Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

# Initiating Research Coverage

# Sow Good Inc.

(OTC: SOWG)

**Report Date: 07/18/23**

**12- 24 month Price Target: $15.00**

**Allocation: 4**

**Closing Stock Price at Initiation (Closing Px: 07/17/23): $3.75**

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**Disclosure:** Portions of this report are excerpted from Sow Good's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

## **Company Overview**

*In 2021, Sow Good Inc. ("SGI") launched the business with a line of freeze-dried snacks, smoothies, soups and granola. They are marketing their products via their direct-to-consumer focused websites, as well as via the business-to-business sales channel. They have also recently launched a freeze-dried candy product offering that they expect will be the major driver of their growth going forward.*

*Through prior endeavors, largely in the pet food space, the Company's founders, Ira and Claudia Goldfarb (collectively, "the Goldfarbs"), have extensive experience in freeze-dried manufacturing and food product-focused business development. They have augmented that expertise via the recent addition of other team members with applicable industry skill sets, and they believe they are now well positioned to lead the Company's growth and development in the freeze-dried food industry.*

In 2022, SGI commenced the construction of their second and third freeze driers in anticipation of the increased production demands for their products. These new dryers were recently placed into service and are currently producing product, which is part of our view that the Company is in the midst of a revenue and earnings expansion.

The current enterprise came public in October 2020 through a (reverse) acquisition with BlackRidge Oil & Gas Inc. At that time the freeze-dried operating entity was called S-FDF, LLC, which was wholly owned by its founders, Ira and Claudia Goldfarb, who again, are the primary principles of SGI. As a result of that combination, at year end fiscal 2022 (ending December 31, 2022) the Goldfarbs, and to a lesser degree a handful of other board members (largely Mr. Lyle Berman) owned approximately 70% of the Company's 4.85 million shares outstanding. Further, at March 31, 2023 the Goldfarbs and Mr. Berman owned nearly all of the approximately 2.6 million outstanding options and warrants. In addition, at, March 31, 2023 SGI had unsecured notes outstanding in the amount of approximately $4.65 million, which again, are held preponderantly by the Goldfarbs and Mr. Berman. We think it is fair to say that the primary principles of the Company have "skin-in-the-game".

To segue a bit, we were introduced to SGI a few months ago by one of our subscribers. After an initial telephone introduction, we were intrigued so we set up and subsequently completed a site visit in mid-April (2023). That visit piqued our interest in the Company considerably, for reasons we will cover throughout this document. Further, we think the Company has progressed markedly *since that visit.* In our view, that assessment is supported by a recent announcement (June 22, 2023) wherein the Company provided some color around their initial progress in the freeze-dried candy space. Among other things, that announcement noted that their *"newly launched freeze-dried candy line has performed exceptionally well, with sales already exceeding $1 million. Surpassing projected growth and demand trajectories, Sow Good has firmly established itself as a frontrunner in the freeze dried candy market…"*. Succinctly, freeze dried candy, while certainly not "new", has recently attracted considerable attention over various social media platforms, which the Company was able to recognize and take advantage of. Frankly, we believe their entry into the space was based largely on an entrepreneurial hunch, as well as perhaps the recognition that SGI, unlike many of the small "mom & pop", freeze driers that make up much of the business, could scale multiple sku's and thus service the types of customers that could drive the category. We would add, and we will also expand upon later, the Company has developed its own freeze-drying technology/processes that it believes are among the most efficient available, which in turn, may provide them comparative advantages over other competitors. While we believe the Company may be constrained by capacity in the near term, our expectation is that they will look to add capacity as capital permits.

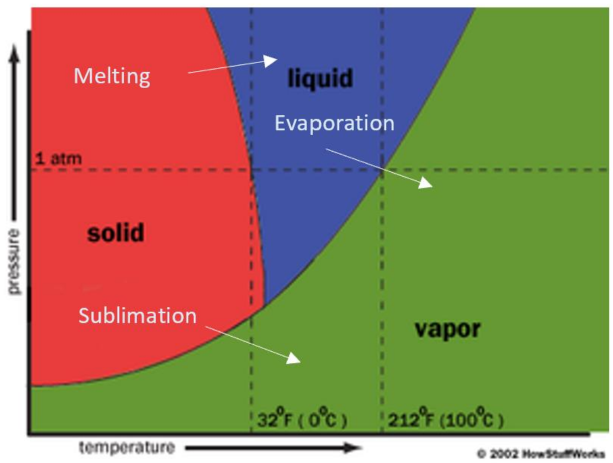
While freeze dried candy is currently the focus, we think management's experience in developing, branding, manufacturing and marketing freeze dried (and other CPG) products as well as its history in retail, provides considerable blue sky to the story. This is in our view, an innovative group that will likely continue to develop new products as they move forward, but for now, all eyes will remain on the rollout of their candy offerings. In that regard, as our model reflects, our expectation is that the second half of F-23 and full year F-24, will reflect revenue and earnings breakouts for the Company.

## Industry Overview

- **A Brief Primer on Freeze Drying**

Freeze-drying, or more technically, "lyophilization" has been understood and used for well over a century. In short, the process utilizes a physics phenomenon called "sublimation". In short, whereas most will recognize the typical stages of the transformation of water from a solid (freezing) to a liquid (melting) to gas (evaporation), by executing that same process in a controlled (depressurized) environment, sublimation will occur. In short, sublimation skips the melting phase, and takes water directly from solid to gas:

**Table 1.**




The Process - How Freeze-Drying Works | HowStuffWorks

From a bit more technical perspective:

*Freeze-drying is a process in which water is sublimated by the direct transition of water from solid (ice) to vapor, thus omitting the liquid state, and then desorbing water from the "dry" layer. It is widely used for the stabilization of high-quality food, biological materials, and pharmaceuticals, such as proteins, vaccines, bacteria, and mammal cells. In the process, the quality of the dried product (biological, nutritional, and organoleptic properties) is retained. This is due to the fact that freezing water in the material prior to lyophilization inhibits chemical, biochemical, and microbiological processes. Therefore, the taste, smell, and content of various nutrients do not change. Raw food materials contain a lot of water, ranging from 80% to 95%. The removal of water by sublimation results in the creation of highly porous structure of the freeze-dried products, and the rehydration of lyophilisates occurs immediately.* *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7603155/#:~:text=Freeze%2Ddrying%20is%20a%20process,3%2C4%2C5%5D*.

The above noted, there are generally three phases to the freeze-drying process:

- Freezing of the product, often under pressure and at very cold, temperatures (depending on what is being frozen). Generally, and again depending on what is being processed, the temperature and rate at which the product is being frozen can impact the size and configuration of the ice crystals formed from the water within the product. The characteristics of those crystals may in turn impact the rate at which the product can ultimately be dried, as well as its resulting quality.

- Once the product is frozen, it is advanced to the primary drying phase (sometimes referred to as the "sublimation drying"). In this stage, the product is transferred to a low pressure (vacuum) environment, where sublimation can occur. Because of the low-pressure environment, the unbound water in the product can be transferred from solid (ice crystals) to vapor, without the application of high temperature. In this phase, 90%+ of the water in the product is removed. Aside from a vacuum to lower the pressure, this phase also requires condensers that remove the sublimated water vapor, so it cannot be reabsorbed by the product. The primary phase is often the most time-consuming phase, and that time varies widely by product, but can require a few hours to perhaps days.

- The final phase of the process is referred to as secondary drying or sometimes "desorption" drying. This phase often includes some other combination of pressure and perhaps heat and is applied to try to remove any remaining (typically bound) moisture that was not removed in the primary phase. When this phase is completed, the product will be void of ±98% of its original moisture content.

Given the above overview, we think there are a handful of key takeaways that we view as topical *specifically* to SGI in the context of freeze-drying technology and processes *in general*.

Freeze drying provides an effective approach to drying and/or removing water from just about anything. As such freeze drying is utilized in various industries, which include pharmaceuticals, biotechnology, chemicals, taxidermy, food and a host of others. On the food side, many may be familiar with NASA and the space program's use of freeze-drying to provide food for astronauts as well as the military use of freeze-drying to create MREs (Meals, Ready-to-Eat) for soldiers in the field. In each of these cases, the benefits to freeze dried meals is that they are lighter since they contain considerably less water than their non-dried iterations, they have measurably longer shelf lives (years), and they maintain their nutritional value, flavor and/or other characteristics. As a result of those advantages, companies have been able to create products/brands for emergency food sources, as well as for hikers, hunters etc. who are looking to reduce the weight and spoilage of food sources they are taking with them.

While the advantages of freeze-dried products are well documented, costs associated with the process can make it prohibitive for some applications. As a result, the general view of the industry is that it is particularly topical for high value products where demand is less impacted by cost, pharmaceuticals for instance, but is perhaps more prohibitive for certain food applications where cost is more important. That fact may explain some of the cottage nature of at least portions of the industry, which frankly, we think may provide some advantages for SGI. We will expand on that later in this report.

Obviously, the advantages and associated costs of freeze drying are more topical to some products than others, which certainly limits its applications. Again, we think that provides some openings for SGI that we will cover. That said, as the discussion above regarding the phases of freeze drying suggests, the process includes several variables requiring precise calibrations and as such considerable collective complexity. Ostensibly that complexity is more acute with multiple products as well as product types, and at scale. Further, that complexity extends to the equipment and processes (including associated capex) required to make it work in the first place.

- **Industry Dynamics**

According to Grandview Research, (Freeze-dried Food Market Size, Share & Growth Report, 2030 (grandviewresearch.com)):

*"The global freeze-dried food market size was valued at USD 36.23 billion in 2021 and is expected to expand at a compound annual growth rate (CAGR) of 7.6% from 2022 to 2030. The rising demand for food products with a long shelf-life is a major growth driving factor. According to an article published by Power Reviews, a technology company, in April 2022, nearly 49% of consumers picked non-perishable foods from grocery stores. There has been a substantial rise in customer demand for non-perishable food items, notably freeze-dried foods like meat products or their counterparts, vegetables, fruits, and ready-to-eat meals. The outbreak of COVID-19 has also spurred the demand for food items that can be stored for a longer period to avoid frequent visits to stores and catching infections, which drives the intake of freeze-dried food".*

And from: The Brainy Insights: Freeze-dried Food Market Size, Share, Growth Report, 2022-2030 (thebrainyinsights.com)

*The freeze-dried food market was valued at USD 37.2 billion in 2021 and is expected to reach USD 71.7 billion by 2030, expanding at a CAGR of 7.7% from 2022 to 2030. The market is driven by expanding food-processing sector and rising demand for ready-to-eat (RTD) food products. Consumers are also becoming increasingly aware of the benefits and shelf-stability of freeze-drying, owing to which, they are preferring freeze-dried foods over packaged and canned foods.*

*Freeze-drying methods are increasingly deployed by several B2B channels including QSRs, fast-food restaurant chains, cafés, and hotels, as it removes almost all the water, making the final product lighter with a longer shelf life that results in accessible and logistic-friendly products. Market players are increasingly using freeze-drying technology to enhance the color, nutrient content, and shelf-life of the product, which bodes well for overall market growth.*

*The consumption of freeze-dried food as snacks has been increasing globally, driven by the growing consumer health consciousness and improved product offerings. As a result, many new products in the market use freeze-dried fruit such as orange, kiwi, strawberry, banana, raspberry, mango, and others in food items such as cereals, snacks, bakery items, confectionery, and milk. Furthermore, rising awareness of the health benefits and the versatility of freeze-dried fruits as an ingredient will increase the demand further.*

And from another perspective, according to a recent industry report from the National Confections Association ("NCA"), Bite-Sized-Candy-Insights-eFinal-022723.pdf (candyusa.com):

*"Supply chain disruption, 40-year high inflation and lingering COVID-19 concerns continued to affect confectionery shopping and consumption patterns in 2022. Consumers described life as "expensive" and "somewhat stressful." Despite double-digit category inflation, 74% of consumers agree that confectionery remains an affordable treat. However, 45% of consumers applied one or more money-saving measures in 2022, switching between types, brands, pack sizes and stores. Boosted by inflation, sales reached $42.6 billion in the total market according to Euromonitor, whose sales projections take the total category to $54.3 billion by 2027.* Further, *consumers report having a confectionery treat an average of 2.4 times a week, which is consistent with government data that shows Americans enjoy chocolate and candy two to three times per week.* And perhaps one of the more interesting takeaways from the report with respect to SGI: *Innovation, both line extensions and completely new items, can drive engagement and sales growth* ***with 61% of***

***shoppers occasionally or frequently looking for confectionery products they have not had before.”***

As we often note in our coverage, we typically try to incorporate some amount of industry analysis into our research. While we certainly appreciate the insights, our experience is that industry research generally includes significantly varying view of both current and future market size. Certainly, some of that variation is a testament to the difficulty of the process in general, but some of it is also often related to differing inclusions of what constitutes “the industry” per se. In short, it is a difficult endeavor and as such the value of *some of* its conclusions may be limited. That said, there are a few takeaways from the above narratives that are worth addressing.

First, recognize that (again according to who one asks) the global food industry is several trillion dollars, so the freeze-dried portion of that business is, regardless of who measures it, an insignificant portion of that whole. Some of the reason(s) for that insignificance is related to the complexities of the process, but regardless of the reasons, we view the market as largely fragmented on multiple fronts. For instance, a good portion of “the market” is represented by hardware (freeze dryers), which come in all shapes, sizes and capabilities. Further, we think it is accurate to say that many of the freeze dryers sold are more personal use appliances and are not applicable to the scalable commercialization of freeze-dried products. As we will delineate in the Products/Technology Overview of this report, we believe that one of SGI’s advantages is that it represents one of a small number of freeze-driers with the expertise and the capacity to provide consistent, scalable commercial solutions and/or brands. For instance, we have been able to identify brands offering freeze-dried candy products that are quite similar to those of SGI, however, our sense is that many of these players are likely unable to provide multiple SKUs in quantities necessary to attract meaningful retailers that could in turn help to drive the category.

Third, along with hardware, our sense is that another measurable portion of the freeze-dried “market” is associated with the in-house production and/or contract manufacturing of products by/for established companies/brands in the CPG space. For example, in the industry research we have seen, they reference several large food manufacturers/brands as major players in the freeze-dried space, however, these companies do not generally produce freeze-dried products per se, but rather, include freeze dried portions in their products (freeze-dried strawberries in breakfast cereal, or freeze-dried yogurt products for infants for example). Because these are large well-established companies, those included portions can collectively represent a measurable portion of overall freeze-dried sales.

Fourth, the advantages of freeze-dried foods in terms of shelf live, nutrient preservation, storage and transport benefits and others, are well understood. As a result, many of the free-dried brands in the marketplace today are focused on products that are aimed at delivering those benefits to the most applicable markets. For instance, there are several brands that focus on products for the survival food/MRE markets (long shelf lives), while others may focus on hikers/outdoor enthusiasts looking to reduce the bulk and weight of their food rations. Obviously, the benefits of freeze-dried foods are well suited for these markets. On the other hand, outside of extraordinary environments (people afraid of running out of food during a pandemic for example) these markets are ostensibly limited, which may in turn create their own barriers to entry for established players. We believe that approach (contract manufacturing of freeze-dried products and/or portions for large CPG players) may present additional opportunities for SGI.

To summarize, like many industries, the freeze-dried industry includes a variety of players throughout the business chain. These players include hardware manufacturers of both personal and commercial appliances as well as others that use those appliances to create and sell their own branded products and/or to co-manufacturer or white label products for others. We view the industry as largely fragmented with no particularly dominant players, and we think part of that is related to the limited breadth of those products in general. That is for instance, while freeze dried fruits have their advantages, it is not likely that consumers will be trading in their fresh strawberries for freeze dried versions any time soon. Moreover, as we delineated, freeze drying adds layers of costs which further limits the demand for freeze dried alternatives. All of that said, we continue to believe that opportunities exist in the industry for innovators who can develop, commercialize and market unique products (at scale) that benefit from the various attributes of freeze-drying. Those that can develop those unique offerings should enjoy first mover advantages and associated pricing power/margins, that may provide marked opportunities. To reiterate, much of our thesis around Sow Good centers on our view that management provides unique skill sets that include expertise in efficient freeze-dried manufacturing at scale, the development of unique and innovative consumer products and experience in the marketing and/or retailing of those products through both B2B and B2C channels.

## Product/Technology Overview

To reiterate, SGI's founders launched the business in early 2021, and that included a lineup of freeze-dried snacks, smoothies, soups and granola. At the time, we believe the Company was also pursuing potential co-manufacturing or other similar opportunities with large, well-established CPG companies. However, in early 2023, they recognized that freeze-dried candy was "trending" across some social media platforms. That happened to coincide with a snack and candy show. In short, the Company quickly prepared a handful of freeze-dried candy SKUs and rolled them out at the show. Judging from the Company's releases around their candy rollout(s) the response since that show (as well as from an additional show they attended thereafter) has been robust. We believe the Company is currently adding major retail customers for the existing SKUs and is in the process of adding additional products onto the platform. We will provide some color on each of those additions. To edify, while we believe the Company may ultimately develop and market freeze-dried products beyond candy, our expectations for the foreseeable future (and our associated model assumptions) are based on the Company focusing on their candy/confections business.

**Table 2** below reflects the Company's current candy SKUs :

**Table 2.**

Each of these SKUs is derived from a popular existing candy. In addition to these existing SKUs, the Company recently announced that would be adding 5 new freeze-dried ice cream products in the current quarter (ended September 30, 2023). **Table 3** below provides a graphic of a two of those new products.

**Table 3.**


To reiterate, we think the Company's abilities to develop and begin marketing these as well as the dozen SKUs in **Table 2** in what amounts to around 120 days, supports our thesis around management's applicable aptitudes in developing and commercializing new CPG products. Specifically, **Table 4** reflects some of the initial customers the Company has onboarded and is (or soon will be) shipping to. Recognize, several of the "early adopters" here are specialty (candy) retail operators or are distributors that largely distribute to the same. For instance, FiveBelow, Inc. (Nasdaq: FIVE) is one of the larger publicly traded specialty candy retailers we are aware of with nearly 1400 stores. In our view, the early adoption by specialty retailers is predictable, and frankly we think the specialty retail category alone could provide a basis for much higher valuations. That said, we do not think selling solely to specialty retailers is the endgame here. For instance, the addition of Big Lots suggests to us that other big box retailers will likely be in the mix. Further, we think another big channel will likely be the convenience store ("C-Store") space, which is currently represented by over 150,000 retail stores. In short, our expectation that they will be adding additional sizable recognizable customers as we move through the balance of 2023 and into 2024.

**Table 4.**

| | **Company** | **Type** | **Symbol** | **# of Stores Customers** |
|---|---|---|---|---|
| | Five Below | Retail Candy Store | FIVE | 1385 |
| | Its Sugar | Retail Candy Store | Private | 100 |
| | Redstone Foods | Food/Convections Distributor | Private | "Thousands of gourmet food stores, distributors, candy stores, florists, gift shops, and many other retail outlets". |
| | FYE ("For Your Entertainment") | Specialty Retail | Private | 210 |
| | Big Lots | Multi-Category Retail | BIG | 1424 |
| | Hy-Vee | Grocery Chain | Private | 285 |
| **Others to Come…** | | | | |

As we alluded to above, we believe some of SGI's opportunity is related in part to its combination of knowledge and capex into their freeze-drying technology. They have developed their own freeze-drying processes based on their prior manufacturing experiences, and they believe their approach provides them both scale and efficiencies that provide them comparative advantages over many potential competitors. To that end, we have provided a handful of photos from SGI's operations to help illustrate some of the advances we believe they possess.

**Table 5.**

**Table 5** reflects the Company's current (three) existing freeze-dryers from a recent presentation by SGI CEO Claudia Goldfarb. As the photo reflects, these are large commercial sized units capable of processing hundreds of pounds of product per cycle. Prior to entering the freeze-dryers, the product is sorted onto trays (**Table 6**) and then loaded onto racks (**Table 7**):

**Table 6.**

**Table 7.**

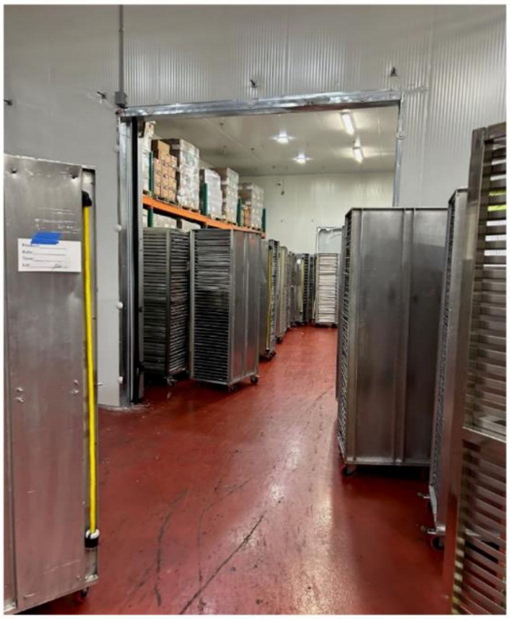


Table 8.

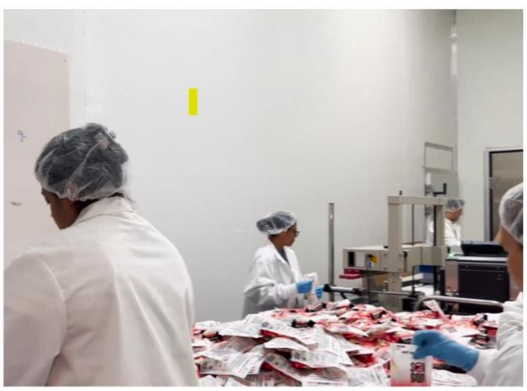
Once the racks are loaded, they are placed in the dryers. Each rack is separately monitored according to the established protocols for each SKU/product. **Table 8** illustrates the proprietary real-time control panel that monitors each tray individually. The control system can be monitored on site or remotely, and it alerts those monitoring the process to any environmental anomalies (temperature, pressure, moisture etc.) that might compromise the yield.

Table 9.

Aside from the proprietary monitoring system, the Company also utilizes their own condenser design illustrated in **Table 9.** The system deploys two condensers for each dryer, which provides the efficient and continuous removal of moisture created in the primary and secondary drying steps of the process. Removing the ambient moisture released from the products is paramount to the process so that the product does not reabsorb it.

Finally, once the product is finished to its desired moisture profile, it is removed and prepared for packing and shipping (**Table 10**). As an aside to that notion, in their June 22, 2023 announcement, they also noted: *"We have signed a lease for a new warehouse and will be moving distribution to that location within the next 60 days.* ***This expansion driven by the rapid influx of both first time orders and re-orders****, will streamline our operations and maximize manufacturing efficiency."* We believe that comment is telling on the face in terms of how they are seeing the adoption of the product(s) and the associated expansion of the business. Along those lines, as we noted above, the Company recently deployed their second and third dryers, and our expectation is that some of the rationale for moving distribution to another facility may involve plans to add a fourth dryer. We have no particular insights into that by the way, and that would likely require additional capital in one form or another. However, we do believe that while our site visit certainly revealed to us the need for additional distribution space (especially if they approach the utilization we think they are poised to achieve), we also tend to think that the move to a new distribution facility may have been impacted by plans for a fourth dryer.

Table 10.



## Operating Overview

In terms of the Operating Model, we submit SGI's past financial data are of little value in trying to determine what the Company's results might be given different levels of business and that applies to both COGS and to relative SG&A expenses. Further, that notion is complicated by the fact that data *we do have* regarding prior operating results involves a different product mix (not candy). To reiterate, we expect the Company's full focus for the foreseeable future to be on candy and other confection related products, and we have no historic COGS data to reference. That said, here are some of the major metrics we have used to build our models and resulting valuation framework. Obviously, we will be integrating actual results into our evolving models to ostensibly tighten up our projections as we move forward.

As a result of early traction in their new candy/confection line(s) our operating projections are anticipating SGI to post major revenue inflections over the next 18 months (and beyond). Our assessment in that regard is based on assumed penetration of existing customers the Company has announced, and our assessments regarding the likelihood that they will add others. In addition, in our discussion with management we have gleaned that the current capacity of the existing plant (three dryers) is approximately $36 million per year, or about $12 million per dryer. As we have stated elsewhere in this report, SGI has expanded its distribution space in anticipation of coming growth, and we think that includes an additional (fourth) dryer. Around that notion, our assumption is that the Company must believe that it can approach full existing capacity if it is planning on adding more? For reference, our model assumes the Company can get to full capacity run rates in 2H fiscal 2024. If that is the case, a fourth dryer could be purchased and deployed in time to provide additional capacity prior to their running out of capacity in the time frame. We recognize that approach may be a bit subjective, but without additional actual operating data, we think it is a reasonable place to start. Obviously, this approach is predicated on our interpretation of what the Company has announced to this point. We would add one additional salient point to the capacity discussion that we think is topical.

As we understand it, the "capacity" of one of the Company's single freeze dryers depends considerably on what they are drying. Moreover, our pursuit of those variables (how long it takes them to dry one product versus another) has been complicated by the notion that the Company is quite guarded about sharing some of these because they view them as proprietary "recipes", or trade secrets. However, we have been able to ascertain some parameters that are helpful. For instance, we know that some of the candy products they start with take far longer to dry than others and those differences are marked. For example, we believe some of their current SKUs can be dried in a few hours, while others *may take 1+ days to dry*. On the other hand, the Company's finished SKUs are shipped with varying numbers of product pieces within. For instance, while a bag of Rainbow Bites will contain approximately 27 pieces, a similar sized bag of Crunchy Worms may contain about ½ as many pieces. As a result, the raw input costs (based on relative number of pieces) of one may be higher than the other, while their respective drying times may differ greatly as well. Obviously, these varying profiles in terms of material costs per unit, units per bag, and respective drying times all impact both margin and capacity.

The above noted, our approach has been to take each current SKU and assign it a material input cost based on what we have been able to ascertain they can buy respective candy pieces for. We have then also assigned each product a processing time based on what we have been able to glean from our discussions with management. We then attempted to project a product mix matrix that in turn has allowed us to arrive at the annual capacity assumptions we noted above ($12 million per machine). Recognize, based on this approach, there are iterations of product mixes that could ostensibly yield much higher (or marginally lower) capacities. Further, recognize that each SKU will have a different set of variables that impact their ultimate individual costs, so from that perspective overall COGS will also be impacted by product mix. Obviously, while some product mixes will be more optimal to SGI than others, consumer purchases will ultimately decide the product mix. As we move forward, we will continue to try to gather additional information about cost inputs associated with each SKU, as well as about the product mix of the collective SKUs. We will also be attempting to ascertain the impact of scale on gross margins.

Beyond gross margins, we have also attempted to project the impact of higher sales on SG&A. Here again, we do not feel like prior filings provide much value to that endeavor. However, we do believe that there should be measurable operating leverage in the business as it scales. Here again, we will monitor that theory as we move forward.

As we noted, the Company has largely relied on capital raises from insiders to support cash burn and associated working capital and those financings have generally taken the form of debt with associated equity warrants. Our cash analysis suggests that despite our expectations for the Company to reach profitable run rates in the near term, we also believe they will require additional capital before they get there. Some of that assumption is based on what we think is about a 90-day A/R turn in the face of accelerating sales. That scenario will likely create a cash crunch they will need to deal with. Normally, that would provide some consternation, but in this case, our sense is that insiders will likely continue to provide some additional capital if necessary, however, we also think that given the minimal current float, as well as what we think will become a need for additional dryers, some sort of equity raise would probably be appropriate to address what we think will be both a working capital crunch and a need for additional capex through the balance of 2023.

To reiterate, while we believe the Company is poised for marked growth in the business in the coming quarters, we submit visibility, and its associated timing, is poor. Further, the historic filings do not provide much cover in terms of projecting how their new business line will impact expenses so that will require better definition as we move forward as well. That said, we remain confident that despite some of these unknowns, the trajectory of the business speaks to higher valuations than those currently represented by the share price.

## Management Overview

***DIRECTORS***

***Ira Goldfarb***
***Founder and Executive Chairman***

*Ira Goldfarb is the Co-Founder and Executive Chairman of Sow Good Inc. Ira previously founded Prairie Dog Pet Products, LLC in 2012 and served as its Chief Executive Officer until 2020 when he sold the company to Kinderhook Industries. Prairie Dog Pet Products is a leading freeze-dried pet food and treat manufacturing company based in Grand Prairie, Texas. Previously, Ira was CEO of PGT Holdings from 2010-2012 and founder and Chief Executive Officer of DS Retail Holdings, LLC from 2006 until 2013. In 2009, Ira co-founded and funded Operation Ava Inc., the second-largest dog and cat rescue group in Pennsylvania. Operation Ava saved over 2,000 animals each year from euthanasia. Ira has extensive experience in both the retail and manufacturing industries spanning over 30 years; he first specialized in the leather fashion industry then in the pet food industry with a focus on dehydrated and freeze-dried products. He has also founded, developed, and sold numerous companies to public and private groups.*

***Claudia Goldfarb***
***Co-Founder and Chief Executive Officer***

*Claudia Goldfarb is the Co-founder and Chief Executive Officer of Sow Good Inc. Born in Mexico City and immigrating to the United States in 1977, Claudia's passion for nutrition and growth drives her commitment to ensuring Sow Good Corp produces the highest quality products with a dedication to sustainability, the environment, and our communities. Claudia previously served as Prairie Dog Pet Products, LLC's President from 2016 to 2020 and COO from 2012 to 2016. During Claudia's tenure at PDPP she was responsible for managing four food manufacturing facilities with over 300 employees and 200,000 sq. feet of manufacturing space. Claudia's expertise in product research and development is underscored by her successful launch of over 200 unique products. She has also served as COO of the pet apparel company, PGT Holdings, from 2010-2012. Claudia co-founded and served as the CEO of Operation Ava, Inc. Previously, Claudia served as a Project Development Consultant for the North American Development Bank, specializing in infrastructure development and financing on the US-Mexican Border. Claudia has spent the last 10 years specializing in freeze-dried pet food manufacturing, product development, and implementing best-in-class quality food systems. She is eager to translate this knowledge to the better-for-you foods and snacks category.*

***Bradley Berman***
***Independent Director***
***Committee Membership:Audit Committee***

*Bradley Berman has been a director of Black Ridge Oil & Gas since our inception and began serving as the company's Chairman and Chief Executive Officer in November 2010. Under Mr. Berman's stewardship, Black Ridge Oil & Gas accumulated our initial 10,000 net mineral acres in North Dakota & Montana's Bakken & Three Forks play. Having successfully launched the company into the oil & gas business, Mr. Berman recruited a seasoned energy executive, Mr. Ken DeCubellis, to take his place as Black Ridge Oil & Gas' new CEO in November 2011. Mr. Berman's introduction to the industry came by way of his role as a board member of Ante4, Inc. (previously, WPT), a position he held since 2004. Mr. Berman was instrumental in navigating Ante4 into a merger with Plains Energy, which resulted in the creation of Voyager Oil & Gas, Inc. Mr. Berman served on the board of Voyager until he assumed the role of CEO at Black Ridge Oil & Gas in November 2010. Mr. Berman is President of King Show Games, Inc., a gaming development company he founded in 1998. Between 1992 and 2004, Mr. Berman worked in various capacities at Grand Casinos, Inc. and then Lakes Entertainment, Inc., achieving the position of Vice President of Gaming. Mr. Berman is a fourth generation entrepreneur - his family has launched successful businesses in a variety of opportunistic industries.*

***Chris Ludeman***
***Independent Director***
***Committee Membership:Audit Committee, Compensation Committee***

*Chris Ludeman is Global President of Capital Markets for CBRE, the world's leading commercial real estate services firm and one of the largest U.S.-based public companies. Mr. Ludeman drives the company's advisory business for investors, including responsibility for equity sales, debt and structured finance and real estate investment banking, both globally and in the Americas. He serves as a member of the Global Operating Committee and the Americas Operations Management Board.*

*During his more than three decades in the real estate services industry and with CBRE, Mr. Ludeman has served in several key management roles, including serving as the president of various businesses including Brokerage, Transaction Management and Global Corporate Services. In these roles, Mr. Ludeman was responsible for all transaction units in the Americas as well as corporate outsourcing functions such as facilities management, project management, lease administration, transaction management and research and consulting. Prior to his national and international roles Mr. Ludeman served in several regional and local market leadership positions across the United States.*

***Joe Mueller***
***Independent Director***
***Committee Membership:Audit Committee***

*Joe Mueller is the Vice President of Industry and Customer Development for Kellogg Company. Mr. Mueller's responsibilities include leading Kellogg Company's external engagement strategy, and representing Kellogg across the global industry. He also serves as a board member for the American Heart Association.*

*During his more than three decades in the consumer packaged goods industry, Mr. Mueller has served in several key management roles, including serving as the vice president of sales of various divisions within Kellogg, including its Walmart, Keurig Green Mountain, Breakfast, and Health & Wellness teams. In these roles, Mr. Mueller was responsible for marketing strategy, product development, and sales organization, alongside regularly interfacing with key corporate leaders. Prior to his executive roles, Mr. Mueller managed retail stores across the country and worked in several sales positions at Kellogg.*

***Lyle Berman***
***Independent Director***
***Committee Membership: Audit Committee***

*Lyle Berman is a 1964 graduate of the University of Minnesota with a degree in Business Administration. Mr. Lyle Berman began his career with Berman Buckskin, his family's leather business. He helped grow the business into a major specialty retailer with 27 outlets. In 1990, Mr. Lyle Berman participated in the founding of Grand Casinos, Inc. Mr. Lyle Berman is credited as one of the early visionaries in the development of casinos outside of the traditional gaming markets of Las Vegas and Atlantic City. In less than five years, the company opened eight casino resorts in four states. In 1994, Mr. Lyle Berman financed the initial development of Rainforest Cafe. He served as the Chairman and CEO from 1994 unti1 2000. In October 1995, Mr. Lyle Berman was honored with the B'nai B'rith "Great American Traditions Award." In April 1996, he received the Gaming Executive of the Year Award; in 2004, Mr. Lyle Berman was inducted into the Poker Hall of Fame; and in 2009, he received the Casino Lifetime Achievement Award from Raving Consulting & Casino Journal. In 1998, Lakes Entertainment, Inc. was formed. In 2002, as Chairman of the Board and CEO of Lakes Entertainment, Inc., Mr. Lyle Berman was instrumental in creating the World Poker Tour. Mr. Lyle Berman served as the Executive Chairman of the Board of WPT Enterprises, Inc. (now known as Emerald Oil, Inc.) from its inception in February 2002 until July 2013. Mr. Lyle Berman also served as a director of PokerTek, Inc. from January 2005 until October 2014, including serving as Chairman of the Board from January 2005 until October 2011.*

***Tim Creed***
***Independent Director***
***Committee Membership:Audit Committee, Compensation Committee***

*Tim Creed, age 36, is the Co-Founder and Partner of Creed UnCo, LLC, a consulting company focused on brand management and franchising. Mr. Creed utilizes his years of experience working in the food, pet care, and automotive industries to help brands grow, scale, and sustain their businesses. Prior to consulting, Mr. Creed spent over a decade at Mars, Inc., working in human resources, sales management, and e-commerce. While there, he served as the Digital Commerce Lead for Mars' KIND products and was responsible for their international growth. Most recently, Mr. Creed was Director of eCommerce for international tire and mobility company, Bridgestone, Inc.*

***ADVISORY BOARD***

***Dylan Barbour***

*Dylan is the co-founder and Chief Growth Officer (CGO) of Vizer Inc., a wellness rewards platform connecting consumers to better-for-you products digitally + through retail.*

*After graduating Williams College in 2016 (Williams is currently ranked as the #1 Liberal Arts College in America by Forbes / US News), Dylan moved to Palo Alto to work for the PWM Division at Morgan Stanley. While at Morgan Stanley, Dylan received his Series 7 + 66 licenses and passed Level 1 and 2 of the CFA Exam.*

*Dylan left the finance industry to follow his passion for health, wellness, and social impact, and in 2018 he co-founded Vizer with his cousin, Samantha. Since co-founding Vizer, Dylan has bootstrapped the company + scaled it from pre-revenue to +7 figures in ARR, grown the user base from 0 to hundreds of thousands of users, submitted patents, won pitch competitions amounting to $500,000 in non-dilutive funding, and launched the first mainstream digital single-use retail couponing platform for the CPG industry.*

*Outside of Vizer, Dylan is an avid start up investor. His portfolio of pre-Seed, Seed, and Series A investments includes: Mid-day Squares, Ranch Rider Spirits, BOMANI Cold Buzz, Chubby Snacks, Babe Kombucha, Deux Foods, Mezcla, Moku Foods, and Pixly (Saas platform serving the construction industry).*

***Greg Creed***

*Greg Creed was Chief Executive Officer of Yum! Brands from January 2015 to December 2019 and served as a Director of the Board from November 2014 to May 2020. Mr. Creed retired after a successful 25-year career with the Company. He has more than 40 years of extensive global experience in marketing and operations with leading packaged goods and restaurant brands.*

*Previously, Mr. Creed was head of Taco Bell, the nation's leading Mexican-style quick service restaurant chain. He was appointed Chief Executive Officer of Taco Bell in early 2011 after serving as President and Chief Concept Officer and was responsible for driving overall brand strategy and performance of the business in the U.S. and internationally. He has held various roles with the Company including Chief Marketing Officer at Taco Bell where he spearheaded the "Think Outside the Bun" campaign and new* *product introductions that generated strong sales and profit growth for five consecutive years, as well as Chief Operating Officer for Yum!.*

*Creed earned a business degree from Queensland University of Technology (QUT) in Brisbane, Australia, was named the 2014 QUT Alumnus of the Year, was awarded an honorary doctorate in 2019 and currently serves as President of The Friends of QUT in America Foundation. He serves on the Board of Directors for Whirlpool Corporation where he Chairs the Human Resources Committee, Aramark Corporation, NetBase Quid and Girls Inc. He is also a member of the American Society of Corporate Executives (ASCE).*

***Catherine Tan***

*Catherine serves as the President and General Manager, KFC Canada, Yum! Brands. In her role, she oversees all marketing, public relations and food development activities, and is responsible for restaurant revenue growth.*

*Catherine began her career in the UK, working for Hewlett Packard, then joining the Pepsi-Co graduate program. She transferred to Australia in 2000 and since then, held a number of roles in sales, marketing, strategy and general management. Throughout her career, she's worked for large food and beverage businesses, as well as for Sony Pictures, where she helped successfully merge with Universal Pictures and took a position on the board. she joined KFC South Pacific in 2015 as Marketing Director, then Chief Marketing Officer, before moving to her Global role in 2017.*

*During her time in Australia, she attained an MBA (with excellence), met her husband and was lucky enough to have two daughters. While her passion is marketing, food and all things KFC; she enjoys being at home with her family, renovating, practicing yoga, being healthy and outdoors, exploring new places and trying to create a simple life that is Finger Lickin' Good!*

## Risks and Caveats

As we noted above, while SGI has been developing and selling various freeze-dried products over the past two years or so, its entry into the candy space is quite nascent, and the category itself (freeze-dried candy) is unproven. At this point, there is no assurance or visibility with respect to the continued popularity of the product and as such it could turn out to be more of a fad than a new candy category. On the other hand, if the category *is able* to become increasingly popular, it could attract additional competitors that could create headwinds for SGI.

SGI has not been, and as of its most recent financials is not, profitable. As a result, it has relied on financings (largely from majority shareholders) to fund its deficits. There is no assurance that the Company will reach profitability and/or will not require additional financing in the foreseeable future. While our modeling reflects the Company transitioning to profitability in the near term, we submit, visibility to that end is poor. As a result, they may have to continue accessing outside capital and/or diluting the shares beyond what we have modeled. Moreover, there is no guarantee that they will be able to *continue to* access capital with equity in the future. We would add, because revenue visibility is limited, our model and resulting price target assumptions could end up being considerably overstated.

Part of our thesis here is that we believe SGI can scale its freeze-dried candy business where many other competitors may not be able to do the same. That said, while we believe we have a reasonable view of what that scale might look like, this is uncharted territory for the Company, and among other things, we have no historical data to back test our assumptions against. As a result, many of our initial assumptions regarding margins (both gross and net) could prove considerably inaccurate, which could impact our valuation conclusions as well.

The Company manufactures all its products from its single facility in Dallas, Texas. If anything should happen to impair the facility it would likely prove considerably detrimental to the business.

Currently, the Company relies heavily on its founders to operate the business. That posture carries obvious risks with respect to the performance and continued employment of those individuals. To be clear, this is a risk we note in most of our coverage, but in the case of Sow Good, this risk is particularly acute. Moreover, as we noted above, these individuals collectively control a large portion of the Company, so they have considerable control over its direction.

The Company may be negatively impacted if the current economic climate deteriorates.

The Company's stock is *very thinly traded*, which generally leads to volatile share prices and illiquidity. That may remain the case into the foreseeable future especially since mmany of the outstanding shares are held by insiders and as such the float is extraordinarily small.

These are just some of the more obvious risks we see in the Company. There are likely others we have overlooked as well as others that may arise in the future.

## Summary and Conclusion

We had our first introduction call with Sow Good Management in November 2022. We followed that up with another call sometime thereafter and then a site visit in mid-April (2023) and then their presentation at our conference in mid-May (2023). To be honest, we are a bit taken back by how much the story has changed in the 180 days that followed that first introduction. To edify, at the time of our initial call, our high-level understanding of the business was that they had developed some proprietary lines (smoothies, snacks etc.) but the future would more likely also include co-manufacturing opportunities with (perhaps) large CPG companies looking to add freeze-dried iterations to their offerings. Our sense at the time was that SGI might be positioned to attract some co-manufacturing deals of that nature because management had prior expertise in scale production of freeze-dried CPG products (largely in the pet space) and they had the capacity to be able to execute on a co-manufacturing deal with a large player if they could attract the business. More specifically, we felt that management's prior experience would allow them to develop some of their own branded, higher margin products (which they had at the time) and then fill capacity with perhaps lower margin but predictably contracted co-manufacturing deals. Further, we felt that approach in the context of their capacity could lead to better valuations than those reflected by the share price at the time. In short, much of our initial view of the opportunity changed with our site visit.

At our site visit, aside from being able to see their proprietary freeze-drying systems and production line firsthand, we also were able to see and sample some of their new candy SKUs. They also provided some color in terms of the recent trade show they attended, which was the first commercial introduction of their candy. At the time, they were guarded but optimistic about the prospects for the new products. By the time they presented at our conference 30 days or so later, they seemed less guarded and more optimistic. We think their subsequent announcements confirm that view.

Looking ahead, and as we tried to delineate above, here are some of the major points of our thesis.

First, from an industry perspective, because of its ability to extend the shelf life of many food items to years while at the same time maintaining the flavor and the nutritional value of those same items, freeze-drying can add considerable value to some products. Those advantages have led to the creation of a handful of markets including MREs, survival food kits, hiking/hunting meals and others, as well as other opportunities in terms of co-manufacturing products used in various consumer products such as freeze-dried fruit in cereal, granola and others. Moreover, increased consumer demand for natural products without preservatives have helped drive the category as well. On the other hand, the favorable attributes of freeze drying are also typically offset by the costs associated with the process. That is, all other things remaining equal, a freeze-dried strawberry will always be more expensive than a fresh strawberry. (Although the freeze-dried strawberry is the only one of the two you can still eat 10 years from now). Clearly, freeze drying is practical/applicable to only a small portion of the overall food market, which we think among some other issues, lends itself to the fragmented nature of the industry.

Second, we view the fragmented nature of the industry as a comparative advantage for SGI. Our reasoning therein is that we think the number of enterprises out there that can scale production of any particular product are limited. Further, we suspect that most of the freeze-dryers in the marketplace that actually can produce at scale are likely those who have established themselves in some of the niche segments of the market we noted above, and/or are co-manufacturing for larger CPG companies. In retrospect, unless we misunderstood the strategy, prior to the Company's entry into the freeze-dried candy market, that path (branding products in and around existing markets and filling additional capacity with co-manufacturing contracts), was the basic strategy. Given their early traction in the space, we think it is fair to say that trying to establish themselves as the dominant provider of freeze-dried candy and other confections will be the sole focus of the Company for the foreseeable future. Also, as we noted, we think they are gearing up to expand capacity further.

Third, while it may seem subtle and we submit we are relying on the Company's assessment of the issue, we do think the Company's propriety freeze-drying systems provide them some manufacturing efficiencies over many of its competitors. We are not certain how to value this or quantify it, but we do believe it contributes to some of the scale advantages we addressed above.

Fourth, to reiterate something we noted in the Company Overview above: "…*we believe their entry into the* (freeze-dried candy) *space was based largely on an entrepreneurial hunch…*". While we think the Company possesses comparative advantages in freeze-dried manufacturing over many competitors, we also think management has demonstrated strengths in developing and marketing consumer products, which includes considerable experience and tribal knowledge of the retail space. Our view in that regard, is based on management's prior successes, most recently in the pet space. We believe, they have demonstrated an eye for developing new/innovative products and building value around them. In our view, setting aside their expertise in freeze-dried manufacturing, their eye for identifying and executing on a "next big thing", may be SGI's "secret sauce". Frankly, while perhaps anecdotal, we think the considerable strength/breadth of their Board of Directors as well as their Advisory Board speak to that view.

Fifth, while we do not believe heavy inside ownership is a necessary pre-requisite to the success of small companies, the idea that a small group of insiders has contributed much of the business's capital is a commitment that is hard to dispute. Further, that has been a recurring theme since the Company's public merger in late 2020.

To summarize, we think the Company's comparative posture in the space combined with an emerging popularity of freeze-dried candy, ice cream and other similar confections, may be creating the perfect storm for Sow Good. We submit, a few months and a few notable customers does not definitively constitute a trend, but it is a pretty good start. If they continue to build momentum in that regard, we believe the coming quarters could demonstrate extraordinary growth and near-term profitability. As a result of these conclusions, we are initiating our coverage of Sow Good Inc. with an allocation of 4 and a 12-24 month price target of $15.00. In addition, we believe the story is open ended and could ultimately support valuations beyond our targets if some additional things fall in place. We will reassess our model assumptions and respective conclusions as additional data points emerges.

# Projected Operating Model

| **Sow Good Inc.** | | | | | | |
|---|---|---|---|---|---|---|
| **Projected Operating Model** | | | | | | |
| **By: Trickle Research** | | | | | | |
| | | | | | | |
| | | | | | | |
| | (actual) | (Estimate) | (Estimate) | (Estimate) | (Estimate) | (Estimate) |
| | **3/31/2023** | **6/30/2023** | **9/30/2023** | **12/31/2023** | **Fiscal 2023** | **Fiscal 2024** |
| Revenues | $ 198,930 | $ 1,230,085 | $ 3,599,586 | $ 5,123,081 | **$ 10,151,681** | **$ 25,558,154** |
| Cost of goods sold | $ 76,680 | $ 733,147 | $ 1,926,122 | $ 2,521,192 | **$ 5,257,140** | **$ 11,733,891** |
| Gross profit | $ 122,250 | $ 496,938 | $ 1,673,464 | $ 2,601,889 | **$ 4,894,541** | **$ 13,824,263** |
| General and administrative expenses: | $ - | $ - | $ - | $ - | $ - | $ - |
| Salaries and benefits | $ 544,553 | $ 574,602 | $ 621,992 | $ 652,462 | $ 2,393,608 | $ 2,711,163 |
| Professional services | $ 46,206 | $ 52,301 | $ 75,996 | $ 91,231 | $ 265,734 | $ 415,582 |
| Other general and administrative expenses | $ 358,467 | $ 399,203 | $ 443,983 | $ 504,923 | $ 1,706,577 | $ 2,222,326 |
| Intangible Asset Impairments | $ - | $ - | $ - | $ - | $ - | $ - |
| Goodwill impairment | $ - | $ - | $ - | $ - | $ - | $ - |
| Total general and administrative expenses | $ 949,226 | $ 1,026,106 | $ 1,141,971 | $ 1,248,616 | **$ 4,365,919** | **$ 5,349,071** |
| Depreciation and amortization | $ 76,218 | $ 75,000 | $ 75,000 | $ 75,000 | $ 301,218 | $ 300,000 |
| Total operating expenses | $ 1,025,444 | $ 1,101,106 | $ 1,216,971 | $ 1,323,616 | **$ 4,667,137** | **$ 5,649,071** |
| Net operating loss | $ (903,194) | $ (604,168) | $ 456,493 | $ 1,278,273 | **$ 227,405** | **$ 8,175,192** |
| Other income (expense): | $ - | $ - | $ - | $ - | $ - | $ - |
| Interest expense, | $ (498,336) | $ (92,880) | $ (97,880) | $ (117,880) | $ (806,976) | $ (411,520) |
| Other income | $ - | $ - | $ - | $ - | $ - | $ - |
| Gain on disposal of property and equipment | $ - | $ - | $ - | $ - | $ - | $ - |
| Gain on early extinguishment of debt | $ - | $ - | $ - | $ - | $ - | $ - |
| Gain on investment in Allied Esports Entertainment, Inc. | $ - | $ - | $ - | $ - | $ - | $ - |
| Total other income (expense) | $ (498,336) | $ (92,880) | $ (97,880) | $ (117,880) | **$ (806,976)** | **$ (411,520)** |
| Net Income (Loss) | $ (1,401,530) | $ (697,048) | $ 358,613 | $ 1,160,393 | **$ (579,571)** | **$ 7,763,672** |
| Weighted Average Number of Shares Outstanding, Basic | 4,845,851 | 4,847,384 | 4,847,384 | 4,847,384 | **4,847,001** | **4,847,384** |
| Weighted Average Number of Shares Outstanding, Diluted | 4,845,851 | 6,353,121 | 6,459,086 | 6,553,697 | **6,052,939** | **6,743,442** |
| Earnings Per Share, Basic | $ (0.29) | $ (0.14) | $ 0.07 | $ 0.24 | **$ (0.12)** | **$ 1.60** |
| Earnings Per Share, Diluted | $ (0.29) | $ (0.11) | $ 0.06 | $ 0.18 | **$ (0.10)** | **$ 1.15** |

## General Disclaimer:

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. Sow Good has paid fees to present at past Trickle co-sponsored conferences and we will encourage them to do so in the future.



Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

**Rating System Overview:**

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

**For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.**

**A Trickle rating of 1 thru 3 would best correspond to a "Hold" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.**

**A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.**

**A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.**