

Trickle Research

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



Research Update



Sow Good Inc.

(OTC: SOWG)

Report Date: 09/08/23

12- 24 month Price Target: \$17.00

Allocation: 5

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

Closing Stock Price at Allocation & Price Target Increase (Closing Px: 08/16/23): \$5.00

Closing Stock Price at This Update (Closing Px: 09/07/23): \$7.00

Prepared By:

David L. Lavigne

Senior Analyst, Managing Partner

Trickle Research

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.

On September 6, 2023 Sow Good announced the closing of a private placement at \$5 per share raising \$3.7 million via the sale of 735,000 shares. We view this placement as well as some of the narrative that accompanied the announcement of the funds as further validation of our investment thesis. Here are a few of those bullet points.

First, in our Allocation and Price Target Upgrade of 08/17/23 we noted that the Company's prior disclosures suggested the addition of two new freeze dryers. Specifically, *"the Company is adding a fourth and a fifth freeze dryer, and it appears that they are adding them more quickly than we speculated. That in turn leads us to believe that our model may be understating the trajectory here..."*. In contrast, the current announcement references that *"Sow Good has placed deposits on **three additional freeze driers**"*. That is one additional dryer compared to our last update and associated model. Certainly, some of the decision to add another dryer (#6) beyond the last update is likely related to the completion of the equity funding providing the capital to add the unit, but it also supports our underlying view that the Company is expanding capacity as quickly as it can to meet rising demand.

Just to revisit some of the capacity math we have covered in prior research, we believe the blended capacity of a single dryer is between \$10 million and \$15 million and perhaps more, depending on what product(s) they are drying. For perspective, our current model reflects fiscal 2024 revenues of just under \$30 million and that includes inputs of 5 dryers, two of which would operate only a portion of 2024 as we estimated their additions through the first half of 2024. To be clear, our approach has been to provide projections that are driven by our assessments of identifiable customers, and then to make sure those assumptions fit within the boundaries of the capacity constraints assumed by the \$10 million to \$15 million of annual revenue per unit thresholds noted above. To edify, our model assumes future sales that would approach something closer to full capacity *beyond calendar 2024*. Again, the addition of a *sixth dryer* by Q1F24 would suggest that our projections are likely lagging the expectations of the Company through fiscal 2024 and likely beyond. That brings us to our next point.

As we noted in prior coverage and reiterated above, we have tried to build our model around assumptions largely based on the customers the Company has specifically identified in their collateral. To that end, the September 6, 2023 announcement references the addition of Cracker Barrel (660 stores) as well as Target Stores (approximate 1950 stores). To edify, Target is starting with just 300 stores, but they are also starting with 4 sku's which is two more than our model assumes new customers start at. Again, these are names that had not been disclosed in prior updates. Our sense is that given successful sell-through at the initial 300 stores, Target will add more stores in the future. To that end, the recent announcement also notes *"...We sell products to our retailers, they sell out. Which is why our customers are increasing order volume and increasing their SKUs assortment..."*. Ostensibly, if Target sell-through approximates that of the existing customer base, it seems likely to us that they will be adding stores.

Lastly, the recent update provided a surprise that has not come up in any of our prior discussions with management, which is that they are also beginning to sell in international markets. Specifically, *"(the) Israeli market has yielded remarkable success, marking the first introduction of such treats in the region and Sow Good's first foray into international markets"*. Our current model does not provide estimates for international sales. In our view, this is a particularly interesting development.

To summarize, we found the recent release quite telling and frankly further supportive of our thesis here. As our current target and allocation reflect, we remain quite bullish on Sow Good's opportunities and our expectations for the growth of their business and the associated impact we believe that will have on the share price. We reiterate our allocation of 5 and our 12-24 month price target of \$17 per share. We will revisit each as new data points emerge, and we look to the 3QF23 numbers to further validate our assessments. We would

add, while we are maintaining our model assessments from the prior update, our sense is that some of the new information in the aforementioned release suggests our model should probably include some upward revisions. Again, we will likely revisit that soon.

Projected Operating Model

Sow Good Inc.						
Projected Operating Model						
By: Trickle Research						
	(actual)	(actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<u>3/31/2023</u>	<u>6/30/2023</u>	<u>9/30/2023</u>	<u>12/31/2023</u>	<u>Fiscal 2023</u>	<u>Fiscal 2024</u>
Revenues	\$ 198,930	\$ 1,315,347	\$ 3,629,019	\$ 5,349,085	\$ 10,492,380	\$ 29,575,886
Cost of goods sold	\$ 76,680	\$ 2,695,820	\$ 1,919,971	\$ 2,594,149	\$ 7,286,620	\$ 13,257,612
Gross profit	\$ 122,250	\$ (1,380,473)	\$ 1,709,048	\$ 2,754,936	\$ 3,205,760	\$ 16,318,274
General and administrative expenses:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Salaries and benefits	\$ 544,553	\$ 538,916	\$ 622,580	\$ 656,982	\$ 2,363,031	\$ 2,791,518
Professional services	\$ 46,206	\$ 63,329	\$ 76,290	\$ 93,491	\$ 279,316	\$ 455,759
Other general and administrative expenses	\$ 358,467	\$ 483,260	\$ 445,161	\$ 513,963	\$ 1,800,851	\$ 2,383,035
Intangible Asset Impairments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Goodwill impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total general and administrative expenses	\$ 949,226	\$ 1,085,505	\$ 1,144,031	\$ 1,264,436	\$ 4,443,198	\$ 5,630,312
Depreciation and amortization	\$ 76,218	\$ 7,413	\$ 75,000	\$ 75,000	\$ 233,631	\$ 300,000
Total operating expenses	\$ 1,025,444	\$ 1,092,918	\$ 1,219,031	\$ 1,339,436	\$ 4,676,829	\$ 5,930,312
Net operating loss	\$ (903,194)	\$ (2,473,391)	\$ 490,016	\$ 1,415,500	\$ (1,471,069)	\$ 10,387,962
Other income (expense):	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest expense,	\$ (498,336)	\$ (847,509)	\$ (97,880)	\$ (197,880)	\$ (1,641,605)	\$ (731,520)
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)	\$ (847,509)	\$ (97,880)	\$ (197,880)	\$ (1,641,605)	\$ (731,520)
Net Income (Loss)	\$ (1,401,530)	\$ (3,320,900)	\$ 392,136	\$ 1,217,620	\$ (3,112,674)	\$ 9,656,442
Weighted Average Number of Shares Outstanding, Basic	4,845,851	4,854,208	5,854,208	5,854,208	5,352,119	5,854,208
Weighted Average Number of Shares Outstanding, Diluted	4,845,851	5,700,610	6,877,218	7,034,903	6,114,645	7,351,145
Earnings Per Share, Basic	\$ (0.29)	\$ (0.68)	\$ 0.07	\$ 0.21	\$ (0.58)	\$ 1.65
Earnings Per Share, Diluted	\$ (0.29)	\$ (0.58)	\$ 0.06	\$ 0.17	\$ (0.51)	\$ 1.31

General Disclaimer:

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of its investor base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company's annual report, quarterly report, press releases, as well as other regulatory filings. Trickle Research is not registered as a securities broker-dealer or an investment advisor either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. Trickle Research and/or its officers, investors and employees, and/or members of their families may have long/short positions in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities. David Lavigne owns shares of Sow Good, Inc.

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.

Reproduction of any portion of Trickle Research's reports, updates or other publications without written permission of Trickle Research is prohibited.

All rights reserved.

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.