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Better Choice Company Inc. (NYSE AM: BTTR)

March 6, 2023

Buy: \$2.2 million Cost Reduction Announced.

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Better Choice announced a cost reduction program that is expected to lower annual expenses by \$2.2 million. The shares are trading at a significant discount and offer good value, although near-term catalysts are lacking.

Better Choice announced a \$2.2 million cost reduction program as part of a 25% reduction in force. Our cash operating expense estimate for 2022 is \$34 million, and this announced reduction will lower cash opex by about 6.5%. The company did not comment on top-line trends, but cost-reduction actions are not often taken in a robust growth scenario.

The outlook for the next few quarters is challenging with e-commerce and brick-and-mortar customers reducing inventory in response to the Fed's interest rate increases and concerns about slowing economic growth. Sell-through at domestic outlets remains positive and international growth is a bright spot as well. We expect this to pressure cash generation and have modeled an equity raise in 2023. This can be mitigated with further cost cuts.

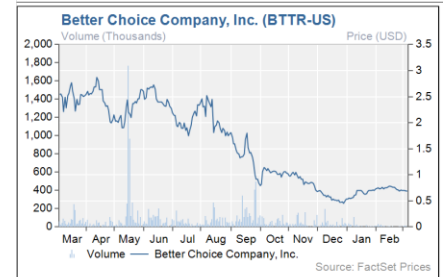
We are still a believer in the long-term pet thesis. The pandemic has changed work-from-home habits for a generation and increased the number of pets and demand for pet food, particularly demand for premium food. We believe a mix shift to premium food is driven by the humanization of pets, greater time 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 less than 2x applied to our 2023 revenue estimate results in a price target of \$4 per share. The EV/Sales multiple is in line with industry comparables.

Risks: Risks to achieving our price target include a weakening economy, 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				\$0.69
Price Target				\$4.00
Estimates	F2021A	F2022E	F2023E	
Revenues (\$M's)	\$ 46.0	\$ 57.0 E	\$ 64.5	
1Q March	\$ 10.8	\$ 17.0 A	\$ 11.6	
2Q June	\$ 11.0	\$ 16.5 A	\$ 15.3	
3Q September	\$ 13.2	\$ 11.9 A	\$ 18.3	
4Q December	\$ 11.0	\$ 11.6 E	\$ 19.3	
	F2021A	F2022E	F2023E	
EBITDA (\$M's)	\$ (11.5)	\$ (12.5)E	\$ (6.1)	
1Q March	\$ (2.2)	\$ (2.5)A	\$ (3.5)	
2Q June	\$ (2.5)	\$ (3.0)A	\$ (1.7)	
3Q September	\$ (2.9)	\$ (3.3)A	\$ (0.6)	
4Q December	\$ (3.9)	\$ (3.7)E	\$ (0.3)	
EV/Sales	0.4 x	0.4 x	0.3 x	
EV/EBITDA	(1.8) x	(1.6) x	(3.3) x	
Stock Data				
52-Week Range	\$0.44	-	\$3.04	
Shares Outstanding (mil.)				29.4
Market Capitalization (mil.)				\$20
Enterprise Value (mil.)				\$20
Debt to Capital				21%
Cash (mil.)				\$13
Cash/Share				\$0.43
Average Three Months Trading Volume (K)				8
Insider Ownership				36.7%
Institutional Ownership				30.8%
Short interest (mil.)				0.7%
Dividend / Yield				\$0.00/0.0%



Valuation

In the pet space, the median EV/Sales for retailers is 1.2x and the median for products companies is 1.9x. We have applied the industry multiple of product companies to our 2023 Better Choice revenue estimate of \$64.5 million and arrived at a price target of \$4.00 per share.

		Price	EPS	P/E	TEV (\$ M)	Sales (\$ M)	EV/ Sales	EBITDA (\$ M)	EV/ EBITDA
CHWY-US	Chewy, Inc. Class A	\$ 40.30	\$ 0.15	273.2	\$ 16,895.9	\$ 11,215.7	1.51	\$ 336.5	50.2
ELAN-US	Elanco Animal Health, Inc.	11.10	0.82	13.5	10,945.5	4,353.5	2.51	971.3	11.3
FRPT-US	Freshpet Inc	62.68	(0.34)	(186.8)	2,883.9	787.6	3.66	59.0	48.8
BARK-US	BARK Inc Class A	1.34	(0.13)	(10.7)	205.3	560.6	0.37	(5.5)	(37.1)
WOOF-US	Petco Health & Wellness Company, Inc	10.32	0.72	14.4	5,682.5	6,376.2	0.89	602.4	9.4
PETQ-US	PetIQ, Inc. Class A	11.78	0.90	13.1	713.9	996.6	0.72	89.8	8.0
PETS-US	PetMed Express, Inc.	18.27	0.75	24.3	282.8	296.1	0.95	26.3	10.8
PET-CA	Pet Valu Holdings Ltd.	40.00	1.75	22.9	3,366.1	1,041.8	3.23	235.1	14.3
	Median			13.9			1.23		11.0
	Median-Retail			18.6			1.20		11.9
	Median-Products			13.3			1.73		11.0
BTTR-US	Better Choice Company, Inc.	\$ 0.69	\$ (0.29)	NM	\$ 20.1	\$ 65.9	0.31	\$ (5.0)	NM

Source: FactSet and Dawson James Securities estimates

Risk Analysis

Risks to achieving our price target include a weakening economy, 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 A	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	11,865	11,560	56,954	64,516
COGS	9,717	26,485	30,638	12,307	11,788	7,700	7,514	39,309	41,936
Gross Profit	5,860	16,105	15,368	4,707	4,727	4,165	4,046	17,645	22,581
Gross margin	38%	38%	33%	28%	29%	35%	35%	31%	35%
SG&A	34,487	34,487	28,507	7,577	8,187	10,007	8,187	33,958	30,350
Share-based comp	10,280	8,940	4,140	1,091	801	562	562	3,016	2,248
Impairment	889	0	0	0	0	0	0	0	0
Opex	45,656	43,427	32,647	8,668	8,988	10,569	8,749	36,974	32,598
Operating Income	(39,796)	(27,322)	(17,279)	(3,961)	(4,261)	(6,404)	(4,703)	(19,329)	(10,017)
Interest Expense	670	9,247	3,217	76	106	142	142	466	568
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)	(6,546)	(4,845)	(19,798)	(10,585)
Preferred dividends	109	103	0	0	0	1	0	1	0
Net to common	(184,571)	(59,438)	3,387	(4,040)	(4,367)	(6,547)	(4,845)	(19,799)	(10,585)
Basic Shares	5,540	8,181	19,844	29,290	29,365	29,365	29,385	29,351	30,406
Diluted Shares	5,540	8,181	22,409	29,290	29,365	29,365	29,385	29,351	30,406
Basic EPS	\$ (33.32)	\$ (7.27)	\$ 0.17	\$ (0.14)	\$ (0.15)	\$ (0.22)	\$ (0.16)	\$ (0.67)	\$ (0.35)
Diluted EPS	\$ (33.32)	\$ (7.27)	\$ 0.15	\$ (0.14)	\$ (0.15)	\$ (0.22)	\$ (0.16)	\$ (0.67)	\$ (0.35)
Depreciation and Amortization	171	1,748	1,664	409	430	426	430	1,695	1,647
Stock Comp	10,280	8,940	4,140	1,091	801	562	562	3,016	2,248
Other	0	0	0	0	0	2,100	0	2,100	0
EBITDA	(29,345)	(16,634)	(11,475)	(2,461)	(3,030)	(3,316)	(3,711)	(12,518)	(6,122)
Margin	NM	-39.1%	-24.9%	-14.5%	-18.3%	-27.9%	-32.1%	-22.0%	-9.5%

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

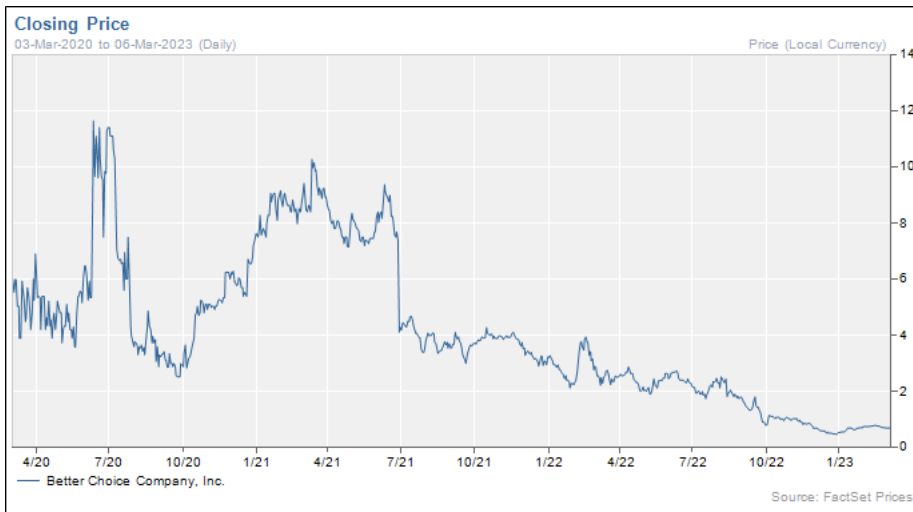
Exhibit 2. Balance Sheet and Cash Flow Statement

	31-Dec-19 2019	31-Dec-20 2020	31-Dec-21 2021	31-Dec-22 2022 E	31-Dec-23 2023 E
(\$ in 000's)					
Cash	\$ 2,361	\$ 3,926	\$ 21,729	\$ 8,170	\$ 2,203
Restricted Cash	173	63	7,213	6,963	6,963
A/R	5,824	4,631	6,792	9,477	15,818
Inventory	6,580	4,869	5,245	5,427	9,058
Prepaid expenses and other	2,641	4,074	2,940	1,079	1,802
Current Assets	\$ 17,579	\$ 17,563	\$ 43,919	\$ 31,116	\$ 35,844
PP&E	417	252	369	421	421
Right-of-use assets	951	345	56	186	186
Intangible assets	14,641	13,115	11,586	10,041	8,514
Goodwill	18,614	18,614	18,614	18,614	18,614
Other assets	1,330	1,364	116	110	110
Total Assets	\$ 53,532	\$ 51,253	\$ 74,660	\$ 60,488	\$ 63,689
Short term loan	\$ 16,061	\$ 7,826	\$ 855	\$ 1,282	\$ 1,282
Line of credit	4,819	0	0	640	640
PPP loans	0	190	0	0	0
Other liabilities	500	47	0	0	0
A/P	4,049	3,137	4,553	3,753	6,264
Accrued liabilities	4,721	3,003	1,879	3,029	5,056
Deferred revenue	311	350	0	0	0
Operating lease	345	173	54	51	51
Warrant derivative liab.	2,220	39,850	0	0	0
Current Liabilities	\$ 33,026	\$ 54,576	\$ 7,341	\$ 8,755	\$ 13,293
Notes payable	16,370	18,910	0	0	0
Term loans	0	0	4,559	3,495	3,495
Line of credit	0	5,023	4,856	6,735	7,735
PPP loans	0	662	0	0	0
Deferred Tax	0	0	24	24	24
Operating lease liab.	641	184	5	137	137
Series E Cv. Preferred	10,566	0	0	0	0
Total Stockholders' Equity	\$ (7,071)	\$ (28,102)	\$ 57,875	\$ 41,342	\$ 39,005
Total Liabilities & Equity	\$ 53,532	\$ 51,253	\$ 74,660	\$ 60,488	\$ 63,689
	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	(19,799)	(10,585)
Depreciation and amort.	171	1,748	1,664	1,695	1,647
Share-based comp.	10,280	8,940	4,140	3,016	2,248
Working Capital and other	153,151	41,245	(21,049)	(586)	(6,157)
Operating CF	\$ (20,969)	\$ (7,505)	\$ (11,858)	\$ (15,674)	\$ (12,847)
Capex	(110)	(151)	(353)	(228)	(120)
Acquisitions	(20,097)	0	0	0	0
Investing Activities	\$ (20,207)	\$ (151)	\$ (353)	\$ (228)	\$ (120)
Equity	20,333	19,101	40,181	250	6,000
Debt	19,431	(9,990)	(3,017)	1,843	1,000
Financing	\$ 39,764	\$ 9,111	\$ 37,164	\$ 2,093	\$ 7,000
Change in Cash	\$ (1,412)	\$ 1,455	\$ 24,953	\$ (13,809)	\$ (5,967)

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
 Update – Buy – October 26, 2022 – Price Target \$10.00
 Price Target Change – Buy – November 11, 2022 – Price Target changed from \$10.00 to \$4.00
 Update – Buy – March 6, 2023 – Price Target \$4.00

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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;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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 03-Mar-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	69%	1	3%
Market Perform (Neutral)	11	31%	2	6%
Market Underperform (Sell)	0	0%	0	0%
Total	35	100%	3	9%

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