Capital Y
29 E. 10th Street,
New York, New York

What's New?

Update Report

July 2022

- **Despite broader market headwinds, the company continues to execute and maintains a path towards sustained profitability.** The company updated (unaudited) gross revenue for May, 2022, increasing by $823,842, compared with May, 2021, when the company achieved gross revenue of $717,944, net of wholesale revenue, representing year-over-year gross revenue growth of approximately 115 per cent. Gross revenue for June increased by $735,988 compared to June 2021, when the Company achieved gross revenue of $754,000, net of wholesale revenue, representing year-over-year gross revenue growth of approximately 97%.

- **In May, PlantX announced a partnership with Instacart to provide same-day delivery for customers in Toronto, Ottawa, Squamish, and Chicago.** While PlantX has already completed the rigorous process of having products listed on both Amazon and Walmart, we believe the Instacart partnership will serve to boost customer conversion rates, lower customer acquisition costs, lower shipping and logistics costs, while enhancing overall supply chain efficiency.

- **In early June PlantX received authorization to sell and distribute alcoholic beverages in its United States retail stores in Chicago, Illinois, and Venice Beach, California.** Due to the inherently strong margins of alcohol sales and distribution, we believe these steps are a reflection of a prudent management strategy focusing on high margin leverage points relative to competitors in the plant-based space.

PlantX | STAY CURIOUS STAY PLANTED STAY HEALTHY

Price Target: CA$0.67

Market Data	
Share price	CA$0.08
Target Date	7/30/2023
Market Capitalization	CA$12.6M
Fair Present Value	CA$0.67
Enterprise Value	CA$68.01M

Company Description

PlantX Life is an integrated technology company that leverages multiple complementary lines of business to create an ecosystem of ecommerce, brick and mortar, and lifestyle solutions for plant-based products. Headquartered in Vancouver, BC and actively doing business in the United States, Canada, United Kingdom, and Germany, the company boasts an impressive portfolio of brands and platforms that combine to forge a clear path to near term profitability reinforced by high margin enterprise in a rapidly growing set of markets. With prudent management decision making, as evidenced by recent developments, we believe the company will continue to fortify itself as the market leader from amongst its peer group.

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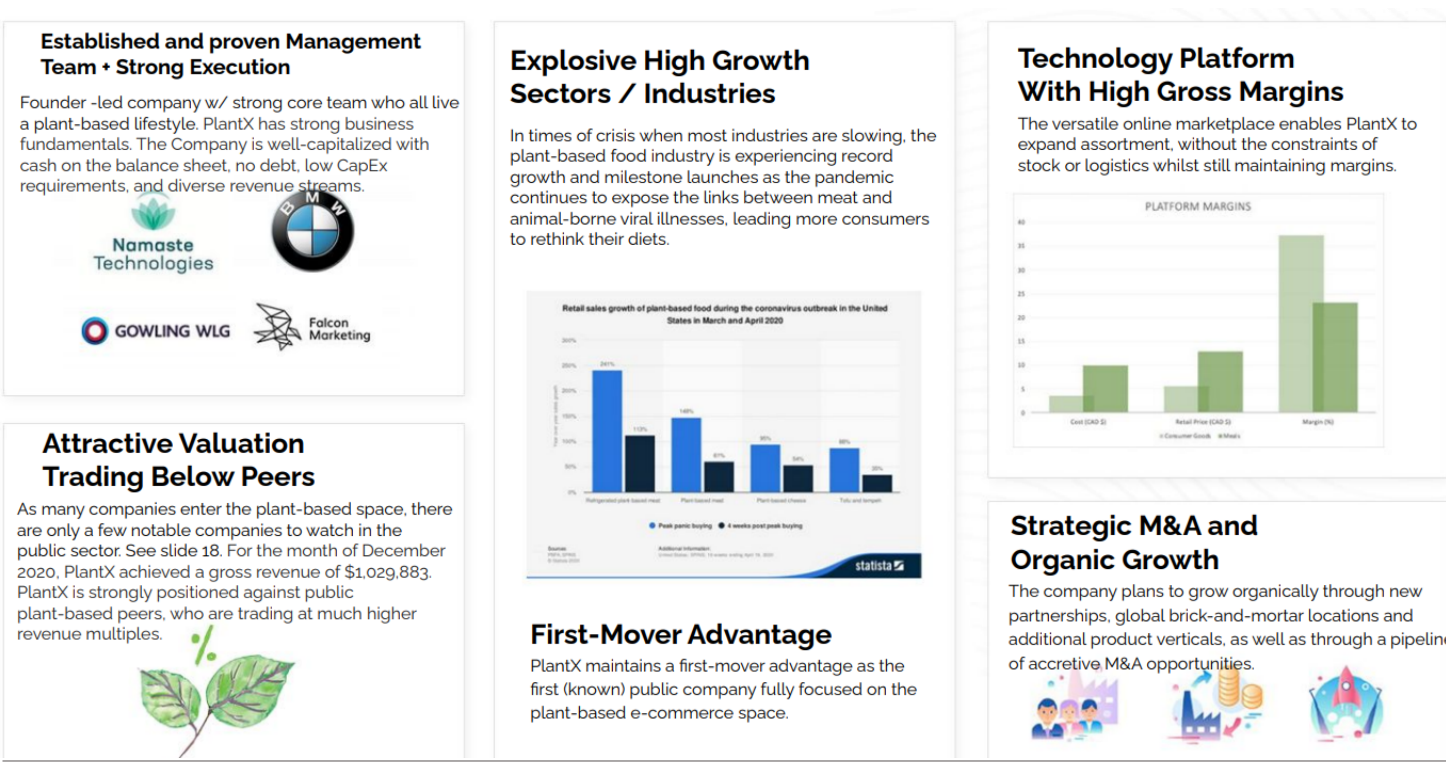
Business History

PlantX Life is an integrated technology company that leverages multiple complementary lines of business to create an ecosystem of e-commerce, brick and mortar, and lifestyle solutions for plant-based products. Headquartered in Vancouver, BC and actively doing business in the United States, Canada, United Kingdom, and Germany, the company boasts an impressive portfolio of brands and platforms that combine to forge a clear path to large scale relevance in a rapidly growing set of markets.

Founded in 2019 and taken public as part of an RTO transaction later that year, PlantX (formerly Vegaste) has used proceeds from equity issuance to complete a number of accretive transactions including leading UK-based e-commerce startup Bloombox Club and Score – a series of restaurants – to create an omnichannel and experiential marketing experience to cater to current plant-based consumers as well as attract and educate potential new, repeat customers. The company has also used the proceeds to develop an in-house, plant-based meal delivery service that is active across Canada and several major US cities. Alongside these business verticals, the company first partnered with, and then acquired LIV Marketplace, a premier e-commerce solution for third-party products such as dry snacks, drinks, pet food, and other lifestyle products. In addition, PlantX has opened a 15,000-square-foot brick and mortar flagship location in Squamish, BC, as well as a 3,000-square-foot warehouse used to store and ship indoor plants throughout Canada. The company's timeline from start-up to market leader has been rapid, as proven by the company's significant year-over-year revenue increases, growing to over $6.5M in 2021 from just over $1K in 2020. At current run rate, we expect $18-21M in revenue for 2022.



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Market Overview

As the expansion of the plant-based and meat alternative categories continue to grow, the addressable market is inarguably large, but also hypercompetitive. Incumbent specialist brands including Beyond Meat and Impossible Foods now face increased competition from conglomerate food manufacturers' foray into the space. Nestlé launched its "Awesome Burger" and "Awesome Grounds" in 2019, along with Hormel's introduction of in-house brand "Happy Little Plants" in the same year. Unilever maintains a goal of over €1B in sales of plant-based alternative products within the next 5 to 7 years, supported by vegan alternatives from existing in-house brands, as well as leveraging acquisitions of independent specialty brands.

The plant-based food space has a barbell distribution of companies, on one side large-scale industrial conglomerates investing in research and development of new products and technologies, to the other side of specialist brands focusing on particular niches of food products. Consumer environmental awareness, increased health consciousness, food safety concerns and product preferences have decidedly shifted to an increased appreciation for plant-based alternatives, with these trends especially skewed to younger demographics.

Since the start of 2022, companies in the space have seen aggressive share price compression and market re-rating. This has happened to all companies in the plant-based space regardless of business quality, and we see a large opportunity set as market leaders such as PlantX embed their relative positioning and continue to increase market share.

Our interest in PlantX is rooted in what we see as a less saturated segment of the market versus the individual product producers and developers, with acquisitions strategically executed to take advantage of established niche brands with developed consumer awareness at growth inflection points. Furthermore, the company doesn't face the same degree of margin compression inherent in food production, especially relevant in an environment of rising and sustained inflation. The overall 2022 market environment characterized by rising rates and persistent inflation has exacerbated industry stratification between marketplaces and product producers. The company's positioning should allow it to enjoy overall industry tailwinds, while retaining exposure to the most popular brands through its omnichannel distribution strategy. This is further to the company's strategy which inherently avoids the costs associated with R&D spend on perfecting products like Oatly's milk substitute, Beyond Meat's chicken fingers, or Impossible Foods grounds. At the same time, the company retains the valuable consumer information associated with each individual product's sales data, presenting a unique perspective on rapidly evolving consumer palates.

Summary

PlantX Shop is PlantX Life's e-commerce platform that offers a wide variety of plant-based consumer goods at attractive price points. Additionally, the PlantX Shop website serves as a hub for the PlantX ecosystem and has become an interactive community where customers, brands, chefs and ambassadors can share ideas such as recipes and routines while providing a market clearing mechanism for both the supply and demand sides of the plant-based economy.

The shop currently has a selection of nearly 5,000 SKUs from a variety of brands such as increasingly popular Oatly and Rise Brewing Co, but also serves as a discovery portal for consumers looking for new and emerging brands. Beyond packaged food and drinks, the shop also offers lifestyle products like body and beauty care as well as indoor plants, baby products and pet food/toys. PlantX Shop serves primarily as a true e-commerce marketplace. Taking advantage of the drop shipping model, it is very reminiscent of Amazon's early marketplace, or products that are sold by third parties and not under the "Prime" brand or fulfillment. Also, like Amazon, PlantX Shop offers a subscription service called PlantXPress for $24.95 a month that gives customers an immediate 5% discount on their current order and future free ground shipping on orders over $49.99. Much like Amazon, PlantX is using the existing brand power of its sellers to generate traffic to the website and thus build a critical mass within the community, leading to accelerated uptake of other business verticals described below.

The company continues to cleverly filter up higher and more consistent return customers by recently deploying additional membership tiers, specifically "XVIP". This membership allows access to special events, product launches, and the newly deployed XFitness platform. By diversifying the core offering the optionality for future cross-selling and promotional revenue reinforces what we see as a focus on high-margin opportunities leveraging the foundation the company has already built. The membership runs at $29.99 per month, with a free one-month trial as a means to reduce initial up-take friction.

The majority of capital deployed to this point has been to bring the aforementioned companies under the consolidated PlantX umbrella, while significant capital resources have been deployed to generate awareness around the portfolio and ecosystem created as a result.

From a financial analysis perspective, one of the most exciting aspects of this business model is that sales and marketing expense are truly beneficiaries of scale, and as expected sales and marketing expense to decreased from 75% of revenue in fourth quarter of FY'21 to below 45% of revenue in FY'22 and eventually to below 10% of revenue in the long run. The omnichannel and experiential nature of the sales funnel is such that spending on brand ambassadors and partners such as Chef Matthew Kenny are highly accretive to all of the business lines and in some respects, general marketing should be a very sticky, nearly fixed dollar cost.

Similarly, the admittedly high level of share-based compensation should reach a steady state, which we see at about 13% of FY'23 revenue and under 5% by 2030. While the company already has impressive gross margins of around 28% for Q1'22, we believe that these still have room for expansion to around 35% in the long run, as the company scales its relationship with suppliers and customers, offering material incremental cash flow to the consolidated bottom line. Additionally, with the aforementioned adjustments to operating expense levels, we think that the company could eventually approach operating margins of 5%-8%, which is favorable to comps with similar revenue growth profiles.

Valuation

We believe that the developments and changes effected by management during 2022 thus far have materially and positively impact the current and future value of the PlantX ecosystem. Although the market this year has punished growth names, specifically profitless technology companies, our view is that this environment, despite its turbulence, will establish new industry leaders who will quickly filter-up in market positioning from competitors of lower business quality. The leadership of Lorne Rapkin and management continue to strengthen the financial pedigree of a disruptive business that is quickly embedding itself as a market leader in an emerging industry with long term tailwinds.

Our valuation and comparative analysis has established a base-case present value of CA $0.67 per share while holding the discount rate and present value of our discounted cash flow model constant. We believe that increasingly efficient capital allocation will have both short- and long-term positive impacts on both gross margin and operating margin line items, subsequently increasing the cash flow generating capabilities of the company. Specifically, we believe that sales and marketing expense as a percentage of revenue for Q2’22 and FY’22 can be reduced to 34% and 31% respectively, while our previous model had forecasted these figures to be 49% and 38% in Q2’22 and FY’22 respectively. We also foresee similar reductions (relative to revenue) in general and administrative operating costs and stock-based compensation line items.

The company currently trades at just half our estimated 2022 revenue run rate, putting it at an extremely conservative 0.65 P/S multiple. We believe this is unjustifiably cheap given the significant improvements to the management team as well as increased visibility on short- and long- term revenue growth. Other industry participants with less margin pricing power and weaker unit economics currently trade between a 4-7.5 P/S multiple despite the substantially weaker equity markets than 2021. Our bear-bull range for the one-year price target is CA$0.67-CA$2.13.

In terms of top line growth, we think that the recently announced engagements with Amazon and Walmart will likely contribute an additional 12% of revenue to Shop for ’23 and will also contribute revenue growth to other business lines as the PlantX brand becomes more well known on both sides of the border. As previously mentioned, we believe that the association with Amazon and Walmart will possibly decrease the need for incremental marketing spend, which will expand operating profit both on a dollar and margin basis.

In the long run, we think the stock could be worth between CA$1.52 and CA$2.91 by the end of FY’25, though the midpoint of this range as derived from the base case is CA$2.27. Today, we think it is reasonable for the market to determine a present value that is based primarily on long-term cash flow needs, especially as inflection points in the business model point to cash flow positivity well before net income positivity. In the long run, we think it is also reasonable for the company to trade within a range of 3x-5x trailing 12 month sales and 7.5x-12.5x Adjusted EBITDA.

In our base case, with the stock at $3.82/sh at the end of FY'30, the company would trade at 11.1x Adjusted EBITDA, 15.2x EBITDA, 1.9x sales, 33.6x net earnings, and importantly a healthy 6% free cash flow yield. In a shorter time frame (FY'24), the company could trade to CA$2.05, which would be 22.3x Adjusted EBITDA, 2.5x sales, and a 3% free cash flow yield.

As a result of the above discussed developments, we are revising our base earnings per share (EPS) forecast for FY'22 from (-$0.22) upward to (-$0.19) and our base EPS forecast for FY'23 from consistent at (-$.09). We also now believe that the company may be able to turn a net profit as soon as FY'24, a significant improvement over our last model due to anticipated reduced operating expenses and increased sales resulting from new management and the Instacart, Amazon and Walmart engagements respectively.

The company recently made the decision to restate 2021 financial statements, based on the company's conclusion that certain revenues and cost of sales recognized during fiscal 2021 that were related to the company's wholesale operations should not have been recorded on a gross basis during that period. The company has subsequently ceased transactions relating to its wholesale division as of Q1 2022. These restatements should not impact historical cash or cash equivalents that were generated during the period mentioned above based upon the current review. At the present time, the restatements are expected to impact revenue and cost of sales line items. While the company's analysis is still under way, the company currently estimates the revenue impact for the full year 2021 to be a reduction of approximately $3.45M and cost of sales to decrease by approximately $3.10M. Although these numbers are subject to change as the company undergoes a full review, we do not expect this to materially affect the underlying business.