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Better Choice Company Inc. (NYSE AM: BTTR)

May 13, 2022

Buy: Q1 Review. Reiterate Buy and $10 Price Target

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Q1 revenue was much better than forecast, driven by strong international results and launch of Halo Elevate in the U.S. We reiterate our $10 target based on an EV/sales multiple of 4x our 2023 sales estimate. We expect that growth in the company's e-commerce, brick and mortar and international segments will result in top-line growth of over 40% this year as well as rapidly expanding margins.

Current Price			**$2.30**
Price Target			**$10.00**
Estimates	F2021A	F2022E	F2023E
Revenues ($000s)	$ 46,006	$ 65,148 E	$ 83,266
1Q March	$ 10,830	$ 17,014 A	$ 21,054
2Q June	$ 10,989	$ 16,234 E	$ 20,525
3Q September	$ 13,200	$ 15,900 E	$ 21,125
4Q December	$ 10,987	$ 16,000 E	$ 20,563
	F2021A	F2022E	F2023E
EBITDA ($000s)	$ (11,475)	$ (7,434)E	$ 3,017
1Q March	$ (2,183)	$ (2,461)A	$ 533
2Q June	$ (2,471)	$ (2,131)E	$ 538
3Q September	$ (2,876)	$ (1,758)E	$ 983
4Q December	$ (3,945)	$ (1,084)E	$ 964
EV/Sales	1.2 x	0.9 x	0.7 x
EV/EBITDA	(4.9) x	(7.6) x	18.8 x
Stock Data			
52-Week Range	$1.86	-	$9.72
Shares Outstanding (mil.)			29.4
Market Capitalization (mil.)			$68
Enterprise Value (mil.)			$57
Debt to Capital			2%
Cash (mil.)			$23
Cash/Share			$0.80
Average Three Months Trading Volume (K)			60
Insider Ownership			33.9%
Institutional Ownership			31.7%
Short interest (mil.)			0.3%
Dividend / Yield			$0.00/0.0%

Q1 revenue of $17.0 million rose 54% over Q4 and was 10% higher than our estimate. Relative to Q4, sales to brick-and-mortar outlets were up $3 million and international sales were also up $3 million. The key driver of the brick-and-mortar increase was the launch of Halo Elevate at Petco and Pet Supplies Plus.

Gross margin was shy of our expectation, and was impacted by commodity cost increases, the switch to a new manufacturing partner and the lag in price increases relative to the cost and manufacturing issues. The company implemented an 8% to 10% price increase across all SKUs in April and the completion of the shift to new manufacturing is expected to result in improved gross margins in the coming quarters.

About $2.5 million of gross sales were generated by Halo Elevate, a super-premium pet food brand, to Petco and Pet Supplies Plus. Elevate was available in 167 Petco stores in Q1 and is expected to be available in 1,000 stores by early Q3. Elevate is available at 600 Pet Supplies Plus outlets this quarter. Supplying these two customers is expected to drive strong sales in Q2 and Q3, while Q4 will be driven by the inventory fill at independent retailers and repeat orders from Petco and Pet Supplies Plus. Better Choice has targeted sales of $200 per week per store twelve months after launch, which equates to $21 million in annual sales for the 2,000 stores now committed to carry Halo Elevate.

The company is on track to exceed its $100 million in aggregate contract minimums through 2025 from international distributors. We expect international sales will exceed $25 million this year. Sales to China has been a key to the company's results. In 2021, sales to China were over $9 million, over 60% of total international sales. Increased geographic distribution, including to Mexico and Australia, should sustain the strong international results in the coming quarters

We believe pet food sales will be less impacted than other major consumer expenditures by the Fed's tighter monetary policy. The pandemic has changed work-from-home habits for a generation and increased the number of pets and demand for pet food, particularly demand for premium food. We believe a mix shift to premium food is driven by the humanization of pets, greater time at home, lower birth rates and substantial cash balances on consumer's balance sheets.

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.

Please find Important Disclosures beginning on Page 6.

We think the company has significant growth potential. Apart from the pet food market's two mega, mass-market suppliers, Nestlé's Purina and Mars which serve about 45% of the global pet food market, 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. We expect the pet food market will grow far in excess of nominal GDP growth in the U.S. driven by increased pet ownership, 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 company is led by an experienced and deep management team with a history of success in consumer products and pet food. Recent additions include experienced e-commerce and marketing talent. We also believe the company has the financial resources necessary to accomplish its goals, with over $23 million in cash.

The company is well into the re-launching of its offering to the brick-and-mortar distribution channel this year and has signed an agreement to launch in 600 Pet Supplies Plus stores, 900 Petco stores and through its distribution agreement with Phillips Pet Food & Supplies more than 500 independent pet stores. The company expects Halo Elevate will be available in more than 2000 stores by the end of July. We expect additional specialty and independent store launches for the Halo Elevate brand. This product re-launch is expected to drive revenue growth sharply higher in this channel over our forecast horizon.

Better Choice has also 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.

Q1 Results

Revenue of $17 million was better than our $15.4 million estimate. Gross margin fell short of our estimate, and operating expenses were higher than expected. This resulted in an EBITDA loss of $2.5 million versus our $1.4 million EBITDA loss estimate.

Q1 22 Actual v Estimates

Q1 22 ($ in 000's)	Actual	Estimates	Delta	% Delta
Revenue	$ 17,014	$ 15,383	$ 1,631	10%
COGS	12,307	9,845		
Gross Profit	4,707	5,538	(831)	-18%
Gross margin	28%	36%		
Sales and marketing	7,577	7,394		
Share-based compensation	1,091	500		
Opex	8,668	7,894		
Operating Income	$ (3,961)	$ (2,356)	$ (1,605)	-41%
Interest Expense	76	69		
Pretax Income	$ (4,037)	$ (2,425)		
Taxes	3	0		
Net to common	$ (4,040)	$ (2,425)		
Diluted Shares	29,290	29,303		
Diluted EPS	$ (0.14)	$ (0.08)		
Depreciation and Amortizatior	409	413		
Stock Comp	1,091	500		
EBITDA	$ (2,461)	$ (1,443)	$ (1,018)	-41%
Margin	-14.5%	-9.4%		

Source: Better Choice and Dawson James Securities estimates

We expected a recent price increase and the move to a new contract manufacturer will lead to improved gross and EBITDA margins as the year progresses. We model positive EBITDA in early 2023.

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 at or near these target ranges. The company was at the low end of the gross margin target range in 2020 but experienced cost pressure, supply constraints and shortfalls by its manufacturing partner. However, price increases and new manufacturing partners should alleviate much of the issues faced recently.

	2021A	2022E	Target
Annual sales ($M)	$46.0	$65.1	$85 net/$100 gross
Gross margin	33%	33%	40%-45%
EBITDA ($M)	$(11.5)	$(7.4)	10%-15%

Source: Better Choice and Dawson James Securities estimates

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.

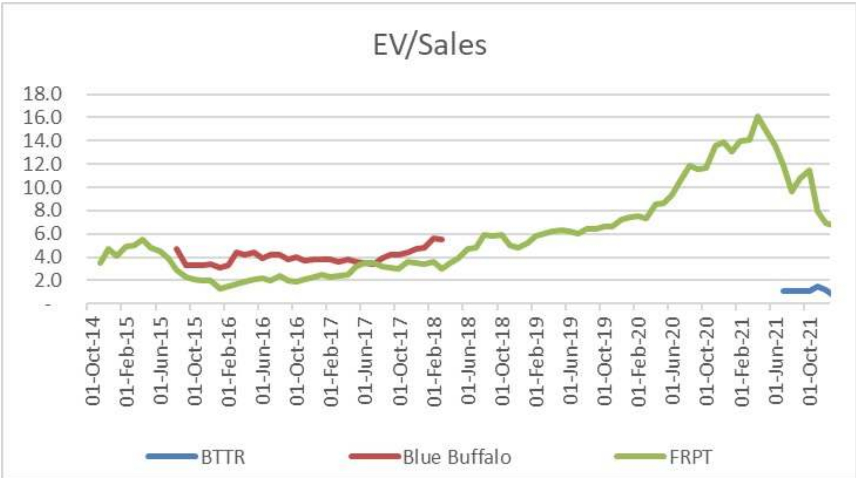
Valuation

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 businesses 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 11.8x.

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-Dec-21 2021 A	31-Mar-22 Q1 22 A	30-Jun-22 Q2 22 E	30-Sep-22 Q3 22 E	31-Dec-22 Q4 22 E	31-Dec-22 2022 E	31-Dec-23 2023 E
Revenue	15,577	42,590	46,006	17,014	16,234	15,900	16,000	65,148	83,266
COGS	9,717	26,485	30,638	12,307	11,201	10,494	9,920	43,922	50,380
Gross Profit	5,860	16,105	15,368	4,707	5,033	5,406	6,080	21,226	32,886
Gross margin	38%	38%	33%	28%	31%	34%	38%	33%	39%
SG&A	34,487	34,487	28,507	7,577	7,577	7,577	7,577	30,308	31,520
Share-based comp	10,280	8,940	4,140	1,091	1,091	1,091	1,091	4,364	2,400
Impairment	889	0	0	0	0	0	0	0	0
Opex	45,656	43,427	32,647	8,668	8,668	8,668	8,668	34,672	33,920
Operating Income	(39,796)	(27,322)	(17,279)	(3,961)	(3,635)	(3,262)	(2,588)	(13,446)	(1,035)
Interest Expense	670	9,247	3,217	76	76	76	76	304	304
Loss on extinguishment of debt	0	88	(457)	0	0	0	0	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	(23,463)	0	0	0	0	0	0
Net Income	(184,462)	(59,335)	3,387	(4,040)	(3,711)	(3,338)	(2,664)	(13,753)	(1,339)
Preferred dividends	109	103	0	0	0	0	0	0	0
Net to common	(184,571)	(59,438)	3,387	(4,040)	(3,711)	(3,338)	(2,664)	(13,753)	(1,339)
Basic Shares	5,540	8,181	19,844	29,290	29,365	29,615	30,115	29,596	31,365
Diluted Shares	5,540	8,181	22,409	29,290	29,365	29,615	30,115	29,596	31,365
Basic EPS	$ (33.32)	$ (7.27)	$ 0.17	$ (0.14)	$ (0.13)	$ (0.11)	$ (0.09)	$ (0.46)	$ (0.04)
Diluted EPS	$ (33.32)	$ (7.27)	$ 0.15	$ (0.14)	$ (0.13)	$ (0.11)	$ (0.09)	$ (0.46)	$ (0.04)
Depreciation and Amortization	171	1,748	1,664	409	413	413	413	1,648	1,652
Stock Comp	10,280	8,940	4,140	1,091	1,091	1,091	1,091	4,364	2,400
EBITDA	(29,345)	(16,634)	(11,475)	(2,461)	(2,131)	(1,758)	(1,084)	(7,434)	3,017
Margin	NM	-39.1%	-24.9%	-14.5%	-13.1%	-11.1%	-6.8%	-11.4%	3.6%

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

Exhibit 2. Balance Sheet and Cash Flow Statement

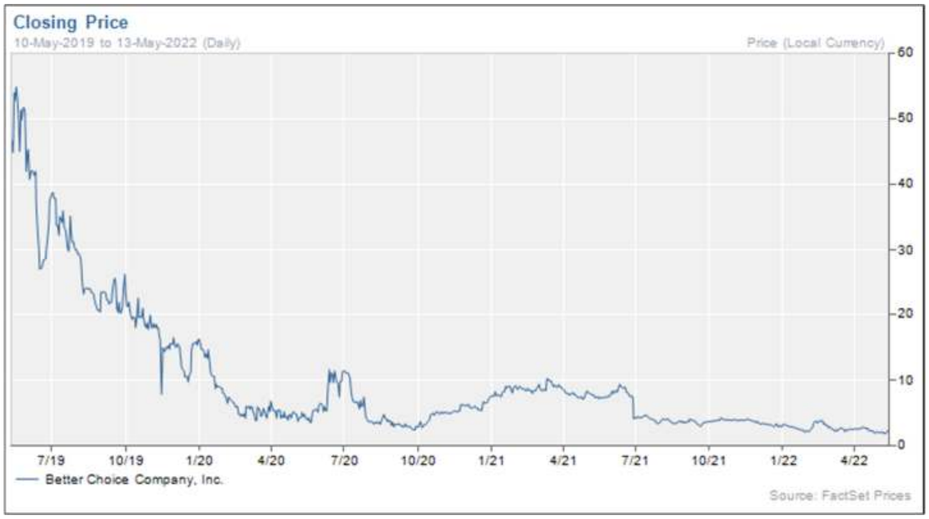
($ in 000's)	31-Dec-19 2019	31-Dec-20 2020	31-Dec-21 2021	31-Dec-22 2022 E	31-Dec-23 2023 E
Cash	$ 2,361	$ 3,926	$ 21,729	$ 13,106	$ 13,550
Restricted Cash	173	63	7,213	6,963	6,963
A/R	5,824	4,631	6,792	9,778	12,566
Inventory	6,580	4,869	5,245	6,770	8,280
Prepaid expenses and other	2,641	4,074	2,940	2,703	3,473
Current Assets	$ 17,579	$ 17,563	$ 43,919	$ 39,319	$ 44,832
PP&E	417	252	369	490	490
Right-of-use assets	951	345	56	44	44
Intangible assets	14,641	13,115	11,586	10,060	8,533
Goodwill	18,614	18,614	18,614	18,614	18,614
Other assets	1,330	1,364	116	101	101
Total Assets	**$ 53,532**	**$ 51,253**	**$ 74,660**	**$ 68,628**	**$ 72,613**
Short term loan	$ 16,061	$ 7,826	$ 855	$ 979	$ 5,216
Line of credit	4,819	0	0	0	7,360
PPP loans	0	190	0	0	0
Other liabilities	500	47	0	0	0
A/P	4,049	3,137	4,553	5,385	6,920
Accrued liabilities	4,721	3,003	1,879	1,362	1,750
Deferred revenue	311	350	0	0	0
Operating lease	345	173	54	46	46
Warrant derivative liab.	2,220	39,850	0	0	0
Current Liabilities	$ 33,026	$ 54,576	$ 7,341	$ 7,771	$ 21,292
Notes payable	16,370	18,910	0	0	0
Term loans	0	0	4,559	4,237	0
Line of credit	0	5,023	4,856	7,360	0
PPP loans	0	662	0	0	0
Deferred Tax	0	0	24	24	24
Operating lease liab.	641	184	5	0	0
Series E Cv. Preferred	10,566	0	0	0	0
Total Stockholders' Equity	$ (7,071)	$ (28,102)	$ 57,875	$ 49,236	$ 51,297
Total Liabilities & Equity	**$ 53,532**	**$ 51,253**	**$ 74,660**	**$ 68,628**	**$ 72,613**

	31-Dec-19 2019	31-Dec-20 2020	31-Dec-21 2021	31-Dec-22 2022 E	31-Dec-23 2023 E
Net Income	(184,571)	(59,438)	3,387	(13,753)	(1,339)
Depreciation and amort.	171	1,748	1,664	1,648	1,652
Share-based comp.	10,280	8,940	4,140	4,364	2,400
Working Capital and other	153,151	41,245	(21,049)	(3,931)	(3,145)
Operating CF	$ (20,969)	$ (7,505)	$ (11,858)	$ (11,673)	$ (431)
Capex	(110)	(151)	(353)	(244)	(125)
Acquisitions	(20,097)	0	0	0	0
Investing Activities	$ (20,207)	$ (151)	$ (353)	$ (244)	$ (125)
Equity	20,333	19,101	40,181	750	1,000
Debt	19,431	(9,990)	(3,017)	2,293	0
Financing	$ 39,764	$ 9,111	$ 37,164	$ 3,043	$ 1,000
Change in Cash	$ (1,412)	$ 1,455	$ 24,953	$ (8,873)	$ 444

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
Update – Buy – October 19, 2021 – Price Target $10.00
Update – Buy – November 11, 2021 – Price Target $10.00
Update – Buy – February 11, 2022 – Price Target $10.00
Update – Buy – March 23, 2022 – Price Target $10.00
Update – Buy – March 30, 2022 – Price Target $10.00
Update – Buy – May 13, 2022 – Price Target $10.00

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Current as of 26-Apr-22

	Company Coverage		**Investment Banking**	
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Market Outperform (Buy)	32	74%	4	13%
Market Perform (Neutral)	11	26%	0	0%
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