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Smart for Life (NASDAQ: SMFL) – Neutral

April 17, 2023

Reverse Stock Split Ahead- Capital Remains Constrained

Management recently stated their intention to reverse the stock “in order to maintain the company’s NASDAQ listing”. “We remain committed to growing Smart for Life toward our stated objective of \$300 million in revenue through our high-growth M&A initiatives and it is critical for the Company to preserve its Nasdaq listing to achieve this goal”, stated Darren Minton, Smart for Life’s Chief Executive Officer.

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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.

Recent Guidance: “Although 2022 has certainly been a tumultuous year in the capital markets, our proactive “Buy and Build” strategy is working—we are currently generating pro forma revenues in excess of \$30 million and anticipate expanding to over \$100 million in annualized revenues in the next twelve months based on anticipated acquisitions and organic growth. In addition, as we have publicly announced, we have an objective of achieving \$300 million in revenues within the next 36 months.”

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 the planned capital structure changes, we (last year in December) lowered our rating 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 have raised our risk rate to 30% as the company is capital constrained. The company’s plan has been to execute acquisitions which have been slow to happen. The stated goals of \$300M in revenues by 2024 appears aggressive. 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 30% 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

Current Price \$0.12
Price Target NA



Source: Smart for Life

Stock Data	
52-Week Range	\$0.11 - \$1.36
Shares Outstanding (mil.)	36.1
Market Capitalization (mil.)	\$5
Enterprise Value (mil.)	\$4
Debt to Capital	0%
Book Value/Share	-
Price/Book	-
Average Three Months Trading Volume (K)	432
Insider Ownership	34.7%
Institutional Ownership	4.8%
Short interest (mil.)	0.5%
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

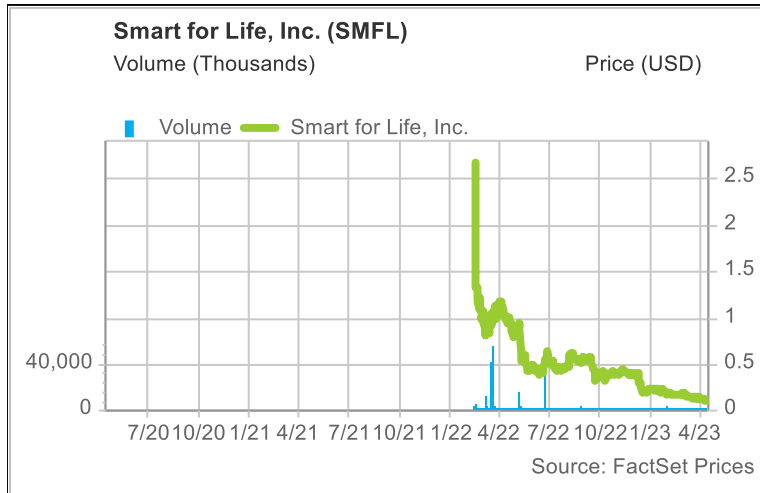
Smart for Life: Income Statement (\$000)													
∴ YE December 31	2022A	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Product sales	14,331												
Green's First		1,150	1,200	1,250	1,400	5,000	6,000	6,900	7,935	9,125	10,494	12,068	13,878
Sports Illustrated Brands		920	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		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)		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	3,435	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							-	-	-	-	-	-	-
BRAND B							-	-	-	-	-	-	-
BRAND C							150,000	150,000	150,000	150,000	150,000	150,000	150,000
Total Product Sales	17,766	8,970	9,360	9,750	10,920	39,000	224,000	232,250	241,738	252,648	265,195	260,625	277,218
Expenses													
COGS	12,889	4,485	4,680	4,875	5,460	19,500	98,560	99,868	101,530	103,586	106,078	104,250	110,887
COGS %	73%	50%	50%	50%	50%	50%	44%	43%	42%	41%	40%	40%	40%
General & Administrative	14,938	3,764	3,608	4,078	4,235	15,685	15,999	16,319	16,645	16,978	17,318	17,664	18,017
Research & Development													
Depreciation & Amortization	2,145	360	345	390	405	1,500	1,530	1,545	1,561	1,576	1,592	1,608	1,624
Total expenses	29,973	8,609	8,633	9,343	10,100	36,685	116,089	117,732	119,736	122,140	124,988	123,522	130,529
Operating Income (Loss)	(12,206)	361	727	407	820	2,315	107,911	114,518	122,002	130,508	140,207	137,103	146,690
Finance income													
Finance expenses	(12,941)												
Total other income	(17,771)	-	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	(29,978)	361	727	407	820	2,315	107,911	114,518	122,002	130,508	140,207	137,103	146,690
Dividend													
Income Tax Benefit (Provision)	-	72	145	81	164	463	26,978	34,356	39,041	43,068	47,671	47,986	52,808
Tax Rate	0%	20%	20%	20%	20%	20%	25%	30%	32%	33%	34%	35%	36%
GAAP Net Income (loss)	(29,978)	288	582	325	656	1,852	80,933	80,163	82,961	87,440	92,537	89,117	93,881
GAAP-EPS	(1.18)	0.00	0.01	0.01	0.01	0.03	1.37	1.35	1.39	1.46	1.54	1.48	1.55
GAAP EPS (dil)	(0.71)	0.00	0.01	0.00	0.01	0.02	0.86	0.82	0.81	0.82	0.84	0.78	0.78
Wgtd Avg Shrs (Bas) - '000s	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	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
 Update Report – Neutral – April 17, 2023 – Price Target NA

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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.

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Current as of 17-Apr-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	2	6%
Market Perform (Neutral)	11	31%	1	3%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

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