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Smart for Life (NASDAQ: SMFL) – Neutral

June 23, 2023

Where Are We? Post Split, Raise, and Restructuring

Smart for Life reported an underwhelming first quarter followed by a series of financial restructurings including a 50:1 reverse stock split, a capital raise, and debt restructuring. Our initial focus on the company was a combination of organic growth, which has yet to be realized, and growth through acquisition to support managements claims that the company could reach \$300M by 2024. We have removed those assumptions. We remain neutral rated on the company.

Financial Engineering: Management announced several initiatives and recently summarized them in a press release as follows: “These initiatives include the Company’s previously announced conversion of approximately \$6 million of debt into equity, as well as over \$1.2 million of deferred compensation for Smart for Life’s executive management team and the Company’s board of directors into equity under the same terms. More specifically, the aforementioned conversions are being made into the Company’s Series B preferred stock, par value \$0.0001 per share, that is convertible into common stock at an exercise price of \$2.23 per share. Lastly, more than 3.5 million shares of warrant conversions have been exercised, resulting in gross proceeds in excess of \$4.5 million for Smart for Life”. We also note that the company on May 2, 2023 announced a registered direct offering with a single institutional investor for the purchase and sale of 280,601 shares of the Company’s common stock (or common stock equivalents) at a purchase price of \$3.205 per share of common stock priced at-the-market under Nasdaq rules. In addition, in a concurrent private placement, the Company issued to the investor unregistered common stock purchase warrants (the “Warrants”). The Warrants to purchase up to 280,601 shares of common stock have an exercise price of \$3.08 per share and are immediately exercisable for a period of five and one-half years following issuance.

Fifty to One – Reverse Stock Split: The company effected a 1-for-50 reverse stock split on April 24, 2023.

First Quarter – Underwhelming: Revenues were just \$2.4M which translated into a net loss of \$4.3M. We have adjusted our model and removed assumptions around the company’s claims that through acquisitions the company will realize \$50M in revenues this year and up to \$300M next year. The company reported negligible cash, just \$86k, but we note the exercise of warrants that brought in \$4.5M.

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

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Current Price \$0.89
Price Target NA



Source: Smart for Life

Stock Data	
52-Week Range	\$0.75 - \$33.77
Shares Outstanding (mil.)	1.9
Market Capitalization (mil.)	\$2
Enterprise Value (mil.)	\$2
Debt to Capital	0%
Book Value/Share	-
Price/Book	-
Average Three Months Trading Volume (K)	6
Insider Ownership	39.0%
Institutional Ownership	0.7%
Short interest (mil.)	13.5%
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

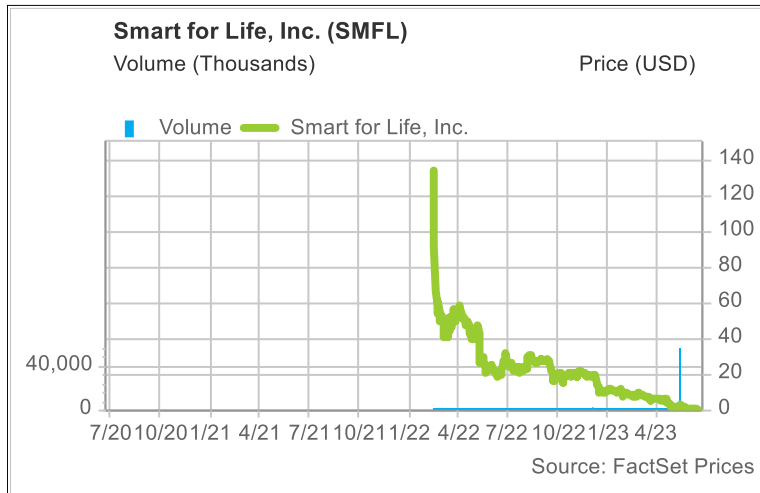
Smart for Life: Income Statement (\$000)													
∴ YE December 31	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Product sales	14,331												
Green's First							-	-	-	-	-	-	-
Sports Illustrated Brands													
Smart for Life - DSO													
Bonne Sante' (BSNM)													
Nexus Offers	3,435												
Advertising Division Revenues		-	-	-	-								
BRAND A							-	-	-	-	-	-	-
BRAND B							-	-	-	-	-	-	-
BRAND C													
Total Product Sales	17,766	2,405	3,000	3,000	3,000	11,405	12,545	13,800	15,179	16,697	18,367	20,204	22,224
Expenses													
COGS	12,889	1,577	1,500	1,500	1,500	6,077	5,520	5,934	6,375	6,846	7,347	8,082	8,890
COGS %	73%	50%	50%	50%	50%	53%	44%	43%	42%	41%	40%	40%	40%
General & Administrative (& other)	14,938	2,899	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	691	345	390	405	1,500	1,530	1,545	1,561	1,576	1,592	1,608	1,624
Total expenses	29,973	5,167	5,453	5,968	6,140	22,728	23,049	23,798	24,581	25,400	26,257	27,354	28,531
Operating Income (Loss)	(12,206)	(2,763)	(2,453)	(2,968)	(3,140)	(11,323)	(10,504)	(9,998)	(9,402)	(8,703)	(7,889)	(7,150)	(6,307)
Finance income		23											
Finance expenses	(12,941)												
Total other income	(17,771)	23	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	(29,978)	(1,522)	(2,453)	(2,968)	(3,140)	(11,323)	(10,504)	(9,998)	(9,402)	(8,703)	(7,889)	(7,150)	(6,307)
Dividend													
Income Tax Benefit (Provision)	-		(491)	(594)	(628)	(1,712)	(2,626)	(3,000)	(3,009)	(2,872)	(2,682)	(2,502)	(2,270)
Tax Rate	0%	20%	20%	20%	20%	20%	25%	30%	32%	33%	34%	35%	36%
GAAP Net Income (loss)	(29,978)	(4,284)	(1,962)	(2,375)	(2,512)	(9,611)	(7,878)	(6,999)	(6,393)	(5,831)	(5,207)	(4,647)	(4,036)
GAAP-EPS	(1.18)	(5.44)	(2.49)	(2.98)	(3.15)	(14.05)	(9.85)	(8.72)	(7.93)	(7.20)	(6.41)	(5.70)	(4.93)
GAAP EPS (dil)	(0.71)	(5.44)	(2.46)	(2.95)	(3.09)	(12.01)	(0.08)	(8.08)	(7.09)	(6.22)	(5.33)	(4.57)	(3.82)
Wgtd Avg Shrs (Bas) - '000s	34,574	788	789	797	798	793	94,000	803	806	809	813	816	819
Wgtd Avg Shrs (Dil) - '000s	42,074	788	796	804	812	800	94,000	866	902	938	976	1,016	1,057

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
- Update Report – Neutral – June 23, 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 22-Jun-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	5.50%
Market Perform (Neutral)	10	28%	2	5.50%
Market Underperform (Sell)	0	0%	0	0.00%
Total	36	100%	4	11.00%

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