

# Else Nutrition

Q2 results

## Building the platform

Else Nutrition's Q222 results demonstrate the growth momentum in the business, with management delivering on its stated goal to reach a C\$1m quarterly revenue run rate on Amazon.com by the end of Q2, and on track to reach listings in 4,000 retail stores by the end of FY22, with listings currently in over 3,000 stores. Else added nearly 2,000 stores during Q2, and boosted its cash position with a funding round of C\$7.3m at the end of June. Else continues to build its platform for the long term, with plans to enter China in Q3 and the UK in Q4. Further European markets will follow in FY23.

Year end	Revenue (C\$m)	PBT* (C\$m)	EPS* (C\$)	DPS (C\$)	P/E (x)	EV/sales (x)
12/20	1.5	(8.0)	(0.10)	0.0	N/A	47.1
12/21	4.7	(15.5)	(0.16)	0.0	N/A	14.9
12/22e	11.0	(17.8)	(0.16)	0.0	N/A	6.3
12/23e	27.5	(18.1)	(0.16)	0.0	N/A	2.5

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Strong progress in Q2

Revenues in Q2 were 44% ahead quarter-on-quarter, driven by the expansion of the product range. Sales on Amazon.com were up 84% q-o-q, and sales velocity increased with many retailers. Else continues to build its infrastructure as it lists its products with new retailers and expands the number of SKUs sold through existing channels. Its geographic expansion continues apace, while it also successfully completed its second (and final) preclinical study on its infant formula. During Q2 it started a clinical study, and the parameters of a second clinical study have now been approved, thus allowing the study to begin during Q3. These set the path to FDA approval, expected during FY25.

## Consumer environment becoming more challenging

The consumer environment is undoubtedly getting tougher as rising interest rates and stubborn inflation squeeze household budgets. The baby food category is generally one of the most defensive within consumer staples, with low private label penetration and a reluctance by consumers to trade down or switch brands. That said, given the tough economic environment, we take a more cautious view on consumer uptake of a new, premium brand, and therefore cut our revenue estimates for FY22–24.

## Valuation: Mid-case 12-month value of C\$4.0/share

We value Else primarily on a DCF basis and flex for different scenarios. Our base case assumes a sales CAGR of 47% in years four to 10, followed by 15% in years 11–15 and 10% in years 16–20. We assume 2.0% terminal growth and a 15% terminal EBIT margin, resulting in a mid-case 12-month value of C\$4.0 (from C\$5.80/share). In a more bullish scenario, assuming a faster roll-out and uptake of product, our fair value is C\$7.0, and on more pessimistic assumptions our fair value is C\$2.7, which still represents significant upside to current levels. Our medium- and long-term growth assumptions remain unchanged.

## Food and beverages

7 September 2022

**Price** **C\$0.81**  
**Market cap** **C\$91m**

Net cash (C\$m) at 30 June 2022 (excluding restricted cash) 20.8

Shares in issue 112.6m

Free float 66%

Code BABY

Primary exchange Toronto Stock Exchange

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 12.9 (37.3) (72.0)

Rel (local) 16.0 (31.6) (69.4)

52-week high/low C\$2.83 C\$0.56

## Business description

Else Nutrition is a plant-based baby food manufacturer. Its minimally processed formula is 100% plant-based, dairy and soy free, organic, vegan, gluten free and GMO free. Else is in the process of rolling out its product beyond the US market and expanding its product offering.

## Next events

Q3 results October 2022

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## Financials

As discussed above, we take a more cautious view on Else's expansion over the next three years as the consumer environment is becoming increasingly tough, and hence shoppers are less likely to try new brands, particularly if priced in the premium segment. We believe there is a long-term trend towards plant-based and flexitarian diets, though in the shorter term consumers may stick to choices and brands with which they are already familiar if they are operating on a squeezed budget. This would lead to a slower uptake of Else's products and hence slower revenue growth. We note that the infant formula product is undergoing clinical trials to be allowed to be marketed by the FDA and equivalent regulators across the globe and this process is not due to finish until late FY24 at the very earliest. Our infant formula assumptions therefore remain unchanged.

We illustrate the main changes to our forecasts in Exhibit 1 below.

Exhibit 1: Old vs new forecasts for key financials (FY22–24e)									
Forecast	2022			2023			2024		
	Old	New	Diff	Old	New	Diff	Old	New	Diff
Revenue (C\$000)	13,637	11,001	(19.3%)	32,974	27,482	(16.7%)	60,660	55,717	(8.1%)
Profit before tax (C\$000)	(17,277)	(17,774)	(2.9%)	(16,779)	(18,117)	(8.0%)	(12,843)	(14,323)	(11.5%)
Basic EPS (C\$)	(0.16)	(0.16)	(2.9%)	(0.15)	(0.16)	(8.0%)	(0.11)	(0.13)	(11.5%)
Net cash/(debt) (C\$000)	11,581	11,881	2.6%	(9,872)	(10,230)	(3.6%)	(30,999)	(32,791)	(5.8%)

Source: Edison Investment Research

## Valuation

We value Else primarily on a DCF basis, as it effectively captures the potential growth of the business and can be flexed for different scenarios. We use a 10-year standard DCF followed by a further 10-year 'fade' or stabilisation period, before applying our terminal assumptions. Our model assumes a sales CAGR of 47% in years four to 10, followed by 15% in years 11–15 and 10% in years 16–20. We assume 2.0% terminal growth and a 15% terminal EBIT margin. This results in a 12-month DCF value of C\$4.0, which we flex to C\$7.0 in a bull case scenario. Our fair values have decreased owing to the more cautious assumptions in years 1–3, though our medium- and longer-term growth assumptions remain unchanged. We discussed the valuation assumptions in detail in our [initiation note](#). The current share price appears to be discounting significantly more bearish conditions than our slower roll-out scenario, discounting terminal growth of 0% and a WACC of 20.5%.

Else Nutrition has a unique offering and there are no direct, listed competitors operating in the plant-based space. We therefore use some of the wider plant-based peer group, although we recognise these do not directly operate in the baby and toddler nutrition space. We note these are also loss-making as they are still early-stage companies. On EV/Sales, Else's premium for FY23 has now eroded, such that it is trading at a discount to the group despite its disruptive products, which is resulting in a far faster growth profile than its more mature and more established baby food competitors. We believe this offers an attractive entry point for the shares.

**Exhibit 2: Peer group valuation**

	Market cap (m)	EV/sales (x)		EV/EBITDA (x)	
		2022	2023	2022	2023
Nestle	CHF 310,496	3.8	3.6	18.4	17.3
Danone	€ 34,715	1.7	1.6	10.5	9.8
Abbott Laboratories	\$179,500	4.4	4.6	15.8	16.8
Perrigo	\$4,946	1.9	1.8	13.0	10.5
RB	\$46,063	3.9	3.7	14.3	13.8
Oatly	\$1,793	2.1	1.5	(7.9)	(15.6)
Beyond Meat	\$1,491	4.4	3.7	(8.7)	(13.5)
Burcon NutraScience	C\$ 77	424.9	94.5	(17.0)	(11.5)
<b>Peer group average *</b>		<b>55.9</b>	<b>14.4</b>	<b>14.4</b>	<b>13.7</b>
<b>Peer group average (ex Burcon NutraScience)*</b>		<b>3.2</b>	<b>2.9</b>	<b>14.4</b>	<b>13.7</b>
Else	C\$ 93	6.3	2.5	(4.1)	(4.3)
<b>Premium/(discount) to peer group (ex Burcon)</b>		<b>100.3%</b>	<b>(13.6%)</b>	<b>N/A</b>	<b>N/A</b>

Source: Edison Investment Research, Refinitiv. Note: Priced at 5 September 2022. \*The EV/EBITDA average excludes the peers with negative multiples.

**Exhibit 3: Financial summary**

	C\$'000	2019	2020	2021	2022e	2023e	2024e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue	554	1,482	4,687	11,001	27,482	55,717	
Cost of Sales	(303)	(984)	(3,944)	(8,927)	(20,789)	(39,028)	
Gross Profit	251	498	743	2,074	6,692	16,689	
EBITDA	(2,681)	(7,768)	(15,135)	(17,040)	(16,154)	(10,343)	
Normalised operating profit	(2,755)	(7,961)	(15,519)	(17,774)	(18,117)	(14,323)	
Amortisation of acquired intangibles	0	0	0	0	0	0	
Exceptionals	(2,370)	(15,087)	16,102	0	0	0	
Share-based payments	(253)	(1,056)	(2,201)	0	0	0	
Reported operating profit	(5,378)	(24,104)	(1,618)	(17,774)	(18,117)	(14,323)	
Net Interest	0	0	0	0	0	0	
Joint ventures & associates (post tax)	0	0	0	0	0	0	
Exceptionals	0	0	0	0	0	0	
Profit Before Tax (norm)	(2,755)	(7,961)	(15,519)	(17,774)	(18,117)	(14,323)	
Profit Before Tax (reported)	(5,378)	(24,104)	(1,618)	(17,774)	(18,117)	(14,323)	
Reported tax	0	0	0	0	0	0	
Profit After Tax (norm)	(2,755)	(7,961)	(15,519)	(17,774)	(18,117)	(14,323)	
Profit After Tax (reported)	(5,378)	(24,104)	(1,618)	(17,774)	(18,117)	(14,323)	
Minority interests	0	0	0	0	0	0	
Discontinued operations	0	0	0	0	0	0	
Net income (normalised)	(2,755)	(7,961)	(15,519)	(17,774)	(18,117)	(14,322)	
Net income (reported)	(5,378)	(24,104)	(1,618)	(17,774)	(18,117)	(14,323)	
Basic average number of shares outstanding (m)	50	81	97	108	112	112	
EPS - basic normalised (C\$)	(0.05)	(0.10)	(0.16)	(0.16)	(0.16)	(0.13)	
EPS - diluted normalised (C\$)	(0.05)	(0.10)	(0.16)	(0.16)	(0.16)	(0.13)	
EPS - basic reported (C\$)	(0.11)	(0.30)	(0.02)	(0.16)	(0.16)	(0.13)	
Dividend (C\$)	0.00	0.00	0.00	0.00	0.00	0.00	
Revenue growth (%)	N/A	167.5	216.3	134.7	149.8	102.7	
Gross Margin (%)	45.3	33.6	15.9	18.9	24.4	30.0	
EBITDA Margin (%)	-483.9	-524.2	-322.9	-154.9	-58.8	-18.6	
Normalised Operating Margin	-497.3	-537.2	-331.1	-161.6	-65.9	-25.7	
<b>BALANCE SHEET</b>							
Fixed Assets	585	881	1,784	2,267	3,462	5,726	
Intangible Assets	51	395	344	344	344	344	
Tangible Assets	434	253	484	1,095	2,535	5,453	
Investments & other	100	233	956	828	584	(71)	
Current Assets	3,944	28,438	31,138	24,384	13,339	10,192	
Stocks	157	2,424	4,546	5,803	12,474	23,417	
Debtors	506	369	694	3,850	8,244	16,715	
Cash & cash equivalents	2,909	21,538	23,047	11,881	(10,230)	(32,791)	
Other	372	4,107	2,851	2,851	2,851	2,851	
Current Liabilities	(839)	(2,019)	(3,317)	(8,114)	(15,971)	(28,739)	
Creditors	(301)	(1,235)	(1,898)	(6,695)	(14,552)	(27,320)	
Tax and social security	(110)	(8)	(8)	(8)	(8)	(8)	
Short term borrowings	0	0	0	0	0	0	
Other	(428)	(776)	(1,411)	(1,411)	(1,411)	(1,411)	
Long Term Liabilities	(32)	(16,092)	(2,833)	(2,833)	(2,833)	(2,833)	
Long term borrowings	0	0	0	0	0	0	
Other long term liabilities	(32)	(16,092)	(2,833)	(2,833)	(2,833)	(2,833)	
Net Assets	3,658	11,208	26,772	15,704	(2,003)	(15,654)	
Minority interests	0	0	0	0	0	0	
Shareholders' equity	3,658	11,208	26,772	15,704	(2,003)	(15,654)	
<b>CASH FLOW</b>							
Op Cash Flow before WC and tax	(2,681)	(7,768)	(15,135)	(17,040)	(16,154)	(10,343)	
Working capital	(326)	(1,030)	(1,385)	384	(3,208)	(6,647)	
Exceptional & other	(55)	(794)	730	0	0	0	
Tax	0	0	0	0	0	0	
Net operating cash flow	(3,062)	(9,592)	(15,790)	(16,656)	(19,362)	(16,990)	
Capex	(56)	(230)	(287)	(1,100)	(2,748)	(5,572)	
Acquisitions/disposals	(452)	0	0	0	0	0	
Net interest	2	5	27	0	0	0	
Equity financing	6,639	31,858	16,013	7,354	0	0	
Dividends	0	0	0	0	0	0	
Other	(132)	(3,115)	2,265	(765)	0	0	
Net Cash Flow	2,939	18,926	2,228	(11,166)	(22,110)	(22,562)	
Opening net debt/(cash)	(10)	(2,909)	(21,538)	(23,047)	(11,881)	10,230	
FX	(40)	(297)	(719)	0	0	0	
Other non-cash movements	0	0	0	0	0	0	
Closing net debt/(cash)	(2,909)	(21,538)	(23,047)	(11,881)	10,230	32,791	

Source: Edison Investment Research, Company data

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