

INITIATING COVERAGE

Equity | Interactive Media & Services

Hanryu Holdings Inc.
(NASDAQ:HRJU; Target Price: \$12.00)

Hanryu Holdings, Inc., the media-tech company behind the social media platform FANTOO, has announced its public offering of 877,328 shares at \$10.00 each, aiming to raise about \$8.8 million. This innovative company has targeted the growing K-culture fandom with FANTOO, a unique platform that integrates content creation, community interaction, commerce, and an immersive fan experience. Hanryu's global outreach sets it apart in today's market and reflects their deep insight into modern entertainment and cultural trends. With the offering set to close on August 3, 2023, the company's growth potential seems boundless. We have a strong bullish sentiment around Hanryu given its readiness for tremendous success, and both investors and K-culture enthusiasts should closely watch this new venture that symbolizes a new frontier in fan engagement and innovation.

INVESTMENT THESIS

This is our first report on Hanryu Holdings and we look to provide a detailed account of the various drivers that will be responsible for the company's growth in the coming years. Hanryu Holdings has tapped into the "Korean Wave" with its FANTOO platform, recognizing and monetizing the burgeoning global K-Culture fandom. Unlike traditional platforms that view fans as passive consumers, FANTOO engages users in content creation, idea sharing, and even product development, making them active participants in what's termed the "Fandom Economy." Users are rewarded with "Fantoo Point" (formerly "Kingdom Gold"), which can be used to purchase goods and services within the platform. This model distinguishes FANTOO from existing platforms that often overlook the specific needs of their users. By offering an all-encompassing solution that supports fans' interests while providing in-platform economic incentives, FANTOO's well-designed ecosystem fills a significant void in the market. Hanryu Holdings sees FANTOO's approach as a pioneering path, positioning it for potential leadership in fandom platforms and content creation, reflecting a nuanced understanding of modern fan engagement. Baptista Research looks to evaluate the different factors that could influence Hanryu Holdings' price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology to determine a suitable price for the company's stock.

COMPANY OVERVIEW

Hanryu Holdings has strategically developed FANTOO, an online global platform designed as a unique playground for fans. It connects enthusiasts worldwide, offering them a space to consume, create, and be rewarded for their dedication to various forms of entertainment and culture, primarily revolving around South Korean culture, or "K-Culture." FANTOO encourages active participation of fans, rewarding users for their contributions and enthusiasm. These rewards, previously known as "Kingdom Gold" or "KDG" and now referred to as "Fantoo Point" or "FP," can be used within the platform to purchase goods and services. The offerings within the FANTOO platform are designed to cultivate a growing "Fandom Economy" that benefits both the company and fans worldwide, setting it apart from competitors and reflecting a comprehensive understanding of contemporary fan culture and engagement. Hanryu Holdings was founded in 2018 and is based in Seoul, South Korea.

Key Report Highlights

Industry View:	Attractive
Stock Rating:	Buy
Price Target:	\$12.00
Current Price:	\$7.09
52-Week-Range:	\$5.67 - \$9.50

Annual Income Statement	2021	2022E	2023E
Revenues	1.91	5.59	19.00
Cost of Goods Sold	-0.94	-2.61	-8.42
Gross Income (excl. D&A)	0.97	2.98	10.58
EBITDA	-6.23	-4.22	3.38
EBIT (incl. extraordinary exp)	-6.45	-4.44	3.16
Net Income	-6.65	-4.64	2.96
Cash from Operations	-5.03	-3.40	2.76
Free Cash Flows	-5.05	-3.42	2.74

Growth & Margins	2021	2022E	2023E
Sales Growth	114.6%	192.7%	239.9%
EBITDA Margin	-326.1%	-75.4%	17.8%
EBIT Margin	-337.6%	-79.4%	16.6%
Net Profit Margin	-348.1%	-83.0%	15.6%

Valuation Ratios	2023E	2024E	2025E
EV/ Sales	386.8	219.2	86.4
EV/ EBITDA	NA	NA	485.7
EV/ EBIT	NA	-190.0	-370.0
Price/Earnings	NA	NA	551.2

KEY FACTORS DRIVING THE COMPANY'S PERFORMANCE

1.	HOLISTIC ECOSYSTEM WITH AN ATTRACTIVE REWARDS MECHANISM
2.	LARGE ADDRESSABLE MARKET
3.	REASONS FOR ROBUST USER GROWTH
4.	COMPETITIVE EDGE
5.	ROBUST MARKETING STRATEGY & GROWTH PLAN
6.	EXPERIENCED MANAGEMENT TEAM

Holistic Ecosystem With An Attractive Rewards Mechanism

- Hanryu Holdings has created the FANTOO platform, an encompassing ecosystem that provides users with various ways to engage, earn, and connect with all things related to their fandom.
- The platform's user-reward system, known as FP, is central to this ecosystem. Users are rewarded with FP based on their activity within the platform and the revenue derived from FANTOO's advertising sales.
- Each day, 50% of the day's total net advertising profits are distributed to users as FP, with 30% going to content creators and 20% to general users.
- These FP rewards are exchanged at a ratio of one FP for every 100 Korean Won and pertain only to advertising revenue generated within the FANTOO platform.
- As of the date of the prospectus, no FP has been issued, and the company has no intention to repurchase FP in the future. Additionally, the socialization aspect is integral to FANTOO, with features such as "Messenger/Chat" for automatic and secure live translation in 17 languages, "Clubs" for private groups of like-minded users, and "Community" for public discussions.
- Users can enjoy various content forms, ranging from original content to user-generated content, including concert feeds, fan art, web novels, and webtoons, spanning genres from K-pop to Indie.

- The platform also houses a shop where users can indulge in purchasing K-pop CDs, photo books, DVDs, dolls, stationaries, clothing, and other K-culture fandom items.
- Through this multifaceted approach, FANTOO by Hanryu Holdings aims to become a global hub for fans, fostering creativity, connection, and commerce within the growing fandom economy.

Large Addressable Market

- Hanryu Holdings operates within the thriving industry of K-Culture, which has seen a global explosion of influence, generating approximately \$21.5 billion in 2019 according to a joint study by the Korea Foundation and the Korean Ministry of Foreign Affairs (KMFA).
- The influence of K-Culture ranked seventh worldwide in 2021, with fans growing from around 35.6 million in 2015 to 156.6 million in 2021.
- China leads with 86.32 million fans, followed by the U.S., Thailand, Russia, and other countries; however, Hanryu Holdings refrains from operating in China due to data protection and privacy regulations.
- The multifaceted spread of K-Culture is also demonstrated by around 100 million practitioners of Taekwondo and contributions of over \$10.0 billion to Korean exports in 2020.
- This figure was accompanied by \$124.3 billion in global purchasing power for K-Culture in 2020, as reported by the Korea Creative Content Agency (KOCCA).
- The growth of mobile users, with more than two-thirds of the global population using mobile phones, further provides a substantial user-base for the FANTOO platform, with online and mobile platforms being common channels for K-Culture content access.
- The COVID-19 pandemic has also presented an opportunity for virtual concerts and events. Hanryu Holdings has positioned FANTOO to tap into this rapidly expanding market, evidenced by successes like BTS's online concert setting world records.
- The global virtual events market reached approximately \$94.0 billion in 2020, expected to reach around \$504.8 billion by 2028, and Hanryu Holdings believes its partnerships within the Korean entertainment industry will enhance its share in this market, adding more value to FANTOO users.

Reasons For Robust User Growth

- Hanryu Holdings launched FANTOO in May 2021 with the objective to unite fans with shared interests. Through the platform, fans can engage within their fandoms, create and share content, and interact via secure messaging, social pages, and virtual spaces, known as FANTOO Clubs.
- These clubs allow members to aggregate and increase their purchasing power through a feature called the Club Vault.

- Users enjoy customized experiences thanks to FANTOO's algorithms, which curate individual interactions, content recommendations, and automatic content tailored to interests.
- FANTOO also supports content creation, live chat in 17 languages, and secure commerce and user-to-user transactions.
- Since its launch, FANTOO attracted more than 18.9 million users as of December 31, 2022, primarily within the 20-39 age groups, who hold significant purchasing power in commercial and entertainment industries and comprise over 80% of all FANTOO users.
- It is quite possible that Hanryu Holdings will be able to tap into this market and scale at an incredible rate in the upcoming months because of the enormous effort it has made with the NEC to establish its solutions as a safety standard across the industry.

Changes in the number of Hallyu community members by region



Source: Company Filings

- Available to individuals 12 and older, the platform's reward system, known as Fantoo Point (FP), is integral to its ecosystem.
- Users earn FP based on their activity and the platform's advertising sales. Each night, 50% of that day's net advertising profits are distributed as FP, with 30% going to content creators and 20% to general participants.

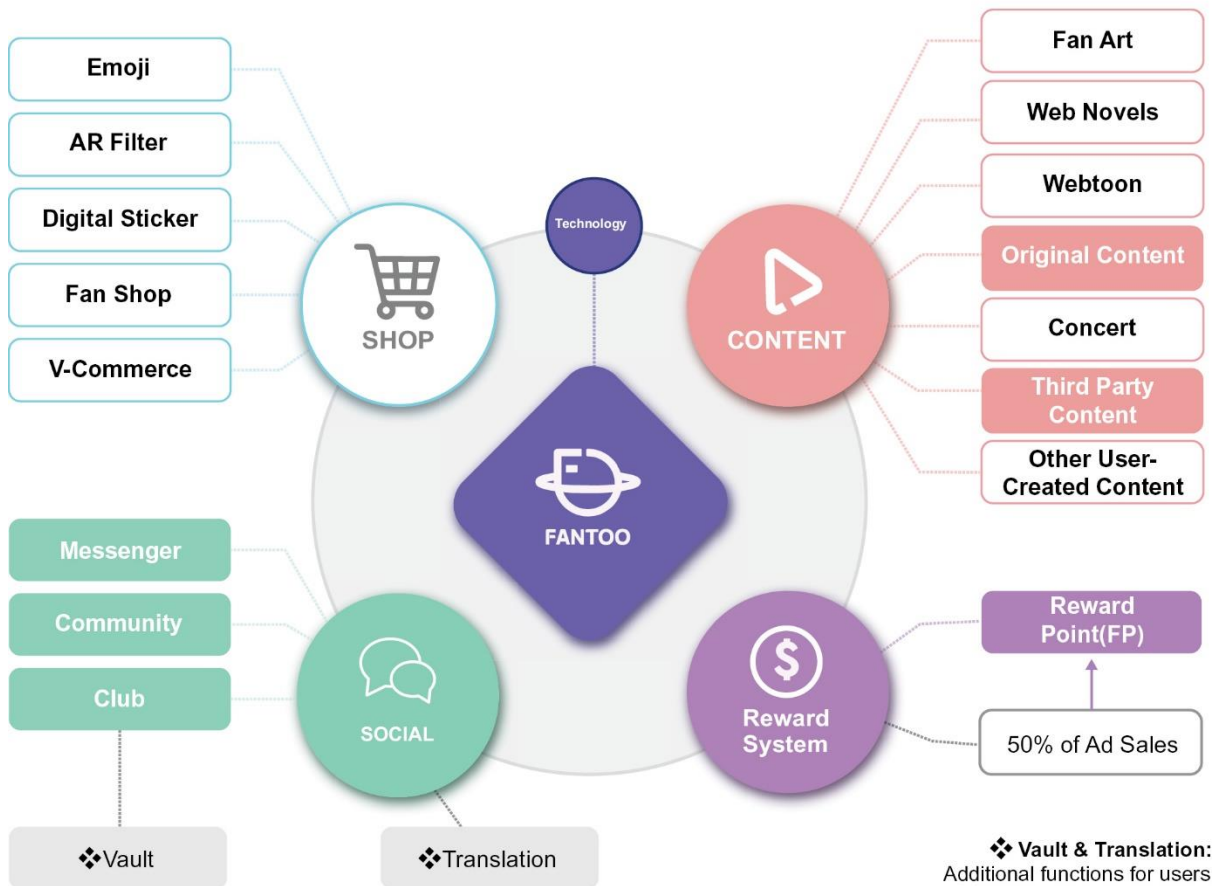
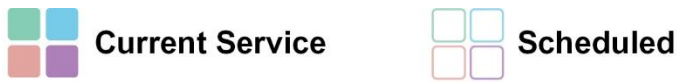
- FP can be redeemed for various products and services, stored within the FANTOO platform at a fixed ratio of 1:100 to Korean Won, and managed in a database separate from other FANTOO data to ensure confidentiality and security.
- This multifaceted ecosystem facilitates community engagement, creativity, and loyalty, reflecting FANTOO's innovative approach to fandom culture.

Competitive Edge

- In the highly competitive landscape, Hanryu Holdings contends with various platforms ranging from social media giants like Facebook, Instagram, and Twitter to specialized platforms such as Lysn, Weverse, and Universe, and e-commerce entities including Amazon, eBay, and Ticketmaster.
- Despite the challenges posed by well-established competitors, FANTOO's unique all-in-one global fandom approach, coupled with a user reward system, positions it favorably in the market.
- Hanryu Holdings distinguishes itself in the competitive social network landscape through a fully-integrated platform, combined with influential partnerships with entertainment industry leaders in South Korea.
- Its platform, FANTOO, enables users to unite over shared interests, create clubs and communities, monetize content, and enhance the overall user experience.
- The core strengths of the company include direct revenue generation through advertising, content sales, and e-commerce, including the sale of fandom goods and concert tickets.
- Additionally, the platform creates value through user-driven revenue, collecting a percentage from user-to-user sales such as emojis, online stickers, web novels, webtoons, translation matching services, and transactions involving tangible fandom items.
- Hanryu Holdings also prioritizes direct engagement with advertisers, allowing them to use the FANTOO platform to understand advertisers' needs and craft highly curated advertising products.
- This direct relationship not only aims to boost advertising revenue but also builds sustainable relationships with advertisers, making the platform more appealing to new advertisers and users.
- Emphasizing industry-leading privacy and safety, FANTOO implements artificial intelligence to protect user information. Moreover, high user engagement is driven through a one-stop fandom platform and an in-platform reward system.
- These features are strategically designed to foster brand loyalty, effectively reducing advertising costs as satisfied users promote the platform through word-of-mouth.
- The unique combination of these elements positions Hanryu Holdings as a leader in the industry, capitalizing on both community engagement and diverse revenue streams to create a dynamic and secure user experience.

Robust Marketing Strategy & Growth Plan

- Hanryu Holdings, the entity behind the FANTOO platform, outlines a strategic roadmap centered around driving user growth and diversifying revenue streams.
- Their core aim is to promote the viral growth of FANTOO's user base, thus enhancing advertising revenue, user-generated revenue, and other potential revenue channels.
- Key tactics include Attracting Global Users by leveraging the platform's unique fandom community orientation, thereby increasing both user engagement and corresponding revenues.
- To Broaden Product and Service Offerings, they intend to expand their offerings parallel to user-base growth, aiming to create a comprehensive, one-stop platform across all fandoms.
- Continued Research and Development is also a priority, with investments planned in emerging technologies to elevate user experience and security compared to other social media platforms.
- Another avenue is the Development of Intellectual Property, where they plan to create assets based on user-demand and insights gleaned from FANTOO, potentially boosting user engagement and growth.
- Furthermore, they aim for Expansion to Other Fandoms, taking FANTOO beyond the K-Culture realm and into diverse entertainment types and cultures, thereby ensuring the platform remains adaptive and integrative, resonating with fluctuating trends in popular culture.



Source: Company Filings

- Hanryu Holdings intends to market the FANTOO platform through various means, focusing on the K-pop fandom within K-Culture. Their strategies include Localized Marketing Efforts, aimed at capturing a larger share of the global fandom market.
- They plan to partner with local content creators and advertising agencies for region-specific marketing. Expansion into the U.S. is planned for the first half of 2023, with a goal to establish branches and hire developers to localize FANTOO services.
- Collaboration with U.S. marketing experts and agencies will facilitate their reach into U.S. audiences, with subsequent plans for a U.K. branch for further European expansion.
- They have ruled out China as an expansion target due to cultural and regulatory concerns. The Global Ambassador Program is another strategy, engaging individuals in various countries to create content and promote FANTOO, focusing on K-Culture enthusiasts.
- Building Strong User-Relationships is also vital; through various channels of communication, they aim to improve service offerings and exceed user expectations, fostering organic growth.
- The hosting of Special Events, such as K-pop concerts and live shows, is intended to provide value to both current and targeted users, promoting activity within the FANTOO platform.

- These events are often driven by user input, further encouraging active participation. Collectively, these strategies demonstrate Hanryu Holdings' comprehensive and localized approach to user engagement and growth within the unique landscape of global fandom culture.

Other Factors Driving Growth

- Hanryu Holdings operates through a wholly-owned subsidiary, leasing a property on the central bank of Seoul's Han River in the Seoul Marina, a hub for Korean Wave culture.
- This prime location, boasting outdoor stages, sculpture gardens, and broadcast studios, serves not only as the headquarters for FANTOO but also as a venue for concerts and user events.
- We can see the venue in the snapshot below:



Source: Company Filings

- Another key factor that could drive its future growth is a strategic move for Hanryu Holdings i.e., the memorandum of understanding signed with the Federation of Artistic & Cultural Organization of Korea (FACO) on April 19, 2021.
- This partnership allows the promotion of cultural events and leverages FACO's vast network and infrastructure. Established in 1961, FACO contributes significantly to Korean art and culture and currently consists of over 1.3 million artists across 167 global branches.

- This collaboration further benefits FANTOO users through synergies in content creation, concert hosting, and other aspects of K-pop culture.
- Moreover, on September 10, 2021, Hanryu entered into a partnership with the "Metaverse Alliance," a South Korean government initiative to accelerate the development of virtual and augmented reality platforms.
- This alliance includes around 643 firms such as Samsung, Hyundai Motors, and Naver, marking another significant step in Hanryu's pursuit of innovative technologies and advancements within the metaverse.

Experienced Management Team

- We can see a large and intricate organizational structure of Hanryu Holdings in the above chart. Let us go through the profiles of its key executives.
- Chang-Hyuk Kang, who spearheads the company as its Chief Executive Officer, took charge in October 2021 and has a strong history in finance and operations, having served as the Director of Tax Homea & Out Tax Corporation and Auditor at Setopia Co., Ltd.
- His qualifications are further complemented by his academic achievements in Accounting and Tax Law from Dankook University and Korea University.
- Ju-Hyon Shin, the Chief Financial Officer since May 2021, brings with him years of finance management expertise, having held significant roles at Centralinsight Co., Ltd., EQCELL Co., Ltd., and LUXL Co., Ltd., all listed companies in South Korea.
- David Gregg, appointed as Chief Communications Officer in January 2022, offers insights from his social entrepreneurship experiences, including his role as CEO and co-founder of Socialwise.
- As a Communications graduate from Brigham Young University, he brings an articulate voice to the company. Dae-Hwan Son, who took over as Chief Operating Officer in October 2021, carries with him vast leadership skills through his directorial positions in multiple companies, including Fantoo Entertainment Co., Ltd., Hanryu Bank Co., Ltd., Ko-Tech International Co., and Zero Tour.
- Dong Hoon Park, appointed as Chief Marketing Officer in October 2021, contributes a broad view of marketing and business administration, having directed several of the company's subsidiaries and other firms like K-BIO Co., Ltd.
- Last but not the least, Taehoon Kim, who will be appointed Chief Technology Officer and Vice President as of June 2022, infuses technology leadership into the team, leveraging his past experiences as Founder of Rulemaker Inc., CEO at Webzen Mobile, Inc., and COO at Webzen, Inc.
- With degrees in German Language Education and an MBA from Seoul National University, he rounds out an executive team that embodies Hanryu Holdings' commitment to innovation, professionalism, and growth.
- Overall, it is safe to say that the reins of Hanryu Holdings are in the hands of a highly experienced and skilled management team.

HISTORICAL FINANCIAL STATEMENTS & PROJECTIONS (USD MILLIONS)

Particulars	3/31/22	9/30/22	12/31/22	3/31/23
Revenues	0.1	0.8	0.0	0.0
<i>% growth</i>		777.8%	-101.3%	-100.0%
Cost of Goods Sold	0.0	-0.4	0.0	0.0
<i>% of revenue</i>	-22.2%	-51.9%	-100.0%	
Gross Income (excl. D&A)	0.1	0.4	0.0	0.0
<i>% of revenue</i>	77.8%	48.1%	0.0%	
EBITDA	-2.3	-1.5	-1.3	-3.0
<i>% of revenue</i>	-2566.7%	-189.9%	12700.0%	
Depreciation & Amortization	0.1	0.1	0.1	0.1
Extraordinary Expenses	0.0	0.0	0.0	0.0
EBIT	-2.4	-1.6	-1.3	-3.1
<i>% of revenue</i>	-2633.3%	-196.2%	13300.0%	
Pretax Income	-2.1	-1.6	-1.4	-3.1
<i>% of revenue</i>	-2355.6%	-196.2%	13500.0%	
Income Tax	-0.1	0.0	0.0	0.0
<i>% rate</i>	2.4%	1.3%	0.7%	0.3%
Net Income	-2.1	-1.5	-1.3	-3.1
Particulars	3/31/22	9/30/22	12/31/22	3/31/23
Cash from Operations	-1.0	-1.4	-0.7	-3.5

Cash from Investing	-0.8	-0.6	0.1	0.1
Free Cash Flows	-0.2	-0.8	-0.8	-3.6

- Let us start off with analyzing the most recent and historical quarterly data reported by the company.
- Hanryu Holdings Inc has no revenues in the last quarter and burnt \$-3.51 million in terms of operating cash flows for the quarter ended 3/31/23.
- This quarter's EBITDA-to-operating cash flow conversion ratio is 117.79%
- Overall, Hanryu Holdings Inc delivered a negative free cash flow of \$3.56 million for the past quarter.

Particulars	2020	2021	2022
Revenues	0.0	0.5	0.9
<i>% growth</i>			85.4%
Cost of Goods Sold	0.0	-0.6	-0.5
<i>% of revenue</i>		-116.7%	-51.7%
Gross Income (excl. D&A)	0.0	-0.1	0.4
<i>% of revenue</i>		-16.7%	48.3%
EBITDA	-0.6	-7.9	-6.4
<i>% of revenue</i>		-1643.8%	-718.0%
Depreciation & Amortization	0.0	0.1	0.2
<i>% of Fixed Assets</i>	66.7%	3.7%	8.5%
Extraordinary Expenses	0.0	0.0	0.0
EBIT	-0.6	-8.0	-6.6
<i>% of revenue</i>		-1666.7%	-741.6%

Pretax Income	-9.6	-12.8	-6.4
<i>% of revenue</i>		-2658.3%	-718.0%
Income Tax	0.0	-0.1	-0.1
<i>% rate</i>	0.0%	0.8%	2.3%
Net Income	-9.6	-12.7	-6.2
<i>% of revenue</i>		-2637.5%	-701.1%

- When we analyze the company's annualized historical income statement, we see that the top-line was \$0.89 million for the previous financial year ending in 2022.
- Hanryu Holdings Inc's cost of goods sold has increased from -116.67% to -51.69% as a percentage of the top-line resulting in a drop in the gross margins.
- The company's overall annual EBITDA margin of -717.98% is lower than the reported quarterly EBITDA margin for the most recent quarter.
- Non-cash expenses in the form of depreciation and amortization have gone up as compared to the result in 2021.
- In terms of the bottom-line, Hanryu Holdings Inc reported an operating income (EBIT) of \$-6.6 million and a net income of \$-6.24 million resulting in an EPS of \$-0.436.
- The good news for investors holding the stock is that its net margin had increased from -2637.50% in 2021 to -701.12% in 2022.

Particulars	2020	2021	2022
Assets			
Net Intangible Fixed Assets	0	0	0
Net Tangible Fixed Assets	0	3	3
Total Fixed Assets	0	3	3

LT Investments	3	2	0
Inventories	0	0	0
<i>% of revenue</i>		<i>0.0%</i>	<i>0.0%</i>
Accounts Receivable	2	1	2
<i>% of revenue</i>		<i>162.5%</i>	<i>279.8%</i>
Cash and ST Investments	0	0	0
<i>% of revenue</i>		<i>68.8%</i>	<i>13.5%</i>
Other Current Assets	0	0	0
Total Current Assets	2	1	3
Other Assets	0	2	1
Total Assets	5	8	6
Liabilities & Shareholder's Equity			
Equity & Minorities	-9	3	-1
LT Debt	7	4	4
Other LT Liabilities	0	0	0
Total LT Liabilities	7	4	4

ST Debt	7	0	1
Accounts Payable	0	0	0
<i>% of COGS</i>		83.3%	41.6%
Other ST Liabilities	0	1	2
Total Current Liabilities	8	2	4
Total Liabilities	14	6	7
Total Liabilities & Shareholder's Equity	5	8	6

- Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the percentage has evolved from 0.00% to 0.00%
- Its receivables of \$2.49 million are about 279.78% of the top-line.
- Hanryu Holdings Inc has close to \$0.12 million in terms of liquidity i.e. cash and short term investments.
- On the other hand, its payables for 2022 account for around 41.57% of the cost of goods sold.
- The company's long term debt is around -2.6x times its equity.

Particulars	2021	2022	2023E	2024E	2025E
Revenues	0.48	0.89	1.91	5.59	19.0
<i>% growth</i>		85.4%	114.6%	192.7%	239.9%

Cost of Goods Sold	-0.6	-0.5	-0.9	-2.6	-8.4
<i>% of revenue</i>	-116.7%	-51.7%	-49.1%	-46.6%	-44.3%
Gross Income (excl. D&A)	-0.1	0.4	1.0	3.0	10.6
<i>% of revenue</i>	-16.7%	48.3%	50.9%	53.4%	55.7%
EBITDA	-7.9	-6.4	-6.2	-4.2	3.4
<i>% of revenue</i>	-1643.8%	-718.0%	-326.1%	-75.4%	17.8%
Depreciation & Amortization	0.1	0.2	0.2	0.2	0.2
EBIT	-8.0	-6.6	-6.4	-4.4	3.2
<i>% of revenue</i>	-1666.7%	-741.6%	-337.6%	-79.4%	16.6%
EBT (GAAP)	-12.8	-6.4	-6.6	-4.6	3.0
<i>% of revenue</i>	-2658.3%	-718.0%	-348.1%	-83.0%	15.6%
Net Income (GAAP)	-12.7	-6.2	-6.6	-4.6	3.0
<i>% of revenue</i>	-2637.5%	-701.1%	-348.1%	-83.0%	15.6%
Earnings Per Share (GAAP)	-0.88	-0.44	-0.46	-0.32	0.21

Particulars	2021	2022	2023E	2024E	2025E
Net Income (GAAP)	-12.7	-6.2	-6.6	-4.6	3.0
+ Depreciation & Amortization	0.1	0.2	0.2	0.2	0.2
+/- Working Capital, Deferred Taxes & Other Adjustments	4.7	1.9	1.4	1.0	-0.4
Cash Flow from Operations	-7.8	-4.1	-5.0	-3.4	2.8

<i>% of EBITDA</i>	99.0%	64.2%	80.8%	80.7%	81.6%
Capital Expenditure	-0.6	0.0	0.0	0.0	0.0
<i>% of revenues</i>	122.9%	2.2%	1.0%	0.3%	0.1%
Other Investment Cash Flow items	0	1	0	0	0
Cash Flow after Investments	-1.0	1.3	0.0	0.0	0.0
Free Cash Flow	-8.4	-4.1	-5.1	-3.4	2.7

Growth & Margins	2021	2022	2023E	2024E	2025E
Sales Growth	0.0%	85.4%	114.6%	192.7%	239.9%
EBITDA Margin	-1643.8%	-718.0%	-326.1%	-75.4%	17.8%
EBIT Margin	-1666.7%	-741.6%	-337.6%	-79.4%	16.6%
Net Profit Margin	-2637.5%	-701.1%	-348.1%	-83.0%	15.6%

Leverage Ratios	2021	2022	2023E	2024E	2025E
Net Debt	4	4	10	13	10
Net Debt/ Equity	1.5	-3.3			
Net Debt/ EBITDA	-0.5	-0.7	-1.5	-3.1	3.0

- Now let us move on to Baptista Research's forecasts for Hanryu Holdings Inc's income statement and cash flows.
- We forecast a top-line growth of 114.6% for 2023, around 192.7% for 2024, and about 192.7% for 2025.
- This growth is expected to translate into an EBITDA of \$-6.23 million in 2023 with a margin of -326.06%
- Hanryu Holdings Inc's EBIT margin is expected to be -337.58% in 2023, about -79.38% in 2024, and -79.38% in 2025.
- Our estimate for the company's Net Income (GAAP) is \$-6.64 million implying a net margin of -348.05% and resulting in an earnings per share of \$-0.46.
- We expect the growth to follow a similar trend in 2024 and 2025.
- In terms of the cash flows, we expect Hanryu Holdings Inc to generate around \$-5.03 million in operating cash flows in 2023.
- This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of 80.79%
- Hanryu Holdings Inc is expected to invest a lower amount in capex and other investing activities in 2023.
- Overall, the company is expected to generate free cash flows to the tune of \$-5.05 million in 2023.
- Hanryu Holdings Inc's Net Debt is expected to increase in 2023 and is expected to follow a similar trend over the coming years.
- The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- Hanryu Holdings Inc's Net Debt-to-EBITDA ratio is expected to be -1.53 in 2023.
- Net-Debt-to-Equity ratio, also known as the gearing ratio shows how encumbered a company is with its debt.
- The company's Net Debt-to-Equity ratio for 2022 is -3.34 given its negative EBITDA.

DISCOUNTED CASH FLOW (DCF) VALUATION

Key DCF Assumptions

WACC	17.6%
CoD	0.2%
CoE	21.5%
Market Rate	6.0%
Risk Free Rate	3.5%
Beta	3
Perpetual Growth Rate (g)	18.0%
Terminal Value	653
Tax Rate	2.3%

- For the purpose of carrying out the discounted cash flow valuation of Hanryu Holdings Inc, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 3.45%.
- The company's stock is more volatile than the market as a whole and has a beta of 3.0 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 21.5% which appears reasonable for a company like Hanryu Holdings Inc.
- Based on the company's long term debt and interest payments, the cost of debt is 0.2%.
- After incorporating the CoE and the CoD and average tax rate of 2.3%, we arrive at a Weighted Average Cost of Capital (WACC) of 17.6%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 86.4 to our forecasted revenues of 2025.

EV and Market Cap	Current	2023E	2024E	2025E
Price (\$)	7.1	12.0	19.9	26.8
Outstanding Number of shares (million)	52.66	60.77	60.77	60.77
Total Market Cap (billion)	0.37	0.73	1.21	1.63
Net Debt	4	10	13	10
Enterprise Value (billion)	0.38	0.74	1.23	1.64

- After applying the discount rate (WACC) of 17.6%, we arrive at a price target of \$12.0 for 2023.
- Our target price at the end of 2024 is \$19.9 and for 2025 is \$26.8 which implies a total appreciation of nearly 278.7% in the coming 3 years in the stock price.
- During this phase, we see the EV/ EBITDA to be around the 485.71 mark.

Valuation Ratios	Current	2023E	2024E	2025E
EV/ Sales	424.5	386.8	219.2	86.4
EV/ EBITDA	NA	NA	NA	485.7
EV/ EBIT	NA	NA	-190.0	-370.0
Price/Earnings	NA	NA	NA	551.2

KEY RISKS

- It is important to highlight the key risks associated with an investment in Hanryu Holdings Holdings as well as the inherent risks associated with the financial projections and price forecasts presented in this report.
- Hanryu Holdings operates in the interactive media and tech sector which is highly competitive and dynamic, with new entrants and innovations constantly challenging the established players. Hanryu Holdings may face intense competition from other companies that offer similar or superior products and services, such as gaming, streaming, social media, e-commerce, etc. This could erode its market share, revenue, and profitability.
- The interactive media and tech sector is subject to various laws and regulations in different countries and regions, such as data privacy, content moderation, intellectual property, taxation, antitrust, etc. Hanryu Holdings may have to comply with these regulations or face legal actions, fines, or bans that could harm its reputation, operations, and financial performance.
- Hanryu Holdings and almost all companies operating in the interactive media and tech sector relies heavily on the security and integrity of its data and systems, which are vulnerable to cyberattacks, hacking, malware, phishing, etc. Hanryu Holdings may experience breaches or leaks of its user data, proprietary information, or intellectual property that could expose it to lawsuits, regulatory actions, reputational damage, or loss of trust from its customers and partners.
- Hanryu Holdings' domain is driven by constant innovation and technological advancement, which require significant investment in research and development, infrastructure, and talent. Hanryu Holdings may fail to keep up with the changing consumer preferences, market trends, or industry standards, or may face technical glitches, bugs, or errors that could affect its product quality, user experience, or customer satisfaction.
- The interactive media and tech sector is often subject to high expectations and speculation from investors, which may inflate the valuation of its stocks beyond their fundamental value. Hanryu Holdings already is trading at a high multiple and may face volatility or correction in its stock price if it fails to meet the market expectations or if there is a shift in investor sentiment or risk appetite.
- In order to accommodate growth and compete effectively, Hanryu Holdings's management will need working capital to maintain adequate inventory levels, develop additional procedures and controls and increase, train, motivate and manage its work force.
- It is important to highlight that Hanryu Holdings is serving the global market since less than a decade which means it has a very limited operating history. As a result, many potential investors find it difficult to evaluate its business prospects and management.
- Hanryu Holdings's management may struggle to successfully implement and execute their business tactics, operating strategies and growth initiatives. If the management fails to accomplish their growth and organizational modification effectively, it may destroy their business and operational results.
- It is worth highlighting that the extent to which Covid-19 impacts the financial results of the company is highly uncertain and could significantly disrupt the operations including sales, manufacturing and supply chain-related activities. It could also result in social, economic, and labor instability in the countries where the customers and suppliers operate.

- With respect to our price projection, we would like to clarify that the valuation of Hanryu Holdings Holdings in this report is specific to the date of the analysis i.e.04-08-2023.
- Another one of the biggest risks to Hanryu Holdings Holdings' model is the fact that the company's top-line growth is assumed to be consistently growing by a certain rate in the model. There is a possibility that this assumption might not hold true if the COVID-19 situation persists for too long. With respect to our price projection, we would like to clarify that the valuation of Hanryu Holdings Holdings in this report is specific to the date of the analysis i.e. 04th August 2023.
- We must emphasize that the projected valuation and the share price of Hanryu Holdings Holdings are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts. There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

ANALYST RATINGS

- Buy: Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.
- Outperform: Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.
- Sell: Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.
- Underperform: Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.
- Hold: Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

ANALYST INDUSTRY VIEWS

- Attractive: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
- In-Line: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
- Cautious: The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
- Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI EM Latin America Index; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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