Capital Y
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Revisiting PlantX

Update Report

March 2023

- Equity markets, particularly on the venture and junior exchanges, have faced rapid price depreciation amid an unprecedented pace of interest rate hikes. This has caused severe knock-on effects for companies without a path to profitability or free cash flow generation. PlantX has been caught by overall market contagion experienced throughout calendar 2022, led by severe declines in once-revered sector leaders such as Beyond Meat (BYND, -81%) and Oatly (OTLY, -79%) with down-stream effects felt across the plant-based sector more broadly.

- PlantX Living, PlantX Deli and EH & Portfolio Coffee subsidiaries emerge as potential market leaders and exhibit surprisingly strong revenue growth profiles, particularly in the face of overall consumer-product headwinds due to an increasingly challenging economic climate. For the 3 months ended December 31 2022, PlantX Living revenue increased 136.8%, PlantX Deli revenue increased 56.1%, EH & Portfolio Coffee revenue increased 46.0%. This sets the company apart from those focused purely on development of consumer packaged goods, as the integrated model of online marketplaces combined with physical brick-and-mortar locations enables the cross-promotion and product testing necessary to stand out in an industry that has faced a wave of new product offerings. Cleverly, the company uses the EH & Coffee products in freshly made beverages in brick-and-mortar XMarket locations, organically enhancing margins as well as controlling the consumer experience.

- At the start of 2023, the company retained counsel to seek remedies and options against its former auditors. While awaiting more information, we speculate this could lead to potential windfall which would be a welcome surprise to the market.

PlantX

STAY CURIOUS
STAY PLANTED
STAY HEALTHY

Range: CA$0.89 - CA$2.02

Market Data	
Share price	CA$0.11
Target Date	7/30/2023
Market Capitalization	CA$1.2M
Fair Present Value	CA$0.89
Enterprise Value	CA$15.01M

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, and the United Kingdom 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. In 2022, the company rolled back shares to 1:20, tightening the float substantially and reducing drag. The company stands apart from the broader plant-based world in that it maintains a prevalent online presence as a funnel for consumer acquisition, and also has evolved its own series of brick-and-mortar locations increasing consumer uptake for products and brands it has acquired. Today, the company has expanded beyond the borders of North America into geographies such as the UK and Israel, a forward-looking approach for regions with a growing demand for plant-based products and meat alternatives. The company also leverages drop-shipping supply chains to extract favorable unit economics from its Bloombox Club. This has the net effect of reducing both overhead and inventory maintenance, further bolstering the company's unique positioning through vertical diversity relative to other market participants in the space.

XMarket Squamish

XMarket Venice

XMarket Rideau

XMarket Yorkdale

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.

Lux Research, in it's Foresight 2022 Report, shows the plant-based food sector forecasted at an almost 12% compound annual growth rate over the next 7 years, and specialist consultants such as Future Market Insights project the global plant-based food market will be worth $34.5 billion over the next decade. 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.

Over the course of calendar 2022, companies in the space have seen aggressive share price compression and market re-rating. The overall 2022 market environment characterized by rising rates and persistent inflation has exacerbated industry stratification between marketplaces and product producers. Although the pace of overall inflation has slowed in the first quarter of 2023, the effects of rapid interest rate increases has drastically shifted the cost of capital for emerging business and highlights those with forward-looking management and a margin profile able to sustain organic growth. 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. The small and mid-cap companies have not been spared, and in environments characterized with a large overall secular retracement, it is our opinion that several companies emerge as particularly attractive with the backdrop of a growing overall demand for plant-based products as well as brands relatable to younger generations.

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. In fact, the company has developed a strategy whereby they are able to extract and enhance organic product margins through ups-selling owned brands through their brick-and-mortar locations. By leveraging drop-shipping for segments of the overall business, margins are further strengthened by reducing costs associated with in-house fulfillment, a quality all the more valuable in the current economic environment and preserves flexibility to changing consumer tastes and preferences. The company's positioning should allow it to enjoy overall industry tailwinds, while retaining exposure to the most popular brands through its omni channel distribution strategy. 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 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. One of the most attractive developments is management's ability to organically create margin through upselling the products of in-house brands through the company's brick-and-mortar locations, meanwhile allowing A/B testing of product to narrow focus for the roll out of locations internationally.

From a financial analysis perspective, one of the most exciting aspects of this business model is that sales and marketing expenses are truly beneficiaries of scale, meanwhile maintaining the curation of the consumer experience end to end. For the three months ended 2022, advertising and promotion decreased to 26% of revenue, a substantial improvement from the same period in 2021, which ran advertising and promotion at 55% of revenue. This reflects the aforementioned characteristic of organic margin enhancement thanks to managements careful control of the customer experience while integrating in-house products.

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. In our previous report, we projected internally that gross margins would approach 35%, which they did in fact achieve for the companies most recent released quarter, ended December 2022. These look to potentially have more upside, due to the rapidly growing revenue profiles of PlantX Deli and Little West Cold-Pressed Beverages segments. 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, 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. Management has demonstrated flexibility and nimbleness, while enhancing organic margin growth and developing critically important consumer taste profiles of the sector. While the overall market of 2023 has admittedly been challenged for growth names, we see potential in the name going forward presuming the continued fundamental trajectory of the overall business despite the volatility of public markets.

Our valuation and comparative analysis has established a base-case present value of CA $0.89 to CA$2.02 per share while increasing the discount rate to 20% to reflect current market conditions. This analysis reflects the 1:20 share consolidation executed by management, dramatically reducing the float, and in our opinion, positioning the company to benefit for the eventual return of investor interest to a space plagued by the challenges of the overall equity markets over the last 18 months. We believe that increasingly efficient capital allocation as well as increasing the total revenue of highest margin segments of the business will pull forward management's goal of profitability in calendar 2023. Specifically, we are impressed by the substantial reduction in marketing and promotion expenses meanwhile revenue remains strong. We also foresee similar reductions (relative to revenue) in general and administrative operating costs and stock-based compensation line items.

In terms of top line growth, we think that despite overall market headwinds, the company continues to show resiliency to fickle consumer markets, and continuing to expand and deploy resources to the highest margin segments of the business will prove fruitful.

The company currently trades at just half our estimated FY 2022 revenue run rate, putting it at an extremely conservative 0.13 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 .75-4 P/S multiple despite the substantially weaker unit economics and margin visibility. Furthermore, as management reiterates its goal for profitability in 2023, we believe signs of progress are exhibited by the strong margins of in-house brands. As markets will likely begin placing a premium on companies which are profitable, and not reliant on capital markets access, we see an inflection point on the horizon.

In the long run, we think the stock could be worth between CA$0.89 and CA$4.82 by the end of FY'25.