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## Smart for Life (NASDAQ: SMFL) – Lowering from Buy to Neutral

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### We Anticipate Management is Likely to Take Steps to Strengthen the Balance Sheet - Possibly Reverse the Stock

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Last week we reviewed the quarter's results and the recent acquisitions, including eCommercre, which represents \$15M in sales (positive). In a recent call with management, we better understood recent discussions with funds participating in the IPO. We conclude that it's likely we see a re-negotiation of original terms that involve warrants translated into common shares. The good news is, outstanding warrants could bring in additional capital (as much as \$70M). Given the stock price and additional expected shares, we think a stock reverse split is likely. As such, we are lowering to Neutral while the company takes steps to strengthen its capital structure and balance sheet – all good things.

**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 a 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 has been consistently profitable.

**Warrants Could Bring in Cash:** We expect the company to renegotiate the original deal terms (from the IPO) with funds. This is likely to translate into additional common stock being realized. This, combined with the low stock price, sets the stage for a reverse stock split. We are hopeful that one of the possible outcomes could be the creation of cash-only warrants that could then bring in future capital (up to \$70M) into the company. Given our forecast of these capital structure changes, we believe it's prudent to lower the stock from Buy to Neutral and remove our price target while the company works through this process.

**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.

**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



Source: Smart for Life

Stock Data	
52-Week Range	\$0.25 - \$3.25
Shares Outstanding (mil.)	32.0
Market Capitalization (mil.)	\$8
Enterprise Value (mil.)	\$8
Debt to Capital	0%
Book Value/Share	-
Price/Book	-
Average Three Months Trading Volume (K)	179
Insider Ownership	41.9%
Institutional Ownership	0.3%
Short interest (mil.)	1.6%
Dividend / Yield	\$0.00/0.0%



**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 1. Income Statement**

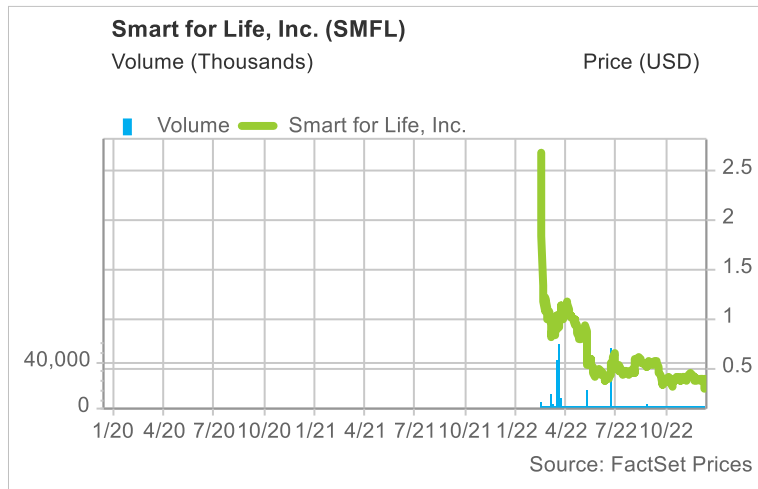
Smart for Life: Income Statement (\$000)																	
..YE December 31	1Q22A	2Q22A	3Q22A	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Product sales</b>	3,575	3,460	4,502	4,592	16,129												
Green's First					5,000	1,380	1,440	1,500	1,680	6,000	7,200	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  
 Rating Change Report – Buy to Neutral – December 19, 2022 – NA

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- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months.
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Current as of 19-Dec-22

	Company Coverage		Investment Banking	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	73%	1	5%
Market Perform (Neutral)	7	23%	1	14%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	2	7%

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