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## Better Choice Company Inc. (NYSE AM: BTTR)

September 14, 2022

### Buy: CEO Change.

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CEO Scott Lerner resigned as CEO and is replaced on an interim basis by board member Lionel Conacher. Mr. Lerner has been CEO of Better Choice since early 2021. Mr. Conacher has been a director of Better Choice since September 2021 and is Chairman of DXL Group (DXLG \$6.00, Not Rated), a men's clothing retail chain.

The company did not indicate any changes to the current outlook, but did offer that Mr. Conacher and the team will "focus on profitable and sustainable growth." We believe this is a reference to the company's substantial investment in adding locations carrying the Halo brand, which has cost over \$6 million this year and resulted in an EBITDA loss of over \$11 million. With the market focusing on cash generation, balance sheet strength and stable revenue streams, we believe the company is pivoting slightly from the more expensive strategy of adding outlets to a more cost-effective strategy of increasing share at the existing customer outlets. This could result in greater reliance on fewer customers in the near term while the long-term market potential remains as the company can focus on adding outlets when markets become more amenable to paying for more aggressive growth strategies.

The company has 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.

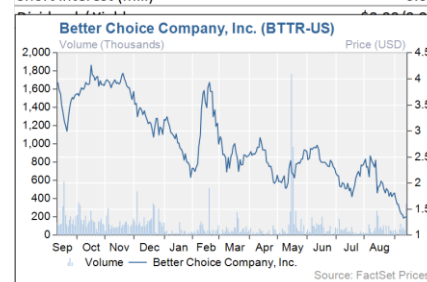
We believe pet food sales will be less impacted than other major consumer expenditures by the Fed's tighter monetary policy. The pandemic has changed work-from-home habits for a generation and increased the number of pets and demand for pet food, particularly demand for premium food. We believe a mix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

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 opportunities to care for pets.

**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	\$1.35		
Price Target	\$10.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 46,006	\$ 61,710 E	\$ 80,349
1Q March	\$ 10,830	\$ 17,014 A	\$ 20,054
2Q June	\$ 10,989	\$ 16,515 A	\$ 20,795
3Q September	\$ 13,200	\$ 13,481 E	\$ 19,375
4Q December	\$ 10,987	\$ 14,700 E	\$ 20,125
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ (11,475)	\$ (11,276)E	\$ (3,090)
1Q March	\$ (2,183)	\$ (2,461)A	\$ (1,084)
2Q June	\$ (2,471)	\$ (3,030)A	\$ (617)
3Q September	\$ (2,876)	\$ (3,173)E	\$ (934)
4Q December	\$ (3,945)	\$ (2,612)E	\$ (455)
EV/Sales	0.7 x	0.6 x	0.4 x
EV/EBITDA	(3.0) x	(3.0) x	(11.1) x
Stock Data			
52-Week Range	\$1.30	-	\$4.30
Shares Outstanding (mil.)	29.4		
Market Capitalization (mil.)	\$40		
Enterprise Value (mil.)	\$34		
Debt to Capital	19%		
Cash (mil.)	\$18		
Cash/Share	\$0.61		
Average Three Months Trading Volume (K)	131		
Insider Ownership	35.9%		
Institutional Ownership	34.8%		
Short interest (mil.)	0.6%		



The company is in the early stages of expansion in the U.S. brick and mortar segment, is on track to exceed its \$100 million in aggregate contract minimums through 2025 from international distributors and has completed the integration of its TruDog brand into the Halo product portfolio. The shares have been buffeted by the decline in small-cap stocks and offer substantial value at current levels.

Cash at the end of Q2 was \$17.8 million (including \$7 million in restricted cash required by the company's credit facility), and Q2 cash from operations consumed \$5.3 million of cash. A significant part of the cash use was for inventory, which increased \$2.2 million from Q1. The company has invested in inventory to support the Halo Elevate launch and to anticipate supply chain disruptions. We expect inventory to decline as the Halo Elevate launch matures, but to remain higher than desired until normalcy returns to the supply chain. We believe cash is adequate for the company's growth plans but the margin for unexpected issues or opportunities is less than we prefer.

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 is not likely to achieve these targets until 2024.

## 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.

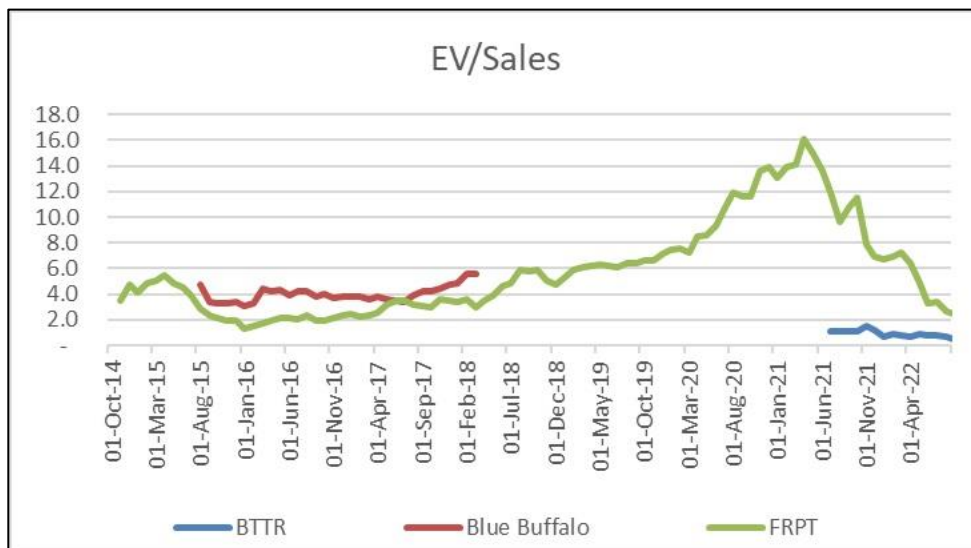
		Price	EPS	P/E	TEV (\$ M)	Sales (\$ M)	EV/ Sales	EBITDA (\$ M)	EV/ EBITDA
CHWY-US	Chewy, Inc. Class A	\$ 34.71	\$ (0.04)	(974.9)	\$ 15,428.7	\$ 10,731.6	1.44	\$ 249.2	61.9
ELAN-US	Elanco Animal Health, Inc.	15.37	1.22	12.6	13,037.5	4,589.1	2.84	1,135.4	11.5
FRPT-US	Freshpet Inc	41.53	(0.37)	(111.7)	1,764.1	699.1	2.52	74.0	23.8
BARK-US	BARK Inc Class A	2.05	(0.21)	(9.8)	338.9	617.5	0.55	(17.3)	(19.5)
WOOF-US	Petco Health & Wellness Company, Inc	15.00	0.83	18.0	7,129.5	6,238.6	1.14	613.8	11.6
PETQ-US	PetIQ, Inc. Class A	10.28	1.36	7.6	795.4	978.0	0.81	103.6	7.7
PETS-US	PetMed Express, Inc.	21.00	1.00	21.0	346.4	277.8	1.25	27.0	12.8
300673-CN	Petpal Pet Nutrition Technology Co., Ltd	22.81	0.80	28.4	5,731.6	2,007.2	2.86	320.1	17.9
PET-CA	Pet Valu Holdings Ltd.	34.21	1.61	21.3	2,932.1	973.4	3.01	218.3	13.4
	Median			12.6			1.44		12.8
	Median-Retail			4.1			1.29		12.5
	Median-Products			12.6			2.52		12.8
BTTR-US	Better Choice Company, Inc.	\$ 1.35	\$ (0.34)	NM	\$ 34.2	\$ 74.8	0.46	\$ (5.5)	NM

Source: FactSet and Dawson James Securities estimates

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 10.0x and currently trades at 2.5x FTM sales.

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 A	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	16,515	13,481	14,700	61,710	80,349
COGS	9,717	26,485	30,638	12,307	11,788	8,897	9,555	42,547	51,027
Gross Profit	5,860	16,105	15,368	4,707	4,727	4,584	5,145	19,163	29,321
Gross margin	38%	38%	33%	28%	29%	34%	35%	31%	36%
SG&A	34,487	34,487	28,507	7,577	8,187	8,187	8,187	32,138	34,058
Share-based comp	10,280	8,940	4,140	1,091	801	801	801	3,494	2,400
Impairment	889	0	0	0	0	0	0	0	0
Opex	45,656	43,427	32,647	8,668	8,988	8,988	8,988	35,632	36,458
Operating Income	(39,796)	(27,322)	(17,279)	(3,961)	(4,261)	(4,404)	(3,843)	(16,469)	(7,137)
Interest Expense	670	9,247	3,217	76	106	106	106	394	424
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)	(4,367)	(4,510)	(3,949)	(16,866)	(7,561)
Preferred dividends	109	103	0	0	0	0	0	0	0
Net to common	(184,571)	(59,438)	3,387	(4,040)	(4,367)	(4,510)	(3,949)	(16,866)	(7,561)
Basic Shares	5,540	8,181	19,844	29,290	29,365	29,365	29,615	29,408	30,865
Diluted Shares	5,540	8,181	22,409	29,290	29,365	29,365	29,615	29,408	30,865
Basic EPS	\$ (33.32)	\$ (7.27)	\$ 0.17	\$ (0.14)	\$ (0.15)	\$ (0.15)	\$ (0.13)	\$ (0.57)	\$ (0.24)
Diluted EPS	\$ (33.32)	\$ (7.27)	\$ 0.15	\$ (0.14)	\$ (0.15)	\$ (0.15)	\$ (0.13)	\$ (0.57)	\$ (0.24)
Depreciation and Amortization	171	1,748	1,664	409	430	430	430	1,699	1,647
Stock Comp	10,280	8,940	4,140	1,091	801	801	801	3,494	2,400
EBITDA	(29,345)	(16,634)	(11,475)	(2,461)	(3,030)	(3,173)	(2,612)	(11,276)	(3,090)
Margin	NM	-39.1%	-24.9%	-14.5%	-18.3%	-23.5%	-17.8%	-18.3%	-3.8%

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



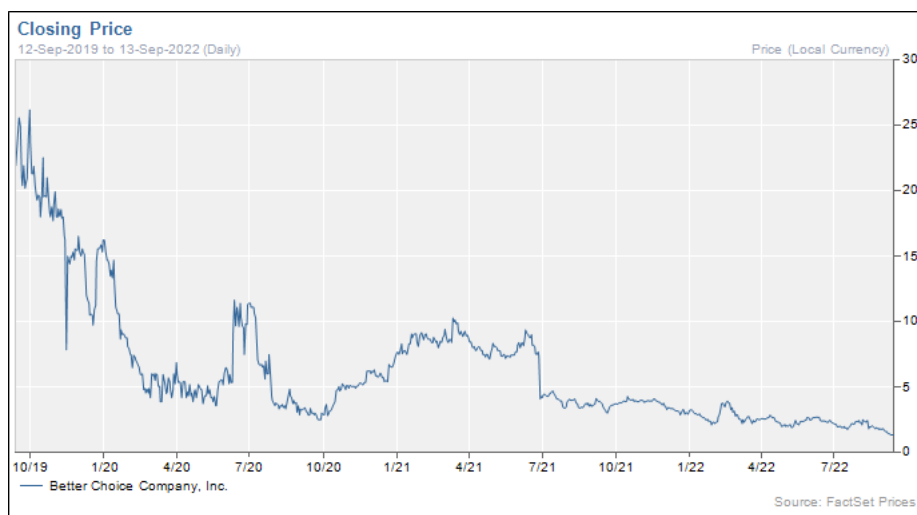
**Exhibit 2. Balance Sheet and Cash Flow Statement**

(\$ 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	\$ 9,379	\$ 2,815
Restricted Cash	173	63	7,213	6,963	6,963
A/R	5,824	4,631	6,792	7,843	10,738
Inventory	6,580	4,869	5,245	6,901	9,012
Prepaid expenses and other	2,641	4,074	2,940	2,624	3,592
<b>Current Assets</b>	<b>\$ 17,579</b>	<b>\$ 17,563</b>	<b>\$ 43,919</b>	<b>\$ 33,710</b>	<b>\$ 33,119</b>
PP&E	417	252	369	480	480
Right-of-use assets	951	345	56	31	31
Intangible assets	14,641	13,115	11,586	10,023	8,496
Goodwill	18,614	18,614	18,614	18,614	18,614
Other assets	1,330	1,364	116	101	101
<b>Total Assets</b>	<b>\$ 53,532</b>	<b>\$ 51,253</b>	<b>\$ 74,660</b>	<b>\$ 62,959</b>	<b>\$ 60,841</b>
Short term loan	\$ 16,061	\$ 7,826	\$ 855	\$ 1,130	\$ 4,996
Line of credit	4,819	0	0	0	7,368
PPP loans	0	190	0	0	0
Other liabilities	500	47	0	0	0
A/P	4,049	3,137	4,553	3,564	4,879
Accrued liabilities	4,721	3,003	1,879	1,972	2,699
Deferred revenue	311	350	0	0	0
Operating lease	345	173	54	33	33
Warrant derivative liab.	2,220	39,850	0	0	0
<b>Current Liabilities</b>	<b>\$ 33,026</b>	<b>\$ 54,576</b>	<b>\$ 7,341</b>	<b>\$ 6,699</b>	<b>\$ 19,975</b>
Notes payable	16,370	18,910	0	0	0
Term loans	0	0	4,559	3,866	0
Line of credit	0	5,023	4,856	7,368	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
<b>Total Stockholders' Equity</b>	<b>\$ (7,071)</b>	<b>\$ (28,102)</b>	<b>\$ 57,875</b>	<b>\$ 45,003</b>	<b>\$ 40,842</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 53,532</b>	<b>\$ 51,253</b>	<b>\$ 74,660</b>	<b>\$ 62,959</b>	<b>\$ 60,841</b>
	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	(16,866)	(7,561)
Depreciation and amort.	171	1,748	1,664	1,699	1,647
Share-based comp.	10,280	8,940	4,140	3,494	2,400
Working Capital and other	153,151	41,245	(21,049)	(3,246)	(3,931)
<b>Operating CF</b>	<b>\$ (20,969)</b>	<b>\$ (7,505)</b>	<b>\$ (11,858)</b>	<b>\$ (14,919)</b>	<b>\$ (7,444)</b>
Capex	(110)	(151)	(353)	(249)	(120)
Acquisitions	(20,097)	0	0	0	0
<b>Investing Activities</b>	<b>\$ (20,207)</b>	<b>\$ (151)</b>	<b>\$ (353)</b>	<b>\$ (249)</b>	<b>\$ (120)</b>
Equity	20,333	19,101	40,181	500	1,000
Debt	19,431	(9,990)	(3,017)	2,068	0
<b>Financing</b>	<b>\$ 39,764</b>	<b>\$ 9,111</b>	<b>\$ 37,164</b>	<b>\$ 2,568</b>	<b>\$ 1,000</b>
<b>Change in Cash</b>	<b>\$ (1,412)</b>	<b>\$ 1,455</b>	<b>\$ 24,953</b>	<b>\$ (12,600)</b>	<b>\$ (6,564)</b>

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  
 Update – Buy – July 20, 2022 – Price Target \$10.00  
 Update – Buy – August 12, 2022 – Price Target \$10.00  
 Update – Buy – September 14, 2022 – Price Target \$10.00

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Current as of 8-Sep-22

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	28	93%	4	14%
Market Perform (Neutral)	1	3%	0	0%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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