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Better Choice Company Inc. (NYSE AM: BTTR)

August 31, 2021

Buy: Initiate with Buy Recommendation and \$10 Price Target

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We initiate coverage of Better Choice with a Buy recommendation and \$10 price target. We expect a product re-launch and a new distribution strategy, guided by an experienced and deep management team and funded with a strong balance sheet, will enable the company to drive revenue and EBITDA to significantly higher levels. We believe the increase in revenue and EBITDA will result in a higher multiple. Our \$10 target is based on an EV/sales multiple of 4x our 2023 sales estimate of \$82.5 million.

Better Choice sells premium dog and cat food in the United States and Asia under the Halo and TruDog brands. The pet food market is large and estimated to grow 7%, far in excess of the CBO's prediction of less than 4% nominal growth in the U.S. Increased pet ownership is driven by household growth, higher income, and migration to bigger houses, on larger lots. The pandemic has boosted growth as more people work from home and have more opportunity to care for pets.

The pet food market has two mega, mass-market suppliers: Nestlé's Purina and Mars. These two companies serve about 45% of the global pet food market and the rest of the market is highly fragmented. We believe this offers opportunities for well-managed and well-financed companies, such as Better Choice, to gain share organically and through acquisitions.

The company plans to re-launch its offering to the brick-and-mortar distribution channel in 2022, has signed an agreement to launch in Pet Supplies Plus in Q1, and expects to be available in 1,500 stores by the end of Q2. This product re-launch is expected to drive revenue growth sharply higher in this channel over our forecast horizon.

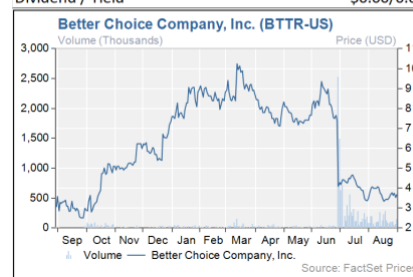
Better Choice has signed minimum purchase agreements with its Asian distributors valued at \$100 million over the next 4-5 years. This is a key component of our revenue projections. Demand for pet food and increased pet ownership is increasing in international markets, particularly in China, where household pet ownership is much lower than the level in the U.S.

The company is led by an experienced and deep management team with a history of success in consumer products and pet food. We believe the company has the financial resources necessary to accomplish its goals, with over \$35 million in cash.

Valuation: An EV/Sales multiple of 4x applied to our 2023 revenue estimate results in a price target range of \$10 to \$12 per share. The low end of the range assumes exercise of the company's warrants. Our \$10 price target uses the 4x EV/Sales multiple and assumes exercise of the company's warrants.

Risks: Risks to achieving our price target include an interruption in the economic recovery, less expansion in the domestic retail channel than we project, Asian distributors not meeting their minimum purchase obligations, cost increases impacting margins and greater time and resources needed to meet sales objectives.

Current Price	\$3.70		
Price Target	\$10.00		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 42,590	\$ 47,819	\$ 66,000
1Q March	\$ 12,226	\$ 10,830	\$ 15,000
2Q June	\$ 9,941	\$ 10,989	\$ 16,000
3Q September	\$ 11,135	\$ 12,000	\$ 17,000
4Q December	\$ 9,288	\$ 14,000	\$ 18,000
	F2020A	F2021E	F2022E
EBITDA (\$000s)	\$ (1,716)	\$ (6,663)	\$ (740)
1Q March	\$ (94)	\$ (1,131)	\$ (1,155)
2Q June	\$ (627)	\$ (1,798)	\$ (475)
3Q September	\$ (274)	\$ (2,207)	\$ 245
4Q December	\$ (721)	\$ (1,527)	\$ 645
EV/Sales	2.0 x	1.8 x	1.3 x
EV/EBITDA	(49.8) x	(12.8) x	(115.6) x
Stock Data			
52-Week Range	\$1.44	-	\$10.80
Shares Outstanding (mil.)	29.6		
Market Capitalization (mil.)	\$109		
Enterprise Value (mil.)	\$86		
Debt to Capital	29%		
Book Value/Share	\$0.90		
Price/Book	4.1x		
Average Three Months Trading Volume (K)	37		
Insider Ownership	5.7%		
Institutional Ownership	16.4%		
Short interest (mil.)	0.1%		
Dividend / Yield	\$0.00/0.0%		

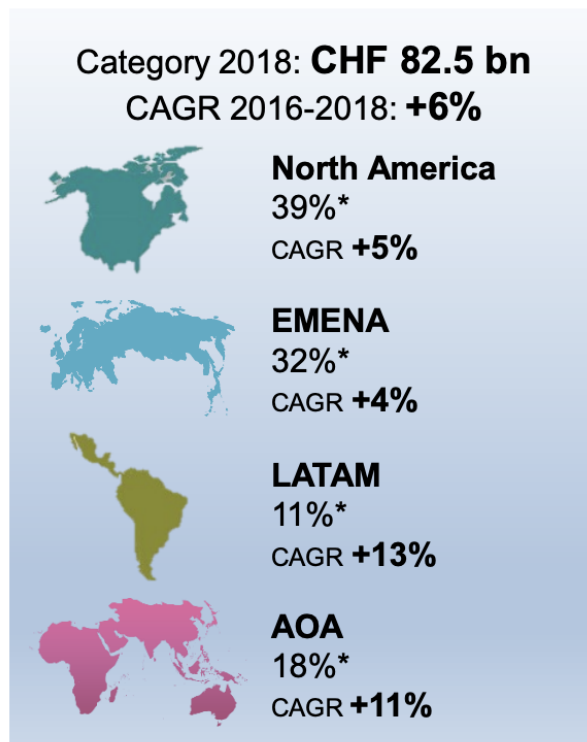


Pet Food Industry

The global pet food market in 2019 [exceeded \\$91 billion](#) and Nestlé, owner of Purina brand pet food, [forecasts industry growth of 7%](#) from 2018 through 2023. In the U.S., [pet food and treat sales grew](#) 15% in 2020 to \$44.4 billion, and total industry sales of products and services grew 9% in 2020 to \$107 billion. Growth in 2020 was far above the CAGR of 5.4% from 2014 to 2019 as the pandemic brought about increased time at home, migration of households from urban areas to suburban and rural areas and increased pet ownership.

Nestlé estimated North America is the largest regional market, with almost 40% of global dog and cat food sales. Purina and Mars are the two largest suppliers, totaling about 45% of sales.

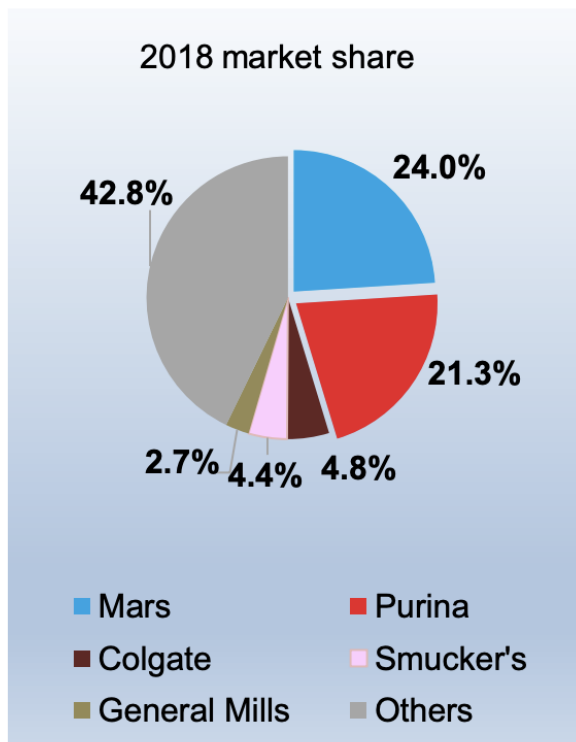
Regional growth



* % of 2018 category sales

Source: Euromonitor 2019 edition - Pet care includes only dog & cat food

Competitive landscape



Source: [Nestlé. “Winning in Petcare” May 7, 2019](#)

Excluding Mars and Purina, the market is highly fragmented. The largest suppliers, after Mars and Purina, are Colgate ([Hill's Pet Nutrition](#)), J.M. Smucker ([9Lives](#), [Gravy Train](#), [Kibbles 'n Bits](#), [Meow Mix](#), [Milk-Bone](#), [Milo's Kitchen](#), [Nature's Recipe](#), [Pup-Peroni](#), [Rachael Ray Nutrish](#), [Snausages](#)) and General Mills ([Blue Buffalo](#)) with sales in 2020 of \$2.9 billion, \$2.8 billion and \$1.7 billion, respectively, per company filings, and [Petfoodindustry.com lists over 170 companies](#) globally serving the pet food market.

The American Pet Products Association (APPA) estimates total pet care expenditures in the U.S. in 2020 was \$103.6 billion, up 6.7% from 2019, and expected to grow 5.8% in 2021 to \$109.6 billion. Of this amount, pet food and treats is estimated at \$42 billion in 2020, growing to \$44.1 billion in 2021.

Pet Industry Market Size, Trends & Ownership Statistics

Total U.S. Pet Industry Expenditures

Year **Billions of dollars**

2020	\$103.6 Actual
2019	\$97.1
2018	\$90.5

(Data was announced at the **2021 State of the Industry** presentation on 3/24/21)

Actual Sales within the U.S. Market in 2020

In 2020, \$103.6 billion was spent on our pets in the U.S.

Breakdown:

Pet Food & Treats	\$42.0 billion
Supplies, Live Animals & OTC Medicine	\$22.1 billion
Vet Care & Product Sales	\$31.4 billion
Other Services	\$8.1 billion

(Other Services include boarding, grooming, insurance, training, pet sitting and walking and all services outside of veterinary care)

Estimated 2021 Sales within the U.S. Market

For 2021, it *estimated* that \$109.6 billion will be spent on our pets in the U.S.

Estimated Breakdown:

Pet Food & Treats	\$44.1 billion
Supplies, Live Animals & OTC Medicine	\$23.4 billion
Vet Care & Product Sales	\$32.3 billion
Other Services	\$9.7 billion

Source: [American Pet Products Association, "Pet Industry Market Size, Trends & Ownership Statistics"](#)

Petco puts the total market a bit higher than the APPA and estimates products, which includes food and supplies, has grown at a 7.9% CAGR since 2015 and is expected to grow at a 7% CAGR through 2025.



petco ¹ Projected TAM for U.S. Pet Market; Source: Packaged Facts March-2021 for TAM except companion animals, internal estimates for companion animal TAM

Source: [Petco Annual General Meeting Presentation July 21, 2021](#)

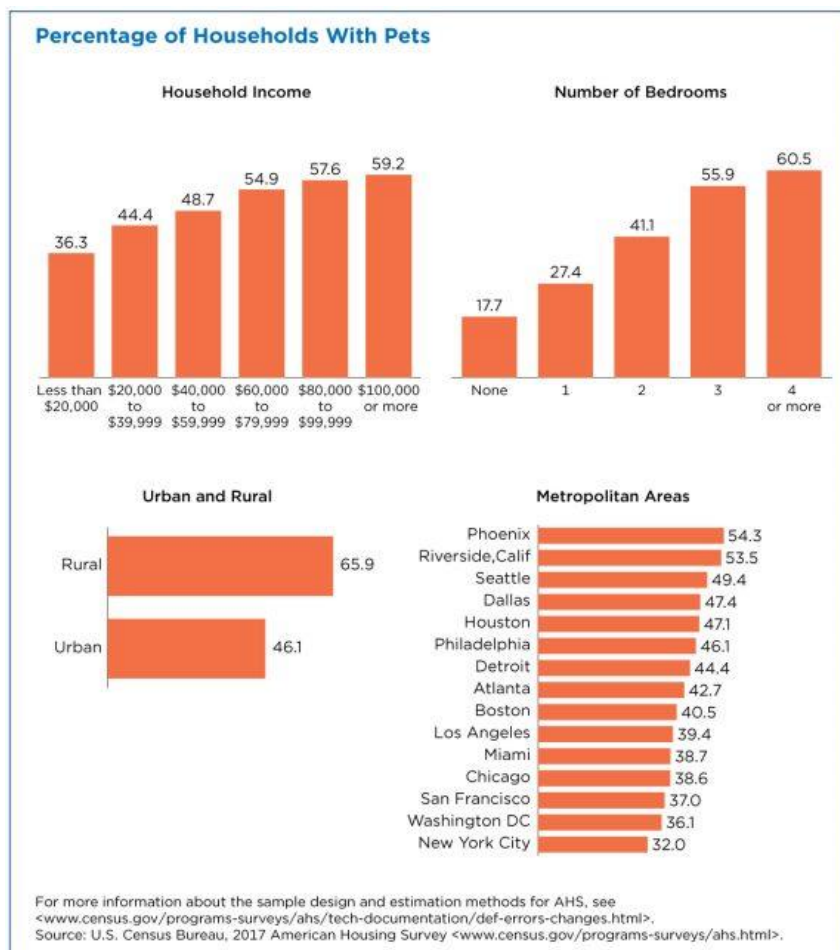
According to the Census Bureau, [pet ownership rises with income and house size and is greater in rural areas.](#)

“Outside space matters, too. Two-thirds of households in rural areas have pets, compared with just under half of urban households.

Space makes a difference across the urban landscape, as well.

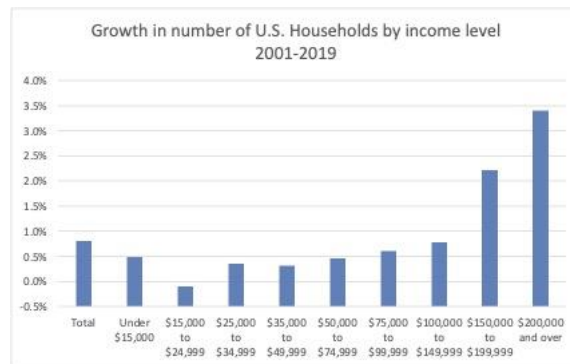
In some sprawling metropolitan areas, such as Phoenix and Riverside, Calif., more than half of households have a pet.

In contrast, in more compact and dense areas such as New York City, only a third of households have pets.”



Source: Census.gov

As pet ownership is driven in part by household income, the growth in the number of households with higher income levels has been a key driver in the growth in the number of pets. Over the past 20 years, growth in the number of U.S. households with incomes above \$100,00 has been higher than the growth of U.S. households overall, and these households are much more likely to be pet owners.



Source [Census.gov](https://www.census.gov) (table H-17)

Using APPA survey data, the number of U.S. households with a pet has grown from [82.5 million in 2012](#) to [90.5 million in 2020](#), a CAGR of 1.2%. The number of households with a dog has increased at a 2.5% CAGR, and expenditures on dog food has increased at a 4.9% CAGR while expenditures on cat food has increased at a 2.8% CAGR.

Anthropomorphism, or the humanization of pets, is an important trend in the industry. Humanization results in the desire of pet owners to provide their pets with human-like products or experiences. [“For example, according to the 2017-2018 National Pet Owners Survey from the American Pet Products Association \(APPA\), 28 percent of dog owners surveyed said they throw birthday parties for their pups.”](#)

Blue Buffalo addressed this in its [2017 10K](#):

U.S. pet food retail sales grew 57% between 2007 and 2017, which represents a compound annual growth rate ("CAGR") of 5%, based on data from Euromonitor. The industry growth over this period has been fueled by the "humanization" of pets, as pets are increasingly regarded as family members. This humanization trend has led pet parents to increasingly evaluate pet foods in the same way they scrutinize their own food choices. As more pet parents seek better, more wholesome options for themselves, they also seek these types of options for their pets. As a result, a significant number of pet parents have demonstrated a willingness to pay a premium for pet food that they believe will enhance the well-being of their pets. The higher demand for natural food products and more specialized formulas for different life-stages, breed sizes, special needs and diet types has fueled premiumization in the industry, leading to the faster growth of products with higher revenue per pound. This premiumization trend has impacted all market segments and product types in the pet food industry.

M&A

There is a paucity of publicly traded pet food pure plays as they have a tendency to be purchased after achieving scale. For instance, Big Heart Pet Brands, with brands including [Meow Mix](#), [Milk-Bone](#), [Kibbles 'n Bits](#), [9Lives](#), [Natural Balance](#), [Pup-Peroni](#), [Gravy Train](#), [Nature's Recipe](#), [Canine Carry Outs](#), [Milo's Kitchen](#), was acquired by J.M. Smucker in [March 2015 for \\$6 billion](#). In April 2018, General Mills acquired [Blue Buffalo for \\$8 billion](#). Also in April 2018, J.M. Smucker acquired Ainsworth Pet Nutrition, LLC, the maker of [Rachael Ray Nutrish Pet Food for \\$1.9 billion](#).

Recent Major M&A Transactions

Date	Buyer	Seller	EV/Sales	EV/EBITDA
December 2020	H&H Group	Solid Gold Pet	2.5x	NA
May 2018	J.M. Smucker	Ainsworth	2.8x	22.0x
April 2018	General Mills	Blue Buffalo	5.7x	22.8x
March 2015	J.M. Smucker	Big Heart Pet	2.5x	12.9x

Source: Company press releases, company filings, FactSet

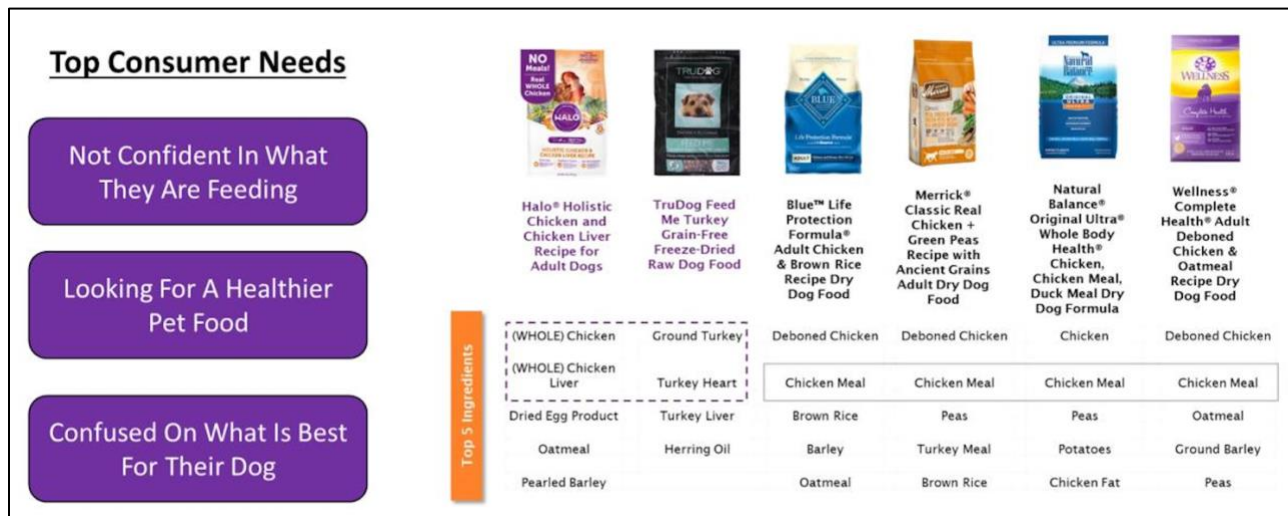
There has been an active M&A market in the pet food industry for many years and we expect this to continue given the fragmented nature of the industry and above-average growth rates.

Better Choice Corporate History

In 2019, Better Choice entered the pet food market with the acquisitions of TruPet LLC and Bona Vida, Inc. in a pair of all-stock transactions. The acquisition of TruPet was treated as a reverse merger and the historical financial statements are TruPet's. In late 2019, Better Choice acquired Halo, Purely for Pets, Inc. a natural pet food brand focused on the ultra-premium segment of the market, for consideration totaling \$46.9 million. Net sales for Better Choice in 2019 was \$15.6 million, about \$0.7 million from the Halo acquisition. Sales of Halo, in 2019 (after adjusting for the revenue recognition standard ASC 606), was \$29 million.

Halo is a 30-year-old, super premium natural pet food brand that uses natural whole meat and no rendered meat meal. The company asserts the product is highly digestible due to the use of real whole protein. Top-line growth has been driven by the migration of sales to the premium foods. The primary distribution channels are e-commerce, brick-and-mortar stores and international distributors.

TruDog is a 7-year-old brand that markets ultra-premium raw freeze-dried and dehydrated food, treats, and supplements. Most of its sales are direct-to-consumer (DTC).



Source: [Better Choice, March 31, 2012 EPS Presentation](#)

Both Halo and TruDog engage contract manufacturers, enabling an asset-light model. According to the company's 2020 10K, it relies on Alpha, Inc. and Simmons Pet Food, Inc. for much of the food sold under the Halo brand, and Carnivore Meat Company, LLC for the supply and co-manufacturing of TruDog's freeze-dried food and treats. Alpha, Simmons, and Carnivore produce more than three-quarters of the product volume sold by Better Choice platform.

There were industry disruptions to the supply chain and changes in distribution channels favored by consumers brought about by the pandemic in 2020. In addition, during 2020, the company consolidated the supply chains and back-office functions of Halo and TruDog, received approval from the Chinese Ministry of Agriculture to ship 15 diets directly into Mainland China as of June 2020, and strengthened the balance sheet with additional equity and reduced debt.

Management

Pro forma net sales in 2019 for the combined company was \$44.5 million (after adjusting for the revenue recognition standard ASC 606) and declined to \$42.6 million in the pandemic year 2020. The company encountered supply and demand factors common to the industry, including supply chain disruptions, a shift in consumer buying to the online channel and away from brick-and-mortar stores, an increase in the pet owner population, and an increase in the number of pets. While combined sales of the pet food segments of J.M. Smucker, General Mills, Colgate and Spectrum Brands, plus sales of Freshpet grew 12.4% in 2020, and including Nestlé's Purina, grew 6.8% in 2020, sales of Better Choice were down almost 5% and resulted in a change in management and the company's product and distribution strategy.

Significant changes to the company's management team were made early in 2021, beginning with the hiring of Scott Lerner as CEO in January. Mr. Lerner has 20 years' experience in the food and beverage industry, managing brands including Naked Juice, Quaker Oats, Scott Tissue and Parkay Margarine. Mr. Lerner created a beverage brand, Solixir, which was sold in 2014. After Solixir, Lerner was CEO of Kernel Season's, a maker of popcorn seasoning sold to consumers at retailers and movie theaters in the United States. Kernel Season's was sold to Highlander Partners in 2018. Before joining Better Choice, Mr. Lerner was CEO of Farmhouse Culture, a fermented food brand.

Donald Young was hired in January of this year as Executive Vice President of Sales. Mr. Young has 30 years' experience in the premium pet food market. He played a major role, as Sr. Group VP and VP of Sales, in the growth of the Nutro brand from \$20 million in sales in the 1990s to over \$800 million in sales in 2007, when it was sold to Mars, Inc. From June of 2011 to December 2020, Mr. Young was VP of Sales for Merrick Pet Care. While at Merrick, sales more than quadrupled to \$500 million. Merrick was acquired by Nestlé Purina.

Jenny Condon was appointed Executive Vice President of Digital Sales in January. Condon worked with Donald Young at Merrick from 2014 to 2019, where she was Vice President of e-Commerce and Business Development and oversaw a 30% increase in online sales to \$150 million.

Ryan Wilson joined Better Choice in January as Vice President of Marketing. Wilson was with Merrick since 2016 as Brand Manager, Director of Marketing – Treats, Director of Marketing – Treats/Castor & Pollux, and Director of Marketing – Treats/Castor & Pollux/Whole Earth Farms. Prior to Merrick, Mr. Wilson held marketing and brand management positions at Abbott Nutrition and Nestlé Purina.

In February, the company hired Alex Vournas as VP of Supply Chain and Logistics. Since 2016, Vournas was Director of Supply Chain at Solid Gold Pet and previously was Director of Supply Chain at Phusion Projects, Regional Director of Supply Chain at Bimbo Bakeries, formerly Sara Lee Bakery.

Sharla Cook was promoted to CFO in May 2020 with significant corporate controller, financial planning and public reporting experience at Checkers Drive In, Cott Beverages and Syniverse Technologies.

Rob Sauermann, Executive VP for Strategy, joined the company with the acquisition of Halo, where he was Chief Strategy Officer. Mr. Sauermann's prior experience is in the financial services industry with Credit Suisse and Pegasus Capital Advisors.

We believe the management team assembled, along with the strong industry backdrop and much improved balance sheet, gives the company an excellent chance of success. Management is highly incentivized to improve results with Lerner, Sauermann, Young, and Cook having option and warrant grants of almost 1 million shares, but with a weighted average strike price of \$6.90.

Product Development, Branding and Distribution

A key initiative for management has been improving branding, distribution and integration of the TruDog and Halo brands. Through 2020, TruDog and Halo operated as independent businesses. The company incorporated results from consumer research to consolidate the differing products under one Halo brand, with modifications for each channel to minimize channel conflict, while still creating a master brand personality. This plan has been gradually introduced to the company's channel partners this year, and early next year, the company plans to relaunch with key brick-and-mortar accounts.

The company plans to implement an omnichannel strategy, with purpose-built products designed for specific channels while maintaining its ability to leverage marketing and sales resources cross-channel. It believes a unified Halo brand that serves all domestic and international channels will enable an efficient and strong marketing effect across all sub-brands. A master Halo brand should help the company realize economies of scale in its supply chain, optimize capital allocation and maximize results from advertising spend. Better Choice expects this strategy to enable consumers to recognize the master brand and its sub-brands and increase loyalty.

	Halo "Holistic" (Current Halo Brand)	Halo "Elevate" (2022 Launch)	TruDog (Consolidation w/ Halo)
Pet Parent Target	Female Millennials With High Willingness to Pay		
Core Benefit	Holistic, Benefit-Based Solutions (Digestion, Vegan, etc.)	Best In-Class Nutrition with Transparent Recipes	Real Animal Protein Your Dog Needs and Craves
Channels	E-Commerce, International, DTC	Pet Specialty, International, DTC	E-Commerce, International, DTC
Companion Animal Type	Dog & Cat	Dog & Cat	Dog Only
Products	Dry Kibble, Canned Wet, Treats	Dry Kibble, Canned Wet, Treats	Freeze-Dried Food, Toppers & Treats; Chews and Supplements
SKUs	Dry Dog: 12 Wet Dog: 23 Vegan Dog: 8 Treats (Dog): 6 Dry Cat: 24 Wet Cat: 25 Treats (Cat): 2	Dry Kibble (Dog & Cat): 31 Canned Wet (Dog & Cat): 10	Freeze Dried Food: 7 Freeze Dried Toppers: 7 Freeze Dried Treats & Supplements: 31

Source: [Better Choice](#)

The online channel (Chewy, Amazon, DTC) accounted for almost 60% of sales in 2020 and Better Choice expects its omnichannel strategy to allow it to glean knowledge from its online customers, such as what they are buying and key triggers motivating the purchases to drive product placement and education at specialty stores. This will be particularly important next year since a significant portion of the company's growth is expected to come from specialty stores in 2022. The company intends to focus on in-store education to drive recommendation by store personnel of the Halo brand to customers. The company believes premium pet food sales are driven by in-store recommendation, so this will be a focus for the company over the coming quarters.

The launch in 2022 of Halo Elevate with brick-and-mortar retail partners is core to the company's distribution and growth strategy. In August, the company reached an agreement to launch Halo Elevate with Pet Supplies Plus, the third largest pet specialty retailer in the United States, with over 560 stores in 36 states. The company expects Halo Elevate to be available in 1,500 stores by mid-year 2022, including Petco and select grocery chains and neighborhood pet stores. In 2020, the brick-and-mortar channel accounted for \$9 million in sales, and the company is targeting sales in this channel of about \$25 million by 2023, driven by the new product launch, focused channel strategy and expanded distribution points.

International sales are also expected to grow rapidly, a key component of the company's growth, over our forecast horizon. In 2020, international sales were \$8.6 million, about 20% of total sales. China accounted for 48% of international sales, with the remaining amount split between Japan, Korea and Taiwan. International sales of Halo increased 95% in 2020, driven in part by garnering product import registrations for 15 holistic dog and cat food diets from the Ministry of Agriculture and Rural Affairs of China in June 2020.

In March of this year, Better Choice announced an agreement with its Asian distribution partners to purchase a minimum of \$25.6 million through the end of 2022. In June, the company signed an agreement with its Asian distribution partners to purchase a minimum of \$100 million through the end of 2025, which is both an acceleration of sales in key markets and an extension of contract terms for certain distributors. This equals annual sales of \$20 to \$25 million, and since it is a minimum purchase agreement, there is potential to exceed this range.

The Chinese market is growing rapidly. In the company's 2020 10K, it cites a Euromonitor report forecasting 20% growth for premium dry dog food in China from 2015 through 2025 and 28% growth for premium cat food. Growth is driven by increased pet ownership, from 12% of households in 2015 to 20% in 2020, still well below the 70% level in the U.S., according to the American Pet Products Association. In the U.S., pet ownership has followed a rise in incomes, and if pet ownership in China follows the same pattern, it is likely pet ownership will continue to increase as incomes rise in China.

Better Choice is targeting 20% growth from both its e-commerce and DTC channels. In 2020, the e-commerce channel generated \$14 million in sales, or one third of sales. Customer subscription rates exceed 50% and provide stability to sales from this channel. TruDog accounts for most of DTC channel sales and generated \$10.8 million, or 25% of total sales in 2020. The company plans to bring TruDog under the Halo brand and leverage corporate marketing and advertising dollars to drive growth. The company cites industry sources estimating this subcategory grew 39% in 2019. If the company hits its growth target, e-commerce and DTC could account for just over 50% of sales in 2023.

We have not included additional sales from mergers and acquisitions, although we think it is likely the company will consummate acquisitions over our forecast horizon. Better Choice, after its equity offering, has over \$35 million in cash, and if the stock responds to an increase in sales, we project the company will also be able to use its stock as currency for acquisitions.

Financial model

The company's long-term financial model is a gross margin of 40% to 45%, contribution margin of 20% to 25% and long-term EBITDA margin of 10% to 15%. We believe the company can exit 2023 achieving these target ranges. The company was at the low end of the gross margin target range in 2020 but experienced pressure in the first half of this year and will probably experience continued pressure in the second half as costs have increased and the company is prepping for the Halo Elevate product launch.

	2020	1H 2021	Target
Annual sales (\$M)	\$42.6	\$43.6	\$85 net/\$100 gross
Gross margin	40%	37%	40%-45%
EBITDA margin	-4.0%	-13.4%	10%-15%

Source: Better Choice

The company also has a goal of achieving \$100 million in gross annual sales within the next 3 years. This would equate to about \$85 million in net sales (gross sales less allowances and discounts), or a 25% CAGR from 2020. As mentioned above, higher growth is expected from the brick-and-mortar and international channels, with still strong growth from e-commerce and DTC.

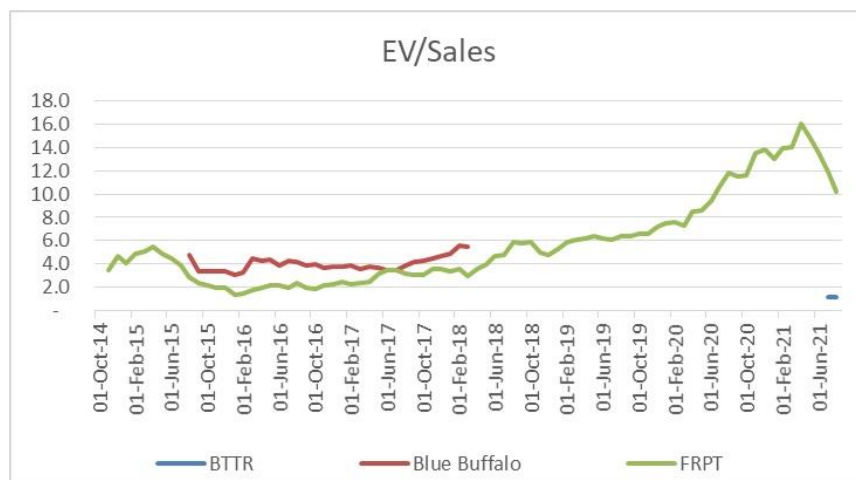
Valuation

Freshpet is the closest and most relevant comp to Better Choice. There are retailers in the pet business, but their margin and growth profiles are much different from Better Choice's. The pet food business of J.M. Smucker, General Mills, Colgate, Spectrum Brands and Nestlé are parts of larger businesses and have much lower expected growth relative to Better Choice.

The chart below shows historical EV/Sales data for Freshpet, Blue Buffalo (while it was public) and Better Choice. Blue Buffalo had a similar growth, margin and market focus to Better Choice, so we believe its multiple history is relevant to where we believe Better Choice's shares could trade.

From August 2015 through March of 2018, the average EV/Sales based on forward-12-month sales estimates for Blue Buffalo was 4.0x. During this same period, Freshpet's shares traded at an average EV/Sales of 2.5x. From March 2018, when Blue Buffalo was acquired, through February 2020, when the pandemic began to have an impact on the market, Freshpet's shares traded at an average EV/Sales of 5.9x, and since March 2020, have traded at an average of 12.0x.

We believe the Blue Buffalo and Freshpet pre-pandemic average multiples are the most relevant for Better Choice's valuation. Growth is similar, as are margins. An EV/Sales multiple of 4x applied to our 2023 Better Choice revenue estimate results in a price target range of \$10 to \$12 per share. The low end of the range assumes exercise of the company's warrants. Our \$10 price target uses the 4x EV/Sales multiple and assumes exercise of the company's warrants.



Source: FactSet and Dawson James Securities estimates

Risk Analysis

Risks to achieving our price target include an interruption in the economic recovery, less expansion in the domestic retail channel than we project, Asian distributors not meeting their minimum purchase obligations, cost increases impacting margins and greater time and resources needed to meet sales objectives.

Exhibit 1. Income Statement

(\$ in 000's) (except per share data)	31-Dec-19 2019 A	31-Dec-20 2020 A	31-Mar-21 Q1 21 A	30-Jun-21 Q2 21 A	30-Sep-21 Q3 21 E	31-Dec-21 Q4 21 E	31-Dec-21 2021 E	31-Dec-22 2022 E	31-Dec-23 2023 E
Revenue	15,577	42,590	10,830	10,989	12,000	14,000	47,819	66,000	82,500
COGS	9,717	26,491	6,556	7,089	7,920	9,240	30,805	40,520	47,850
Gross Profit	5,860	16,099	4,274	3,900	4,080	4,760	17,014	25,480	34,650
Gross margin	38%	40%	39%	35%	34%	34%	36%	39%	42%
G&A	19,782	25,966	4,551	3,530	3,500	3,500	15,081	14,560	15,142
Share-based comp	10,280	8,940	2,525	332	332	332	3,521	2,000	2,400
Sales and marketing	10,138	7,892	2,336	3,235	3,200	3,200	11,971	13,312	13,844
Other	1,097	623	0	0	0	0	0	0	0
Impairment	889	0	0	0	0	0	0	0	0
Opex	42,186	43,421	9,412	7,097	7,032	7,032	30,573	29,872	31,387
Operating Income	(36,326)	(27,322)	(5,138)	(3,197)	(2,952)	(2,272)	(13,559)	(4,392)	3,263
Interest Expense	670	9,247	835	2,234	251	251	3,570	1,002	1,002
Loss on extinguishment of debt	0	88	394	(851)	0	0	(457)	0	0
Loss on acquisitions	147,376	0	0	0	0	0	0	0	0
Change in fair value of warrant liability	90	22,678	6,483	(29,356)	0	0	(22,873)	0	0
Net Income	(184,462)	(59,335)	(12,850)	24,776	(3,203)	(2,523)	6,201	(5,394)	2,261
Preferred dividends	109	103	0	0	0	0	0	0	0
Net to common	(184,571)	(59,438)	(12,850)	24,776	(3,203)	(2,523)	6,201	(5,394)	2,261
Basic Shares	5,540	8,181	9,588	11,127	29,600	29,836	20,038	31,086	33,086
Diluted Shares	5,540	8,181	9,588	21,389	29,600	29,836	22,603	31,086	33,086
Basic EPS	\$ (33.32)	\$ (7.27)	\$ (0.22)	\$ 2.23	\$ (0.11)	\$ (0.08)	\$ 0.31	\$ (0.17)	\$ 0.07
Diluted EPS	\$ (33.32)	\$ (7.27)	\$ (0.22)	\$ 1.16	\$ (0.11)	\$ (0.08)	\$ 0.27	\$ (0.17)	\$ 0.07
Depreciation and Amortization	171	1,748	411	413	413	413	1,650	1,652	1,652
Stock Comp	10,280	8,940	2,544	313	332	332	3,521	2,000	2,400
Other	10,989	14,918	1,052	673	0	0	1,725	0	0
EBITDA	(14,886)	(1,716)	(1,131)	(1,798)	(2,207)	(1,527)	(6,663)	(740)	7,315
Margin	NM	-4.0%	-10.4%	-16.4%	-18.4%	-10.9%	-13.9%	-1.1%	8.9%

Source: Better Choice Company Inc. and Dawson James Securities estimates

Exhibit 2. Balance Sheet and Cash Flow Statement

(\$ in 000's)	31-Dec-19 2019	31-Dec-20 2020	31-Dec-21 2021 E	31-Dec-22 2022 E	31-Dec-23 2023 E
Cash	2,361	3,926	30,611	27,196	31,106
Restricted Cash	173	63	63	63	63
A/R	5,824	4,631	7,000	9,000	11,250
Inventory	6,580	4,869	7,700	9,000	10,875
Prepaid expenses and other	2,641	4,074	6,271	8,062	10,078
Current Assets	\$ 17,579	\$ 17,563	\$ 51,644	\$ 53,321	\$ 63,372
PP&E	417	252	149	149	149
Right-of-use assets	951	345	94	94	94
Intangible assets	14,641	13,115	11,587	10,060	8,533
Goodwill	18,614	18,614	18,614	18,614	18,614
Other assets	1,330	1,364	114	114	114
Total Assets	\$ 53,532	\$ 51,253	\$ 82,202	\$ 82,352	\$ 90,875
Short term loan	16,061	7,826	704	704	5,703
Line of credit	4,819	0	222	222	5,157
PPP loans	0	190	0	0	0
Other liabilities	500	47	0	0	0
A/P	4,049	3,137	6,062	7,794	9,742
Accrued liabilities	4,721	3,003	2,842	3,654	4,568
Deferred revenue	311	350	0	0	0
Operating lease	345	173	56	56	56
Warrant derivative liab.	2,220	39,850	16,977	16,977	16,977
Current Liabilities	\$ 33,026	\$ 54,576	\$ 26,863	\$ 29,407	\$ 42,203
Notes payable	16,370	18,910	0	0	0
Term loans	0	0	4,999	4,999	0
Line of credit	0	5,023	4,935	4,935	0
PPP loans	0	662	0	0	0
Operating lease liab.	641	184	38	38	38
Series E Cv. Preferred	10,566	0	0	0	0
Total Stockholders' Equity	(7,071)	(28,102)	45,367	42,973	48,634
Total Liabilities & Equity	\$ 53,532	\$ 51,253	\$ 82,202	\$ 82,352	\$ 90,875
	31-Dec-19 2019	31-Dec-20 2020	31-Dec-21 2021 E	31-Dec-22 2022 E	31-Dec-23 2023 E
Net Income	(184,571)	(59,438)	6,201	(5,394)	2,261
Depreciation and amort.	171	1,748	1,650	1,652	1,652
Share-based comp.	10,280	8,940	3,521	2,000	2,400
Working Capital and other	153,151	41,245	(24,013)	(2,548)	(3,279)
Operating CF	\$ (20,969)	\$ (7,505)	\$ (12,641)	\$ (4,290)	\$ 3,035
Capex	(110)	(151)	(117)	(125)	(125)
Acquisitions	(20,097)	0	0	0	0
Investing Activities	\$ (20,207)	\$ (151)	\$ (117)	\$ (125)	\$ (125)
Equity	20,333	19,101	41,846	1,000	1,000
Debt	19,431	(9,990)	(2,404)	0	0
Financing	\$ 39,764	\$ 9,111	\$ 39,442	\$ 1,000	\$ 1,000
Change in Cash	\$ (1,412)	\$ 1,455	\$ 26,685	\$ (3,415)	\$ 3,910

Source: Better Choice Company Inc. and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

Initiated – Buy – August 31, 2021 – Price Target \$10.00

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- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
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The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of: 27-Aug-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	71%	4	16%
Market Perform (Neutral)	10	29%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	35	100%	4	11%

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