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## Smart for Life (NASDAQ: SMFL) - Buy

December 13, 2022

### Executing the Acquisition Strategy: Stated Goal: \$300M by 2024

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*Smart for Life third quarter results: Revenues increased to \$5.4 million from \$3.4M in the prior quarter. The increase was primarily driven by recent acquisitions including Doctors Scientific Organica, LLC, Nexus Offers, Inc. and GSP Nutrition Inc. (completed in the 3<sup>rd</sup> and 4<sup>th</sup> Quarters of 2021) and the acquisition of Ceutamend (completed in the 3<sup>rd</sup> Quarter of 2022). This translated into a net loss of \$1.9 million. eCommerce: The company signed a Letter of Intent (LOI) to acquire eCommerce nutraceuticals company representing \$15M in sales.*



Source: Smart for Life

Stock Data	
52-Week Range	\$0.28 - \$3.25
Shares Outstanding (mil.)	32.0
Market Capitalization (mil.)	\$10
Enterprise Value (mil.)	\$10
Debt to Capital	0%
Book Value/Share	-
Price/Book	-
Average Three Months Trading Volume (K)	145
Insider Ownership	54.6%
Institutional Ownership	0.5%
Short interest (mil.)	1.6%
Dividend / Yield	\$0.00/0.0%



**Smart for Life:** The company's goal is the development, marketing, manufacturing, acquisition, operation, and sale of a broad spectrum of nutritional and related products with an emphasis on health and wellness. The company is executing a buy-and-build strategy with serial accretive acquisitions creating a vertically integrated company with an objective of aggregating companies generating a minimum of \$300 million in revenues by 2024. To drive this growth and earnings, the company is developing its proprietary products and acquiring other profitable companies, encompassing brands, manufacturing, and distribution channels.

**eCommerce:** The company signed a Letter of Intent (LOI) to acquire eCommerce nutraceuticals company. This represents the largest acquisition to date. The target business has established brand in the health and wellness sector and should be highly synergistic with the company's existing distribution channels and in-house manufacturing capabilities. eCommerce represents over \$15 million in sales for the trailing twelve months and have been consistently profitable.

**Cosmos Holdings (COSM – Not Rated) and Smart for Life** announced that they have executed a non-binding Letter of Intent for a strategic co-venture agreement to cross-market products and services in their reciprocal markets.

**Ceutamend:** The company is progressing with the integration of Ceutamend, a premier nutritional supplement company and owner of the Greens First brand. This is the fifth acquisition to date.

**Balance Sheet:** The Company entered into a securities purchase agreement with investors whereby the Company issued the investors an aggregate of 1,282,896 shares of common stock and prefunded warrants to purchase an aggregate of 1,574,248 shares of common stock for an aggregate purchase price of \$1,000,000, or \$0.35 per share.

**Valuation:** Our valuation for Smart for Life is based on revenue projections out to 2030. We assume a middle-of-the-road risk rate of 15% as the company currently has revenues and has already executed several acquisitions successfully in line with its business plan. The stated goals of \$300M in revenues by 2024 look to us to be achievable. Our model assumes the company does raise additional capital, so our valuation math is based on the 2030 fully diluted share count. Our valuation models: Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP), use a 15% discount rate. The result of these three models is then equal-weighted and averaged, and rounded to the nearest whole number to provide a 12-month target price.

**Risks to our thesis include:** 1. Financing Risk; 2. Acquisition Risk; 3. Organic Growth of Brands; 4. Market Development; 5. International Expansion 6. IP 7. FDA-Regulatory

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### Exhibit 1. Free Cash Flow Model

Average	\$	8
Price Target	\$	8
Year		2022

#### DCF Valuation Using FCF (min):

units ('000)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(21,648)	36,608	154,452	172,689	194,916	222,116	255,518	280,151	324,373
Tax Rate	0%	20%	25%	30%	32%	33%	34%	35%	36%
EBIT(1-t)	(21,648)	29,286	115,839	120,882	132,543	148,818	168,642	182,098	207,599
CapEx	358	-	-	-	-	-	-	-	-
Depreciation									
Change in NWC									
FCF	(21,290)	29,286	115,839	120,882	132,543	148,818	168,642	182,098	207,599
PV of FCF	(21,290)	25,466	87,591	79,482	75,782	73,989	72,908	68,458	67,864
Discount Rate		15%							
Long Term Growth Rate		1%							
Terminal Cash Flow		1,497,678							
Terminal Value YE2030		489,593							
NPV		1,019,844							
NPV-Debt		-							
Shares out (thousands)		125,104	2030E						
NPV Per Share	\$	8.00							

Source: Dawson James estimates

### Exhibit 2. Discounted EPS Model

Current Year	2022
Year of EPS	2030
Earnings Multiple	15
Discount Factor	15%
Selected Year EPS	\$ 1.66
NPV	\$ 8.14

Source: Dawson James estimates

Discount Rate and Earnings Multiple Varies, Year is Constant								
		2030 EPS						
		8.1	5%	10%	15%	20%	25%	30%
Earnings Multiple	5		\$5.62	\$3.87	\$2.71	\$1.93	\$1.39	\$ 1.02
	10		\$11.23	\$7.74	\$5.42	\$3.86	\$2.78	\$ 2.03
	15		\$16.85	\$11.61	\$8.14	\$5.79	\$4.18	\$ 3.05
	20		\$22.46	\$15.48	\$10.85	\$7.72	\$5.57	\$ 4.07
	25		\$28.08	\$19.35	\$13.56	\$9.65	\$6.96	\$ 5.09
	30		\$33.69	\$23.22	\$16.27	\$11.58	\$8.35	\$ 6.10
	35		\$39.31	\$27.09	\$18.99	\$13.51	\$9.74	\$ 7.12
	40		\$44.93	\$30.97	\$21.70	\$15.44	\$11.14	\$ 8.14

Source: Dawson James estimates

**Exhibit 3. Sum-of-the-Parts Model**

Smart for Life	LT Gr	Discount Rate	Yrs. to Mkt Peak	% Success	Peak Sales MMs	Term Val
Green's First	1%	15%	7	100%	\$17	\$119
NPV						\$0.29
Sports Illustrated Brands	1%	15%	7	100%	\$17	\$124
NPV						\$0.30
Smart for Life - DSO	1%	15%	7	100%	\$49	\$347
NPV						\$0.83
Bonne Sante' (BSNM)	1%	15%	7	100%	\$30	\$215
NPV						\$0.52
Nexus Offers	1%	15%	7	100%	\$17	\$124
NPV						\$0.30
BRAND A	1%	15%	7	100%	\$72	\$511
NPV						\$1.23
BRAND B	1%	15%	7	100%	\$215	\$1,533
NPV						\$3.68
BRAND C	1%	30%	7	100%	\$150	\$517
NPV						\$0.53
Net Margin						80%
MM Shrs OS (2030E)						125
Total						\$8

Source: Dawson James estimates

**Risks to our thesis include:**

**Financial Risk:** The company is likely to return to the capital markets and raise capital. There are no assurances that the company will be able to secure the needed financing.

**Acquisition Risk:** The company's business plan is predicated on successfully executing a series of accretive acquisitions.

**Organic Growth:** The company's challenge is to integrate the current brands with existing in-house manufacturing and advertising in such a way that will translate into growth.

**Market Development:** The company will need to work to develop brand awareness and develop the niche markets for its products.

**International Expansion:** The company's plan includes expansion into international markets.

**Intellectual Property:** The company has several proprietary products that include IP protections.

**Regulation Risks:** This includes product claims and advertising, specifically: product labels; product ingredients; and how the product is manufactured, packaged, distributed, imported, exported, and sold.

**Exhibit 4. Income Statement**

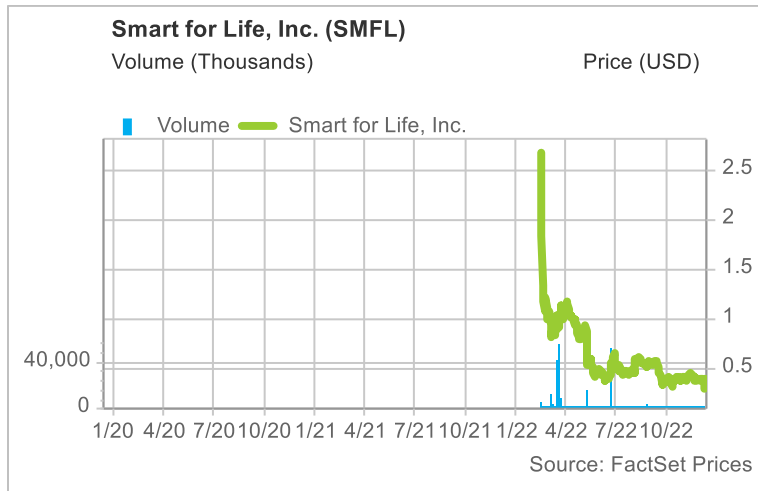
Smart for Life: Income Statement (\$'000)																	
..YE December 31	1Q22A	2Q22A	3Q22A	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Product sales</b>	3,575	3,460	4,502	4,592	16,129												
Green's First					5,000	1,380	1,440	1,500	1,680	6,000	7,200	8,280	9,522	10,950	12,593	14,482	16,654
Sports Illustrated Brands					500	920	960	1,000	1,120	4,000	7,500	8,625	9,919	11,407	13,118	15,085	17,348
Smart for Life - DSO					11,500	3,450	3,600	3,750	4,200	15,000	21,000	24,150	27,773	31,938	36,729	42,239	48,574
Bonne Sante' (BSNM)					3,500	2,070	2,160	2,250	2,520	9,000	13,000	14,950	17,193	19,771	22,737	26,148	30,070
Nexus Offers	879	826	855	872	3,433	1,380	1,440	1,500	1,680	6,000	7,500	8,625	9,919	11,407	13,118	15,085	17,348
Advertising Division Revenues					-	-	-	-	-	-	-	-	-	-	-	-	-
BRAND A								5,000	10,000	15,000	18,750	23,438	29,297	36,621	45,776	57,220	71,526
BRAND B									45,000	45,000	56,250	70,313	87,891	109,863	137,329	171,661	214,577
BRAND C											150,000	150,000	150,000	150,000	150,000	150,000	150,000
<b>Total Product Sales</b>	<b>3,575</b>	<b>3,460</b>	<b>5,357</b>	<b>4,592</b>	<b>16,129</b>	<b>9,200</b>	<b>9,600</b>	<b>15,000</b>	<b>66,200</b>	<b>100,000</b>	<b>300,200</b>	<b>327,380</b>	<b>360,512</b>	<b>400,958</b>	<b>450,400</b>	<b>491,920</b>	<b>566,096</b>
<b>Expenses</b>																	
COGS	2,937	2,504	2,724	2,985	11,151	4,600	4,800	7,500	33,100	50,000	132,088	140,773	151,415	164,393	180,160	196,768	226,439
COGS %	82%	72%	65%	65%	69%	50%	50%	50%	50%	50%	44%	43%	42%	41%	40%	40%	40%
General & Administrative	4,366	3,959	3,557	1,500	13,383	3,372	3,232	3,653	3,794	14,052	14,333	14,619	14,912	15,210	15,514	15,824	16,141
Research & Development																	
Depreciation & Amortization	423	430	522	400	1,776	360	345	390	405	1,500	1,530	1,545	1,561	1,576	1,592	1,608	1,624
<b>Total expenses</b>	<b>7,727</b>	<b>6,894</b>	<b>6,803</b>	<b>4,885</b>	<b>26,309</b>	<b>8,332</b>	<b>8,377</b>	<b>11,543</b>	<b>37,299</b>	<b>65,552</b>	<b>147,951</b>	<b>156,938</b>	<b>167,888</b>	<b>181,179</b>	<b>197,266</b>	<b>214,201</b>	<b>244,204</b>
Operating Income (Loss)	(4,151)	(3,434)	(1,446)	(293)	(10,180)	868	1,223	3,457	28,901	34,448	152,249	170,442	192,624	219,779	253,133	277,720	321,893
Finance income			(75)														
Finance expenses	(12,757)		(427)		(13,184)												
<b>Total other income</b>	<b>(13,303)</b>	<b>(777)</b>	<b>(501)</b>	<b>-</b>	<b>(13,184)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Pretax Income</b>	<b>(17,454)</b>	<b>(4,211)</b>	<b>(1,948)</b>	<b>(293)</b>	<b>(23,364)</b>	<b>868</b>	<b>1,223</b>	<b>3,457</b>	<b>28,901</b>	<b>34,448</b>	<b>152,249</b>	<b>170,442</b>	<b>192,624</b>	<b>219,779</b>	<b>253,133</b>	<b>277,720</b>	<b>321,893</b>
Dividend	(85)	(160)															
Income Tax Benefit (Provision)						174	245	691	5,780	6,890	38,062	51,133	61,640	72,527	86,065	97,202	115,881
<b>Tax Rate</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>25%</b>	<b>30%</b>	<b>32%</b>	<b>33%</b>	<b>34%</b>	<b>35%</b>	<b>36%</b>
<b>GAAP Net Income (loss)</b>	<b>(17,539)</b>	<b>(4,371)</b>	<b>(1,948)</b>	<b>(293)</b>	<b>(23,364)</b>	<b>694</b>	<b>978</b>	<b>2,765</b>	<b>23,121</b>	<b>27,559</b>	<b>114,187</b>	<b>119,309</b>	<b>130,985</b>	<b>147,252</b>	<b>167,068</b>	<b>180,518</b>	<b>206,011</b>
<b>GAAP-EPS</b>	<b>(0.86)</b>	<b>(0.14)</b>	<b>(0.07)</b>	<b>(0.01)</b>	<b>(1.08)</b>	<b>0.01</b>	<b>0.02</b>	<b>0.05</b>	<b>0.39</b>	<b>0.47</b>	<b>1.93</b>	<b>2.01</b>	<b>2.19</b>	<b>2.46</b>	<b>2.78</b>	<b>2.99</b>	<b>3.40</b>
GAAP EPS (dil)	(0.86)	(0.14)	(0.07)	(0.00)	(0.56)	0.01	0.01	0.03	0.25	0.30	1.21	1.22	1.28	1.39	1.51	1.57	1.72
Wgtd Avg Shrs (Bas) - '000s	20,287	31,714	28,009	58,289	34,574	58,347	58,405	58,989	59,048	58,697	59,196	59,433	59,671	59,910	60,150	60,391	60,633
Wgtd Avg Shrs (Dil) - '000s	20,287	31,714	28,009	88,289	42,074	89,172	90,063	90,964	91,873	90,518	94,193	98,018	101,998	106,140	110,449	114,934	119,601

Source: Dawson James estimates, company reports

Companies mentioned in this report:

**Important Disclosures:**

**Price Chart:**



Price target and ratings changes over the past three years:

Initiated – Buy – August 29, 2022 – Price Target \$8.00

Update Report – Buy – December 13, 2022 – Price Target \$8.00

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Current as of 7-Dec-22

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	77%	2	9%
Market Perform (Neutral)	6	20%	0	0%
Market Underperform (Sell)	1	3%	0	0%
<b>Total</b>	<b>30</b>	<b>100%</b>	<b>2</b>	<b>7%</b>

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