	28,336	41,583	59,825	79,110	106,221
EXPENSES:						
General and Administrative Expense	(2,400)	(4,048)	(5,940)	(8,546)	(11,301)	(15,174)
Marketing and Sales Expense	(11,999)	(24,288)	(29,702)	(30,767)	(37,295)	(45,523)
Software and Platform Expense	(2,400)	(4,048)	(5,940)	(8,546)	(11,301)	(15,174)
Artist Contract Fee	(2,400)	(4,048)	(5,940)	(8,546)	(11,301)	(15,174)
Other Expenses	0	0	0	0	0	0
Total Operating Costs & Expenses	(19,198)	(36,432)	(47,523)	(56,406)	(71,199)	(91,046)
Adj.EBIT	(2,400)	(8,096)	(5,940)	3,419	7,911	15,174
D&A	247	466	736	1,074	1,513	2,028
Adj.EBITDA	(2,153)	(7,630)	(5,204)	4,492	9,424	17,203
Interest income	0	0	0	0	0	0
Interest expense	0	0	0	0	0	0
Other Income / (other expense)	0	0	0	0	0	0
Adj. PBT	(2,400)	(8,096)	(5,940)	3,419	7,911	15,174
Income Tax Expenses (Benefits)	0	0	0	718	1,661	3,187
Adj. Net Profit/(Loss) from Continuing operations	(2,400)	(8,096)	(5,940)	2,701	6,250	11,988
<i>Net income from continuing operations margin</i>	<i>-10.0%</i>	<i>-20.0%</i>	<i>-10.0%</i>	<i>3.2%</i>	<i>5.5%</i>	<i>7.9%</i>
Less: Net income/(loss) attributable to non-controlling interests	0	0	0	0	0	0
Adj. Net Income/(loss) Attributable to Company	(2,400)	(8,096)	(5,940)	2,701	6,250	11,988
<i>Net income margin</i>	<i>-10.0%</i>	<i>-20.0%</i>	<i>-10.0%</i>	<i>3.2%</i>	<i>5.5%</i>	<i>7.9%</i>
EPS						
Basic	(0.04)	(0.14)	(0.10)	0.04	0.10	0.19
Diluted	(0.04)	(0.14)	(0.10)	0.04	0.10	0.19
Weighted Average no. of Shares outstanding						
Basic	54,160	57,160	59,160	61,160	64,160	64,160
Diluted	54,160	57,160	59,160	61,160	64,160	64,160

Financial Model Assumptions:

We forecast revenue using segment projections, which are then combined to arrive at consolidated revenue figures for the company.

Online Courses by Tier 1 & 2 Artists:

Tier 1 Artist Class: The tuition fee for taking tier 1 instructor classes is \$30 per hour. Each tier 1 instructor will upload teaching videos with a total duration of 3 hours. We assume that each tier 1 artist will attract 5,000 students on platform. The number of tier 1 star teachers is projected to grow by around 50% YoY, from 5 in FY2021 to 25 by FY2026.

Tier 2 Artist Class: The tuition fee is \$15 per hour. Each instructor will upload 5-hour teaching videos on platform. We assume that each tier 2 artist will attract 3,000 students. The number of tier 2 artists and professionals on platform is projected to grow by around 50% YoY (FY21~FY23) and 25% YoY (FY24~FY26), from 15 of FY2021 to 66 by FY2026.

Livestream Concert: We assume that the company will hold 2 concerts livestreamed on their platform every quarter. Each concert will attract approximately 500,000 global viewers. The ticket price is \$4.4 per person.

Member Subscription: We assume that 1% of the concert audience will eventually become paid members of the platform. Subscribers can watch all the instructional videos on the platform for free, except those from tier 1 and tier 2 celebrities. Subscription fee is \$9.9 per month.

IP Creative Merchandising: We assume that each tier 1 celebrity will attract 10,000 customers globally to buy their related merchandise. The average spend per customer is projected to be \$50.

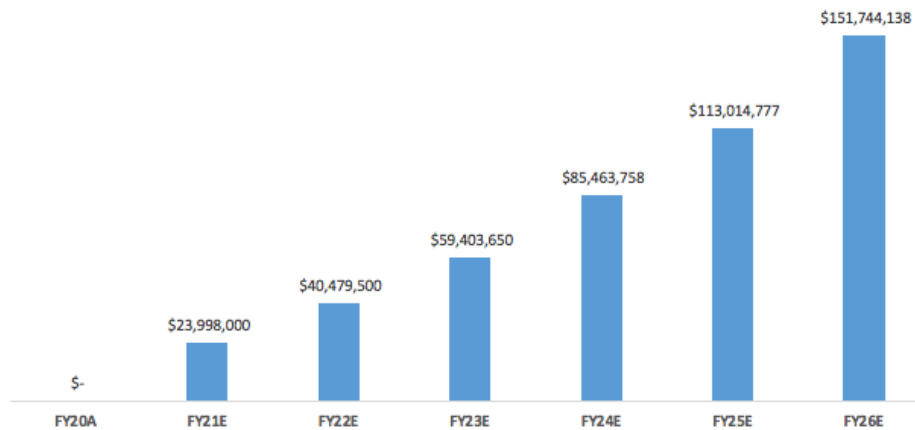
Thus, we project top line to grow from \$24.0 million in FY2021 to ~\$151.7 million in FY2026.

CSCW : Operating Metrics

(\$)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Member Subscription						
Number of paying subscriber	30000	90000	198000	356400	534600	801900
Subscription fee per month	\$ 9.90	\$ 9.90	\$ 9.90	\$ 9.90	\$ 9.90	\$ 9.90
# of month	9	12	12	12	12	12
Revenue - Subscription	\$ 2,673,000.00	\$ 10,692,000.00	\$ 23,522,400.00	\$ 42,340,320.00	\$ 63,510,480.00	\$ 95,265,720.00
Courses by Tier 1 & 2 Artists						
Tier 1 Artists						
Tuition fee per hour	\$ 30.00	\$ 30.00	\$ 30.00	\$ 30.00	\$ 30.00	\$ 30.00
Course hours per instructor	3	3	3	3	3	3
# of instructor	5	8	11	17	21	25
Enrollment - Tier 1 artists	5000	5000	5000	5000	5000	5000
Revenue - Courses by Tier 1 artists	\$ 2,250,000.00	\$ 3,375,000.00	\$ 5,062,500.00	\$ 7,593,750.00	\$ 9,492,187.50	\$ 11,390,625.00
Tier 2 Artists						
Tuition fee per hour	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
Course hours per instructor	5	5	5	5	5	5
# of instructor	15	23	34	42	53	66
Enrollment - Tier 2 artists	3000	3000	3000	3000	3000	3000
Revenue - Courses by tier 2 artists	\$ 3,375,000.00	\$ 5,062,500.00	\$ 7,593,750.00	\$ 9,492,187.50	\$ 11,865,234.38	\$ 14,831,542.97
Livestream Concert						
Ticket price	\$ 4.40	\$ 4.40	\$ 4.40	\$ 4.40	\$ 4.40	\$ 4.40
Total number of viewer	3000000	4000000	4000000	4000000	4000000	4000000
Revenue - Livestream Concert	\$ 13,200,000.00	\$ 17,600,000.00	\$ 17,600,000.00	\$ 17,600,000.00	\$ 17,600,000.00	\$ 17,600,000.00
IP Creative Merchandising						
Average purchase per customer	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00
# of customer	50000	75000	112500	168750	210938	253125
Revenue - IP creative merchandising	\$ 2,500,000.00	\$ 3,750,000.00	\$ 5,625,000.00	\$ 8,437,500.00	\$ 10,546,875.00	\$ 12,656,250.00
TOTAL REVENUES	\$ 23,998,000.00	\$ 40,479,500.00	\$ 59,403,650.00	\$ 85,463,757.50	\$ 113,014,776.88	\$ 151,744,137.97

Source: Diamond Equity Research Analysis/Company Investor Presentation

Color Star Total Revenues (\$)



Source: Diamond Equity Research Analysis

Operating Expenses:

i. Selling, General & Administration (SG&A) Expenses:

For FY21, we expect the SG&A expenses (as a % of sales) to be close to 50%. It is expected to grow to 60% in FY 21, and then gradually decrease to 30% by FY26.

Period	SG&A Expenses (as a % of Sales)
FY21	50%
FY22	60%
FY23	50%
FY24	36%
FY25	33%
FY26	30%

ii. Depreciation & Amortization

In our model, we have assumed the average useful life of plant, property & equipment as approximately seven years and have modelled depreciation at 15% on the opening balance of property, plant and equipment for the forecast period. For the same period, amortization has been modelled at 10% on the beginning balance of intangibles.

iii. Financial Expenses:

We have calculated cost of debt by considering LTM interest expenses and short-term debt outstanding on the balance sheet.

Tax rate:

From FY20 onwards, we have assumed an effective tax rate of 21%.

Capex:

For the forecast period, we assume the company's capital expenditure requirement to be close to 2.68x of depreciation.

WACC in DCF:

Risk premium: We have used S&P 500 Consumer Index as the best proxy of the market index for Color Star Technology Co., Ltd.

- Risk free rate: We have used 10-year US Treasury rate.
- Beta: 0.72. Based on the average of the comparable companies.
- Cost of Debt: Interest rate on debt has been assumed at 10% in line with the effective interest rate mentioned in the company's most recent financials.

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