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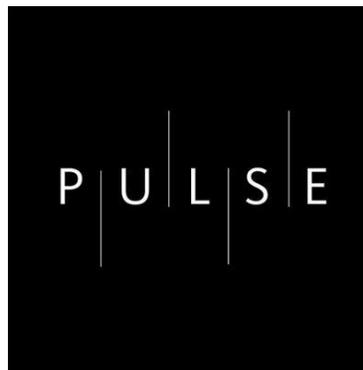
Initiating Research Coverage

9/18/19

6 -18 Month Price Target Range \$1.15 - \$2.30

Closing Stock Price on 9/15/17 \$.1999

Pulse Evolution Corporation



(OTC: PLFX)

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Pulse Evolution – A Sleeping Giant Awakens

- **Major Production Resulted in Recurring Revenue**
- **Qualified CEO Managing Operations**
- **Academy Award Nominated Animators**
- **Animation Technology Tested and Ready for Prime Time**
- **Strategic Investors Fund over \$40 million**
- **Undervalued Digital Likeness Assets**

Pulse Evolution (PLFX) has essentially been in investor hibernation mode for the past 2 years, but that doesn't mean they have been sleeping. They are a voluntary filer and chose to stop communicating with most investors while strategic investors silently funded nearly \$40 million of technological development. At a large special effects company this investment wouldn't have gone far, but the all-star team at PLFX, assembled by former CEO John Textor, worked within this relatively small budget to create hyper realistic digital humans capable of fooling an audience of 11 million TV viewers at the 2014 Music Billboard Award show. The true value of this technology can be seen at the end of *Rogue One* with Princes Leia's CGI cameo that unfortunately for Lucas Films, fooled no one. The digital humans created at Pulse are more lifelike than the Princess Leia at likely a fraction of the cost. PLFX specializes in developing hyper-realistic digital humans whose digital likeness is so real you are fooled into believing the projection is human. They have details down to the sweat on the brow, stubble on the beard, and pupils dilating. The facial systems have more than 12,000 moving parts driving micro-expressions that may be undetectable to the average viewer but are critical to delivery of facial expressions, natural eye movement and reflection and believable emotions which are far superior to the video game like characters that we saw in Star Wars and other films. These digital humans serve a role in entertainment by bringing past legends to life and letting the new generations experience history. The company is moving from concept to revenue and with an energized and experienced management team in place, their new large new production that began in July should be ready sometime in 2018. The company plans to generate revenue from producing shows centered around celebrity digital humans and develop a portfolio of digital likenesses for commercialization

Creative Team

The talent at Pulse has developed a reputation for fooling audiences many times. The origin of Pulse, and their artists' obsession with building realistic humans, can be traced to James Cameron's legendary visual effects company Digital Domain. Pulse founder Textor was CEO of Digital Domain for nearly a decade while that firm built the world's first believable animated human, Brad Pitt's older character in the movie "The Curious Case of Benjamin Button." This earned Textor's artists an Academy Award for Best Visual Effects. Proving that audiences believed they were looking at a human actor, the all-digital 'actor' that needed no make-up was so convincing that its performance earned an [Academy Award for Best Makeup, and is likely a major reason Brad Pitt received a nomination for Best Actor](#). The Academy should be wiser than the average movie goer and recognize the difference between makeup and special effects. Their craft was so good that [Judy Duncan](#), editor of the visual effects trade mag *Cinefex* said, "obviously all the [Academy] voters in the visual effects category know what they're looking at, but the vote for the final winner goes to the entire Academy—including actors and writers and producers—and I don't know if most of those people are going to know what they're looking at. They're going to assume

it was all makeup. It's stunning work—I actually think it should win—but I don't know if the average moviegoer is going to recognize that." What's even more amazing is the extent of the animation. Some would find it hard to believe that the lead character for the first 53 minutes of the movie was entirely digital.

Next up for Textor and his team at Digital Domain were two projects that cemented their global leadership in the creation of digital humans. They created a fully digital likeness of the younger Jeff Bridges, to act alongside the actual Jeff Bridges, in the sci-fi sequel "Tron Legacy". Great work, but it was their creation of the digital Tupac Shakur who performed as a hologram at the 2012 Coachella Valley Music Festival that literally rocked the world and created an all new industry for 'virtual performers'.



One of the initiatives that Textor and his team set up while at Digital Domain as a direct result of the Benjamin Button, Tron and Tupac was the formation of a facial animation team at a separate studio in Marin County. This core team stayed together and spun off into a separate company, Creature Arts and Mechanics Digital, continuing to evolve the technology, ultimately becoming the foundation of Textor's pure digital human startup pulse team. The character animation team starts with the artistic and technical creation of an artist's likeness, which could take up to 6 months. Once developed to near perfection, the animators work in conjunction with producers to make a show. The shows are so convincing that concert goers cannot distinguish between the live actors and the hologram. The attendees got a surprise at the 2014 Billboard Music Awards when Michael Jackson's digital likeness performed a never before heard song in synchronization with live dancers. Spoiler Alert: The dancer he walks in front of at 2:10 in the [Slave to the Rythm](#) is also a projected hologram, fooling the eye as to what is real and what is make believe.



New Management Focus

The company is clearly moving toward a consistent revenue generating model and their choice of CEO is consistent with that focus. On June 22, 2017 the company announced [Jordan Fiksenbaum](#) joined PLFX and this came on the heels of a webcast where the company also announced the start of production of a major show. The company neither confirms or denies the show is about the popular 70s group Abba. Jordan is a serious industry veteran enticed by the challenge of bringing a new type of show to market with cutting edge technology. He is well known for his involvement in Cirque de Solei. He is also no stranger to PLFX and has served as a senior advisor for the past couple of years. During Jordan's 30 year career he has booked over \$5.0 billion in sales and knows how to make a successful show by bringing in sponsors, negotiating the best venues, and commercializing the branding opportunities. His press release also spends considerable time discussing the corporate structure and how important it is to their strategy to re-establish public reporting.

Section 15D Explained

The recent 15D filing may confuse investors who are not familiar with certain filing requirements. Pulse Evolution was formerly known as Qurapps, Inc. which filed its registration under the Securities Act of 1933. On September 30, 2014 there was a share exchange agreement whereby Qurapps acquired 100% of the outstanding stock of Pulse. At the time of the S-1 registration the company didn't file a Rule 8 election, which means that they were voluntary filers since inception, governed only by the '33 Act. The public filings were completely voluntary. After their first filings as Pulse, the company realized that their funding model was not conducive to a public company, so they stopped making filings since they were under no obligation to do so and it would have only confounded investors. It appears with this latest filing they are moving away from the more laborious up listing process under SEC guidelines likely following the example of many other OTC companies that become 'current' more quickly as an Alternative Filer with OTC Markets. **Filing the 15-d6 election is the most cost-effective way for a company to become current without having to pay all the legal and accounting fees.** That means after they get their financials up on OTC markets, the STOP sign should be removed and they should graduate from the Pink Sheets to the OTCQB rather quickly. If they move forward with audited financials as they

expressed in the webcast, then they always have the option to move back to full SEC reporting status once their audits are complete. Any move to current reporting status is positive for the company.

Strategic Investment - \$40 million

Since inception Pulse Evolution has been able to raise almost \$40 million dollars. About ¼ of the funding or \$10 million has come from current board director Harley Zhao who is also President and CEO of [Original Force](#), an animation studio which has done work for Electronic Arts, Microsoft, Sony, Activision, and Disney, to name a few. Their most notable project was their Dreamworks film *How to Train a Dragon*, which was also nominated for an Academy Award for Best Animated Feature film of the year. On Jun 30, 2015 Pulse had approximately 132 million shares outstanding. The first round of funding was done at \$1.00/share. Subsequent rounds of financing have totaled \$40 million. If investors calculate the price per share of the new money over the past 2 years discounting any stock based compensation they would find the share count increased 86 mil shares to 218 million, which means funding took place at an average price of \$.46 or better. Factoring in stock based compensation of 6 million shares over 2 years, that works out to better than \$.50/share. The point here is that smart long term money has put money in at higher levels than the current stock price of \$.20. Using this shareholder metric, this represents a true undervalued equity.

ABBA Tour Coming in 2018

There has been no official announcement of ABBA using Pulse's digital human technology, but if you follow the bread crumbs this is the only conclusion that you can draw. On March 18, 2016 Simon Fuller's XIX Entertainment signed a [partnership deal](#) with PLFX to produce a series of entertainment properties and virtual reality experiences featuring Pulse's digital humans. Textor then embarked on a rare press tour for the company promoting this Simon Fuller linkage, largely in Asia, which drove the first real volume seen in PLFX and a price over \$3.50 per share, before the company went quiet again. In October of 2016 ABBA officially announced there were going to embark on "a new digital entertainment experience" that has quickly become known as Virtual ABBA. Leading this transformation is Simon Fuller, along with Universal Music Group. The [ABBA website](#) refers to Fuller "developing hyper-realistic digital humans." This terminology can only be found in conjunction with Pulse Evolution. On the latest webcast John Textor talked about an unnamed production that was under way in June. They also shot down the idea of Elvis Presley and Marilyn Monroe as being viable digital likenesses at this time only leaving Michel Jackson and ABBA left as possibilities. It's not a stretch, given all the circumstantial evidence and timing, to conclude that this new production is ABBA, due in part to how Textor highlighted how inappropriate it would be for a technology company to jump the gun and announce a major show.

The production cycle takes about 6 months to create the digital likeness and then it takes about 9 months to produce and choreograph a show with the animation and the live elements which could include dancers, props, and pyrotechnics. Once the digital likeness is complete, it could be time for Fuller to announce the upcoming ABBA tour. Based on his past press releases, Fuller would need to announce this by the end of the year. An announcement by Fuller is likely based on the development time of the digital likeness because if he announces a digital human tour without so much as a 10 second clip he would be missing out on a major marketing opportunity. Immediately after any announcement, fans are going to want to see some samples and get a sneak peak of the band. In March 2016 Fuller said it would take 18 months to announce and Sept 2017 marks the 18th month since the

announcement. In any case, even if Pulse won't discuss the show, Fuller will have to announce the tour and dates several months before the first show opening to support a typical ticket pre-sales effort. This would be a huge press event, and likely a big event for Pulse as well, as the first global validation of the virtual performance industry that Pulse has pioneered.

Future Markets

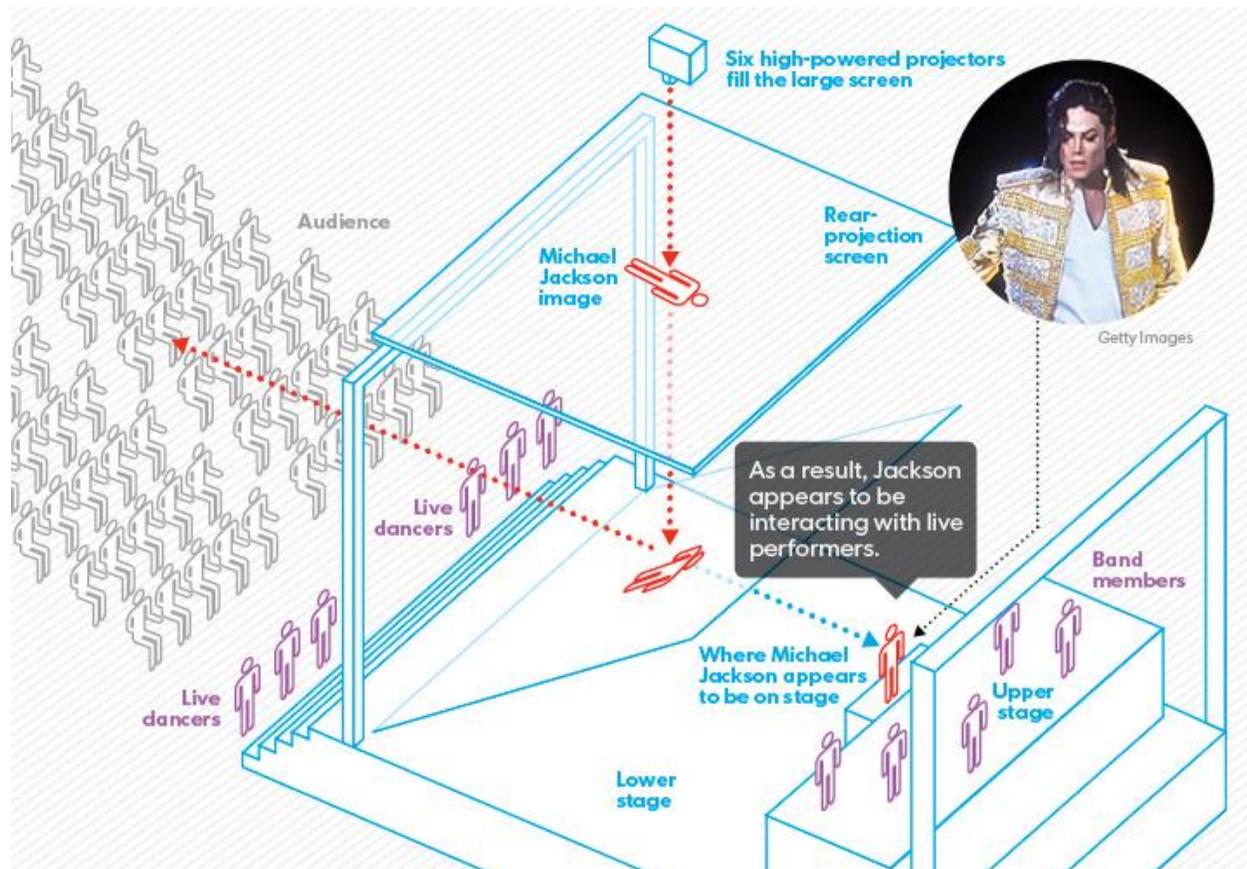
When investors look at the market for hyper-realistic digital humans you can almost get lost in the endless applications. The entertainment market is truly the low hanging fruit. Negotiating the digital likeness from deceased estates like Michael Jackson, Elvis, Marilyn Monroe, John Lennon, Bob Marley, and Frank Sinatra would help extend the brand and develop new audiences beyond an aging demographic. One key point is that pictures of digital likeness do not fall under the current umbrella of licensing and open up a brand new world of endorsement opportunities. Beyond entertainment lies the realm of Artificial Intelligence. People would prefer to speak with a digitized human versus a logo such as IBM's Watson. Once real time rendering becomes a reality, avatars will be able to talk on Skype. The service sector is another great opportunity. For example, at the security checkpoint the TSA agent reminds you to lay your baggage flat and remove all metal from your pockets. A digital human could perform this role more cost effectively. Also consider the educational market, whereby a digital human in concert with Artificial Intelligence (AI) could give lectures with the ability to answer questions. Pulse likes to talk about digital teachers with perfect information that can travel on flash drives to any classroom around the globe. The military is always looking for realistic simulations and these digital humans may be the perfect training aid. Beyond all these niche markets are the medical applications.

Pulse has a minority equity and licensing interest in Pulse BioLogic which is an independent company run by CEO [Rudy Mazzocchi](#). Rudy sees the future similar to Star Trek and its holodeck where the digital images not only look but also feel real. Rudy believes the first medical application will be cosmetic surgery. It may allow doctors to use it as a tool to describe to patients how certain procedures will change their appearance. We have all seen examples cosmetic procedures gone wrong, likely due to poor ability to set expectations. Visualization of the outcome before surgery is performed is a critical part of the consultation process. Cosmetic surgeons without this tool will be hard pressed to convince patients to perform elective surgeries without seeing the results in advance. When it comes to facial reconstruction Pulse is experimenting with a digital overlay on the skin showing the surgeon where major veins and tissue types are located. The key to this is projecting perfect alignment on the patient's body. Pulse Biologic also has designs on getting surgeons to use digital humans as a pre-surgical planning tool. There has also been a lot of work in the force feedback area of simulation using haptic sensor whereby the surgical gloves through vibration simulate the difference in resistance of cutting through different layers of tissue or bone. The fusion of these two technologies could greatly enhance the success rate of difficult surgeries, allowing surgeons the ability to practice in advance of their procedures.

Competition

The injunction by Hologram USA to stop the Michael Jackson concert at the Billboard Music Awards in 2014 serves to highlight who exactly PLFX is competing with. Hologram USA sued for infringement on the projections system used to project the imagery during the show. The judge threw out the injunction and ruled the show must go on, but the episode revealed the high stakes seen in this emerging global

industry. This projection technique known as “Pepper’s Ghost” dates back to the mid 1800s and the lawsuit was more of a publicity stunt as evidenced by Hologram’s false claim that they did the [Tupac Coachella 2012](#). Pulse is not in the projection business and could use any of a number of display technologies including a 2D screen to showcase their content. Pulse’s primary competitors could be the large, well-capitalized visual effects studios, like Lucas and its animated Princess Leia, but Pulse seems to be the only high-end animation studio that is purely focused on hyper realistic digital humans. As long as the big guys are busy building the world’s biggest movies, it seems as if Pulse can continue to lead this niche.



[USA Today](#) – Diagram of Projection Setup

[Industrial Light and Magic](#) – is a Lucas Film company, now owned by Disney, so it’s fitting that the special effects business would flow down to this company. This may also explain why they might be too busy to worry about competing with Pulse. To their credit they have been involved in high budget movies like *Rogue One*, *Deepwater Horizon*, *Kong Skull Island*, *The Mummy*, *Transformers*, and *The Martian*. For special effects they have a very talented crew, but they seem challenged in field of digital humans. The *Star Wars* Movie, *Rogue One* disappointed fans when it came to the digital humans. Deceased actor Peter Cushing played the role as Grand Moff Tarkin, but the special effects were very video game like and lacked a lifelike feel. The [Hollywood Reporter](#) labeled this feeling as the “uncanny valley” when a viewer sees a character that is very humanlike, but not quite right. The film also attempted to bring the younger Carrie Fisher back to life playing princess Leia. The real story behind this high profile appearance

is that it is not simple to bring to life a digital character. This demonstrates just how special the animators are at Pulse. Their lifelike Michael Jackson character is well ahead of the competition.

[Sony Pictures Imageworks Inc.](#) – is a 25 year old company and like ILM is fed work from the Sony Pictures movies but also has contracts with Warner Brothers, Marvel Studios, Disney, and Columbia Pictures. The company focuses on visual effects, technology, and CG animation. They have done CGI graphics for recent films including Spiderman, Guardians of the Galaxy, Edge of Tomorrow, and Ghostbusters.

[Weta Digital Ltd.](#) – is a 20 year old company and known for its creativity. They are most well known for their landscapes and creating worlds such as Pandora in *Avatar* and Middle Earth in the *Lord of the Rings*. Their most recent films are *War for the Planet of the Apes* and *Valerian and the City of a Thousand Planets* and *The BFG*. Their lifelike characters are very convincing, but they are fictional characters so the human eye can't distinguish between the original and the fake because there is no basis of comparison.

Risks

The primary risk is acceptance of this new technology. Audiences were amazed at the 2014 Billboard Music Awards show but consumer preferences can change. It is currently unknown if a market exists to see resurrected icons like Michael Jackson as the primary billing because this is a market forming technology. The show will be directed and choreographed by a very experienced team but that doesn't translate into a guarantee that the show will be well received if it fails to excite people. The company is very undercapitalized compared to its peers and could see other studios spend more in this area and threaten PLFX's dominance in this niche market. The company has an ideal candidate as CEO but he and his team could fail in the transition to revenue by not securing more talent and licensing the technology.

Investment Conclusion

PLFX could be one of the most misunderstood stories on Wall Street given the lack of transparency to the market over the past 2 years. This article should clear up some of the most common misconceptions. The recent 15-D filing coupled with the appointment of the new CEO Jordan Fiksenbaum makes it clear now that significant business activity is on the horizon. With a box office record of over \$5.0 billion it's hard to imagine he will sit idle very long. The company has spent close to \$40 million to develop the digital human technology on attractive terms for existing shareholders. Proven producers like Fiksenbaum in management, capable of executing the vision of the company were brought on board. This management team seems ready to tackle the company's largest project in its history. Through careful analysis this monster project appears to be ABBA's 2018 virtual tour. A 30 year drought of ABBA performances should drive ticket sales north of \$1.0 billion given that they turned that offer down 4 years ago to do a [reunion tour](#). Not only will this marquee project bring in production revenue, and likely a back end profit participation, but it will also serve as a template to acquire more rights for other artists digital likenesses, living or deceased. This approach of starting slow with hyper realistic content is similar to how Dreamworks got its start in 1994. Dreamworks took almost 4 years to produce its first feature film called *Antz*. 35 films later is sold the company for \$3.8 billion in 2015. Once concertgoers get a taste of these digital human shows, the revenue model scales quickly, making it difficult to calculate a present discount to future sales, likely in the billions. Unlike the live artist, the digital human can be in multiple places at the same time. No longer will an artist be limited by

geographical boundaries. The production costs of creating a show are covered by the upfront funding with the company also get a percentage on the backend. This means little dilution to shareholders while the company proves out this strategy. For future shows it is expected that digital humans that are living will command a higher percentage of the box office than digital humans of a deceased artist. As technology improves and Pulse's library of digital humans expands, shows will become cheaper and quicker to produce, leading to an acceleration of earnings. This expansion will also lead to new vertical markets in Artificial Intelligence, Virtual Reality, Augmented Reality, and eventually healthcare. When investors are confronted with market forming technology it's very difficult to evaluate the potential upside. If they capture just 1% of the VR/AR market estimated by Digi-Capital to be \$108 Billion by 2021, that would mean \$1.08 billion in 2025. Each and every one of these verticals has similar potential. If investors add these 5 verticals together it totals \$5.0 billion and at the current market capitalization of \$55 million this represents approximately 1% of its market potential. Investors who look at the \$40 million invested in Intellectual Property as an asset would be looking at an enterprise value of \$15 million for a company that has the potential to do well over \$250 million in revenue by the most conservative of estimates. Some of the strategic investors started investing at \$1.00 per share. By any measure this company is undervalued. Assuming 1 times forward sales is fair value, the target stock 6-18 month price is between \$1.15 to \$2.30.

Technical Analysis



Traders View Stock Chart - PLFX

The big spike on the stock chart was after the 2014 Billboard Music Awards as people were in awe as to the quality and realism of the hologram. The stock has since retraced over the past couple of years due to lack of new of follow on projects. The stock is in the bottoming process as you can see the volume increasing while the stock price marks time. A break of .15 would be technical damage if accompanied by volume and conversely a break above .50 would indicate a reversal of the long term downtrend since April 2016.

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