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Smart for Life (NASDAQ: SMFL) – Neutral

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Second Quarter – Falls Sequentially

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Second Quarter - Underwhelming: Revenues fell sequentially from 1Q’s \$2.4 to \$2.2M which translated into a net loss of \$4.2M. We previously 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, as clearly that’s not happening. The company reported negligible cash, just \$375k in cash at the end of 2nd quarter. The stock, post reverse split continues to be under pressure.

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 3, 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.”*

One for Three reverse split follows the April One for Fifty Split: The company effected a 1-for-three reverse split on August 2, 2023. This follows a 1 for 50 reverse stock split on April 24, 2023.

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 \$0.76
Price Target NA



Source: Smart for Life

Stock Data

| | | | |
|---|-------------|---|---------|
| 52-Week Range | \$0.74 | - | \$73.64 |
| Shares Outstanding (mil.) | 1.5 | | |
| Market Capitalization (mil.) | \$1 | | |
| Enterprise Value (mil.) | \$1 | | |
| Debt to Capital | 0% | | |
| Book Value/Share | - | | |
| Price/Book | - | | |
| Average Three Months Trading Volume (K) | 41 | | |
| Insider Ownership | 12.5% | | |
| Institutional Ownership | 18.8% | | |
| Short interest (mil.) | 2.8% | | |
| 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

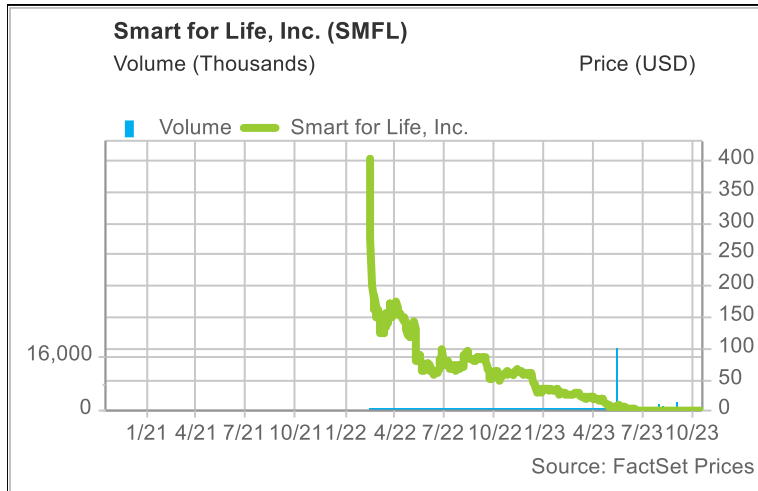
| Smart for Life: Income Statement (\$000) | | | | | | | | | | | | | |
|--|-----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| ∴ YE December 31 | 2022A | 1Q23A | 2Q23A | 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 | 2,284 | 3,000 | 3,000 | 10,688 | 11,757 | 12,933 | 14,226 | 15,649 | 17,214 | 18,935 | 20,828 |
| Expenses | | | | | | | | | | | | | |
| COGS | 12,889 | 1,577 | 1,542 | 2,025 | 2,025 | 7,169 | 5,173 | 5,561 | 5,975 | 6,416 | 6,885 | 7,574 | 8,331 |
| COGS % | 73% | 50% | 68% | 68% | 68% | 67% | 44% | 43% | 42% | 41% | 40% | 40% | 40% |
| General & Administrative (& other) | 14,938 | 2,899 | 4,294 | 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 | 507 | 390 | 405 | 1,500 | 1,530 | 1,545 | 1,561 | 1,576 | 1,592 | 1,608 | 1,624 |
| Total expenses | 29,973 | 5,167 | 4,801 | 6,493 | 6,665 | 23,127 | 22,702 | 23,425 | 24,181 | 24,970 | 25,795 | 26,846 | 27,973 |
| Operating Income (Loss) | (12,206) | (2,763) | (4,060) | (3,493) | (3,665) | (13,981) | (10,945) | (10,492) | (9,955) | (9,322) | (8,582) | (7,911) | (7,144) |
| Finance income | | 23 | 548 | | | | | | | | | | |
| Finance expenses | (12,941) | | (708) | | | | | | | | | | |
| Total other income | (17,771) | 23 | (160) | - | - | - | - | - | - | - | - | - | - |
| Pretax Income | (29,978) | (1,522) | (4,220) | (3,493) | (3,665) | (13,981) | (10,945) | (10,492) | (9,955) | (9,322) | (8,582) | (7,911) | (7,144) |
| Dividend | | | | | | | | | | | | | |
| Income Tax Benefit (Provision) | - | | | (699) | (733) | (1,432) | (2,736) | (3,148) | (3,186) | (3,076) | (2,918) | (2,769) | (2,572) |
| Tax Rate | 0% | 20% | 20% | 20% | 20% | 20% | 25% | 30% | 32% | 33% | 34% | 35% | 36% |
| GAAP Net Income (loss) | (29,978) | (4,284) | (4,220) | (2,795) | (2,932) | (12,549) | (8,209) | (7,345) | (6,769) | (6,246) | (5,664) | (5,142) | (4,572) |
| GAAP-EPS | (1.18) | (5.44) | (5.84) | (3.83) | (4.02) | (19.13) | (11.21) | (9.99) | (9.17) | (8.43) | (7.61) | (6.89) | (6.10) |
| GAAP EPS (dil) | (0.71) | (5.44) | (5.84) | (3.83) | (3.98) | (16.86) | (0.09) | (9.34) | (8.28) | (7.34) | (6.39) | (5.58) | (4.77) |
| Wgtd Avg Shrs (Bas) - '000s | 34,574 | 788 | 722 | 729 | 730 | 742 | 94,000 | 735 | 738 | 741 | 744 | 747 | 750 |
| Wgtd Avg Shrs (Dil) - '000s | 42,074 | 788 | 722 | 729 | 737 | 744 | 94,000 | 786 | 818 | 851 | 886 | 922 | 959 |

Source: Company reports and Dawson James

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
- Update Report – Neutral – August 3, 2023 – Price Target NA
- Update Report – Neutral – October 18, 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.

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 27-Sep-23

| | Company Coverage | | Investment Banking | |
|-----------------------------|-------------------------|-------------|---------------------------|---------------|
| Ratings Distribution | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 22 | 64.70% | 3 | 8.80% |
| Market Perform (Neutral) | 12 | 35.30% | 3 | 8.80% |
| Market Underperform (Sell) | 0 | 0% | 0 | 0.00% |
| Total | 34 | 100% | 6 | 17.60% |

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