

Barfresh Food Group Inc.

NasdaqCM: BRFH

Maintaining Rating & Reducing Target Buy, \$8.00

April 29, 2022

MARKET DATA

Share Price:	6.80
Market Cap:	87.86 M
52wk Range:	3.12—8.45
Ave. Volume:	32,000
Basic S/O:	12.92 M
Fully Diluted S/O:	14.79 M
Float:	4.60 M
Institutional %:	14%
Insider %:	53%

FINANCIAL DATA (mrq)

Cash:	4.54 M
ST Debt:	0.00 M
LT Debt:	0.00 M
Book Value:	7.41 M
aEBITDA (ttm):	(1.23) M
CFFO (ttm):	(2.60) M

Auditor: Eide Bailly LLP

USD	2020A	2021A	2022e	2023e
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Revenue (in Millions)

Mar	0.73	1.02	2.52A	5.74
Jun	0.51	1.30	2.47	7.20
Sep	0.71	1.93	3.57	9.58
Dec	0.62	2.45	4.27	13.56
REV	2.57	6.70	12.83	36.08
<i>P/S</i>	<i>34.19</i>	<i>13.11</i>	<i>6.85</i>	<i>2.44</i>

Diluted EPS

Mar	(0.07)	(0.05)	(0.07)A	0.02
Jun	(0.11)	(0.02)	(0.05)	0.06
Sep	(0.08)	(0.04)	(0.02)	0.13
Dec	(0.12)	0.01	(0.02)	0.24
EPS	(0.39)	(0.10)	(0.16)	0.45
<i>P/E</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>15.11</i>

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Supply Chain Issues Begin To Ease As School Year Wraps Up

Q1:22 Results Hit By Supply Chain. Barfresh reported Q1 results with Revenue of \$2.53 million, another new quarterly record. Gross margins dipped to 32.3% on continued price increases, however management noted it did pass along some price increases of its own in early Q2, which will help going forward. Operating expenses increased due to the addition of the new CFO and fees related to the Nasdaq up-listing. Net Loss for the period was \$894,000, or \$0.07 per share. Adjusted EBITDA for the quarter was a loss of \$546,000.

Conference Call Updates. Not much new information was revealed during the conference call after hosting the fourth quarter call a handful of weeks ago. Management did sound optimistic that it eased its supply constraints and should no longer be in a position whereby it cannot fill orders in hand as happened recently. Single serve and bulk customers continue to cycle back in, which will help margins going forward. Finally, Q2 Revenue is expected to be roughly similar to Q1, given the school year ending soon.

Model Update. We brought down our Revenue estimates slightly as it appears management will grow at a more cautious level in the near term due to market and supply chain uncertainties. The net result was a decrease in our 2022 estimates from \$15.0 million to \$12.8 million in Revenue and a minor decrease in 2023 Revenue, from \$37.5 million to \$36.1 million.

Maintaining Rating & Reducing Target Price. We continue to believe in the long term potential of Barfresh, however the next few quarters provide some uncertainty as it continues to navigate through supply chain and Covid-related issues with its suppliers and customers. We still expect 2023 to be a banner year for the Company, assuming a more normalized environment where it is capable of achieving faster growth in its current channels and in new channels, like a QSR customer. We are reiterating our Buy rating on Barfresh Food Group, but lowering our target price from \$9.00 to \$8.00 based on the revised estimates. Our target price is based on an average of an EV/aEBITDA multiple of roughly 15 times our 2023 Adjusted EBITDA estimate of \$7.3 million and a P/E multiple of 25 times our 2023 estimate of \$0.45, tax-adjusted. We again note that our estimates are subject to significant revisions based on COVID and related supply chain issues.

RISKS

COVID-19 Related Issues

The shutdowns of schools, restaurants, entertainment attractions and other dining locations has had a significant negative impact on Barfresh and could continue to do so should such closures remain in place. Since the shutdowns, there have been severe negative impacts on the supply chain in terms of rising material prices, difficulty in securing products, long shipping delays, higher shipping and storage costs, which has and may continue to impact Barfresh.

Prices and Availability of Raw Materials and Shipping Services

Fruit and dairy products used in Barfresh's products have seen supply shortages and rising prices, as have transportation services the Company uses for shipping. Increases in prices and/or reduced availability could negatively impact financial results.

Need For Additional Capital

Barfresh has a history of losses and has required capital raises to finance operations. Any additional capital raised could result in dilution to current shareholders. Management believes it currently has enough cash to reach breakeven without raising additional funds.

Large Competitors

The Company is competing with a number of large companies in the ready-to-blend smoothie market, including Coca Cola, Dole Foods, General Mills and Inventure Group. Each company has a well established brand name, greater access to capital, and broader distribution to restaurants, food service companies, food distributors and grocery stores.

Dependence on Third Party Manufacturers

Barfresh's products are produced on a contract manufacturing basis at Farr's in Salt Lake City, Schreiber Foods in Pennsylvania, and Yarnell's in Arkansas. Should any site experience production difficulties or Barfresh fail to secure additional manufacturers it may be unable to fill customer orders.

Consumer Preferences

Barfresh's lead product category is smoothies, a growing beverage choice in restaurants and schools. Should consumers shift away from the smoothie trend the Company may have difficulty maintaining or increasing sales.

Intellectual Property Defense

The Company's ready-to-blend frozen packet is unique to the industry and is protected by patents. Should a competitor infringe on its patents, Barfresh may not have the capital to defend its IP.

Long Product Rollout Schedules

Barfresh's largest QSR customers were signed in late 2012 and are still awaiting a national rollout, some of which have been temporarily delayed by the customer. It is currently waiting on a 3,000-plus location QSR customer approved in March 2020 and a 2,500-plus location QSR customer approved in November 2018 to roll out Barfresh products nationally. Additionally, there are no assurances long product testing with other potential customers will result in full rollouts.

Large Shareholders

CEO Riccardo Delle Coste, Director Steven Lang, and fund manager/Director Justin Borus together own 4.70 million shares of common stock, or 36.4% of the shares outstanding, thus giving them significant control over the direction of Barfresh.

Material Weaknesses

Barfresh's auditors found there was a material weakness in internal controls related to financial reporting related to an inadequate segregation of duties. Remediation measures are currently being evaluated by the Audit Committee.

Customer Concentration

Barfresh's three largest customers accounted for 60.0% of sales in 2021, down from 64% in 2020.

Illiquid Common Stock

Barfresh stock trades less than \$1,000,000 per day on average, which may make it difficult to acquire large positions.

ESTIMATED INCOME STATEMENT

	Q1:21A	Q2:21A	Q3:21A	Q4:21A	2021A	Q1:22A	Q2:22e	Q3:22e	Q4:22e	2022e	Q1:23e	Q2:23e	Q3:23e	Q4:23e	2023e
Total Revenue	1,015	1,301	1,930	2,454	6,700	2,526	2,469	3,568	4,267	12,830	5,737	7,204	9,576	13,557	36,075
COGS	666	740	1,209	1,578	4,193	1,710	1,596	2,283	2,817	8,406	3,638	4,330	5,492	7,594	21,054
Gross Profit	349	561	721	876	2,507	816	873	1,285	1,450	4,424	2,099	2,875	4,084	5,963	15,021
General & Admin.	751	1,017	1,065	1,145	3,980	1,549	1,309	1,423	1,516	5,797	1,689	1,841	2,052	2,369	7,951
Depreciation & Amortization	147	146	162	167	622	161	165	165	165	656	170	170	170	170	681
Operating Income	(549)	(602)	(506)	(436)	(2,093)	(894)	(600)	(303)	(232)	(2,029)	240	863	1,862	3,424	6,389
Interest Expense	(59)	(69)	-	(2)	(130)	-	-	-	-	-	-	-	-	-	-
Derivative Liability	17	(1)	-	-	16	-	-	-	-	-	-	-	-	-	-
Debt Extinguishment	-	(193)	-	-	(193)	-	-	-	-	-	-	-	-	-	-
Other Income	-	568	-	568	1,136	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	(591)	(297)	(506)	130	(1,264)	(894)	(600)	(303)	(232)	(2,029)	240	863	1,862	3,424	6,389
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	(591)	(297)	(506)	130	(1,264)	(894)	(600)	(303)	(232)	(2,029)	240	863	1,862	3,424	6,389
Basic EPS	(0.05)	(0.02)	(0.04)	0.01	(0.10)	(0.07)	(0.05)	(0.02)	(0.02)	(0.16)	0.02	0.06	0.14	0.25	0.48
Basic S/O	11,472	12,066	12,892	12,905	12,334	12,909	12,926	12,942	12,948	12,931	12,954	13,610	13,616	13,622	13,451
Diluted EPS	(0.05)	(0.02)	(0.04)	0.01	(0.10)	(0.07)	(0.05)	(0.02)	(0.02)	(0.16)	0.02	0.06	0.13	0.24	0.45
Diluted S/O	11,472	12,066	12,892	13,768	12,549	12,909	12,926	12,942	12,948	12,931	14,143	14,273	14,327	14,371	14,279
EBITDA	(385)	(82)	(344)	299	(512)	(733)	(436)	(138)	(66)	(1,373)	411	1,033	2,032	3,594	7,070
Adjusted EBITDA	(437)	(386)	(233)	(66)	(1,122)	(546)	(381)	(82)	(9)	(1,018)	470	1,094	2,095	3,659	7,317
Q1:21A	Q2:21A	Q3:21A	Q4:21A	2021A	Q1:22A	Q2:22e	Q3:22e	Q4:22e	2022e	Q1:23e	Q2:23e	Q3:23e	Q4:23e	2023e	
34.4%	43.1%	37.4%	35.7%	37.4%	32.3%	35.3%	36.0%	34.0%	34.5%	36.6%	39.9%	42.7%	44.0%	41.6%	
-54.1%	-46.3%	0.0%	0.0%	-31.2%	-35.4%	-24.3%	0.0%	0.0%	-15.8%	4.2%	12.0%	19.4%	25.3%	17.7%	
-43.1%	-29.7%	-12.1%	-2.7%	-7.6%	-21.6%	-15.4%	-2.3%	-0.2%	-10.7%	8.2%	15.2%	21.9%	27.0%	19.6%	
-58.2%	-22.8%	0.0%	5.3%	-18.9%	-35.4%	-24.3%	0.0%	0.0%	-15.8%	4.2%	12.0%	19.4%	25.3%	17.7%	
-58.2%	-22.8%	0.0%	5.3%	-18.9%	-35.4%	-24.3%	0.0%	0.0%	-15.8%	4.2%	12.0%	19.4%	25.3%	17.7%	

Source: BRFH documents filed with the SEC and Greenridge Global estimates

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Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	9	100%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	0	0%	0	0%

Explanation of Ratings

- BUY: Describes undervalued stocks we expect to provide a total return (capital appreciation + yield) of 15% or more in the next twelve month period.
- HOLD: Describes fully valued stocks we expect to provide a total return (capital appreciation + yield) of plus or minus 15% in the next twelve month period.
- SELL: Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
- NO RATING: Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

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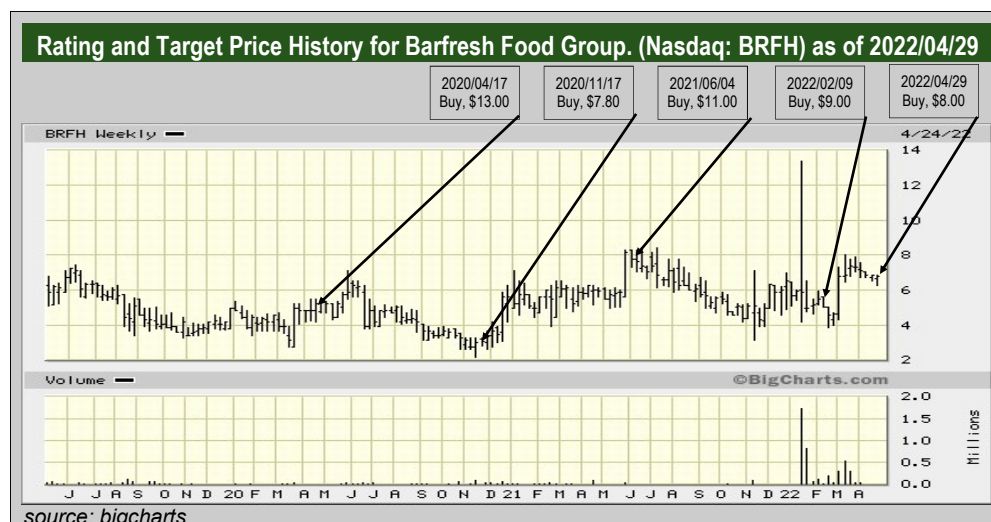
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Barfresh Food Group Inc.	-

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