Q3F23 Earnings Update, Allocation and Price Target Increase(s)

Sow Good Inc.

(OTC: SOWG)

Report Date: 11/15/23

12- 24 month Price Target: **$23.00

Allocation: *6

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 Allocation & Price Target Increase (Closing Px: 11/14/23): $9.00

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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.

For Q3F23, Sow Good announced revenues of $5 million, Net Income of $335,000 and Basic EPS of $.07 per share. Those compared to our estimates of $3.6 million, $392,000 and $.07 per share respectively. We would add, Q3F23 revenues represented sequential growth of nearly 300% over Q2F23 revenues of $1.3 million.

In a word, the quarter was extraordinary.

Here are some observations regarding the minutia of the numbers as well as some of the issues they raised on the earnings call.

On the face, while our sense here has been that they are experiencing marked momentum in their newly created candy business, that sense appears to be understated. That said, we must admit that we are trying to get our arms around what that trajectory might look like going forward, and that includes not only the revenue line but every other line thereafter. To translate, we are trying to rationalize the corresponding expenses required to support the business and obviously, prior reporting provides no relevant color in that regard. Our new model reflects our updated stab at those numbers, as we do know a few more things today (headcounts and added facilities for instance) than we knew a few months ago. Those are helpful.

Circling back to the revenues, as we alluded to, the nearly 300% increase in sequential revenue was extraordinary, but the Company's narrative on the call was perhaps much more telling and may provide better clues with respect to where the business, or at least management sense of the business is going. We will edify.

As we have noted in prior coverage, and management has verified publicly along the way, we believe each of the Company's freeze driers has the capacity to generate between $10 million and $15 million of annual revenue. On the call, the Company noted that they believe that through Q1F24, they should have 6 driers operational (one more than we had anticipated from prior announcements), which they also equated to between $35 million and $70 million of revenue, or between $6 million and $12 per machine. Recognize, the capacity of each machine is determined in part by product mix, because some sku's require considerably more drying time than others, which in turn impacts the corresponding capacity. We appreciate the Company's approach to managing expectations, but we stand by *our assessment(s)* of the annual capacity of each machine.

In addition to telling us that by Q1F24, they should have the capacity to generate "between $35 million and $70 million" of annual revenue from 6 driers, they also noted that they have been pursuing co-manufacturing arrangements to increase capacity. That leads us to this question:

If by the end of Q1F24, they will have internal capacity to generate between $35 million and $70 million of annual revenue, and they are actively seeking co-manufacturing arrangements to increase capacity further, how much revenue do they expect to generate in fiscal 2024? While that may not amount to guidance per se, we think it does tell us something about how the Company views the current and perhaps emerging pipeline. Granted, things can change, and we submit this is a relatively new market (freeze dried candy) both for the confection industry as well as for the Company, but again, we do tend to believe that the Company's comments regarding capacity expansion tells us something about where they see the business. That is, are they telling us they see 2024 revenues in the $50+ million range (well beyond our estimate)?

In addition to the above, the Company also provided some color regarding some new customers, which apparently now include Circle K and Kroger (NYSE: KR). To edify, there are nearly 6,700 Circle K stores and over 2,700 Kroger stores in the U.S. To put that into perspective, we believe the Company's largest current customer is 5-Below, Inc. (NASDAQ: FIVE) with 1,400 stores. Further, they also mentioned Cracker Barrel (NASDAQ: CBRL) on the call, which we have yet to include in our model. Cracker Barrel has approximately 660 stores. We also believe there are other large retailers in the pipeline that have yet to be named and/or onboarded, in part because we have built our model around assumptions of customers that have actually been named, and since they blew out our 3QF23 estimate, either they shipped more product to named customers than we anticipated and/or they had more customers than they named and we assumed. It is probably some of each, but again, judging from the numbers as well as the capacity expansion we noted above, we are confident that there are other large customers in tow.

As we suggested, we have recast our model to reflect what we see as improving data points regarding both revenues and associated expenses. As a result, we are increasing our allocation from 5 to *6 on what we view as extraordinary momentum in the business. Further after recasting the model, we are also establishing a new 12-24 month price target of **$23.00 up from our prior target of $17.00. Obviously, we are extremely bullish on Sow Good's prospects.

Projected Operating Model

Sow Good Inc.						
Projected Operating Model						
By: Trickle Research						
	(actual)	(actual)	(actual)	(Estimate)	(Estimate)	(Estimate)
	3/31/2023	6/30/2023	9/30/2023	12/31/2023	Fiscal 2023	Fiscal 2024
Revenues	$ 198,930	$ 1,315,347	$ 5,034,203	$ 7,160,815	**$ 13,709,294**	**$ 41,652,367**
Cost of goods sold	$ 76,680	$ 2,695,820	$ 2,717,254	$ 3,638,756	**$ 9,128,510**	**$ 20,771,976**
Gross profit	$ 122,250	$ (1,380,473)	$ 2,316,949	$ 3,522,059	**$ 4,580,785**	**$ 20,880,390**
General and administrative expenses:	$ -	$ -	$ -	$ 0	$ 0	$ 1
Salaries and benefits	$ 544,553	$ 538,916	$ 1,262,332	$ 1,509,298	$ 3,855,099	$ 7,598,284
Professional services	$ 46,206	$ 63,329	$ 294,720	$ 146,608	$ 550,863	$ 716,524
Other general and administrative expenses	$ 358,467	$ 483,260	$ 350,082	$ 407,412	$ 1,599,221	$ 1,824,786
Intangible Asset Impairments	$ -	$ -	$ -	$ -	$ -	$ -
Goodwill impairment	$ -	$ -	$ -	$ -	$ -	$ -
Total general and administrative expenses	$ 949,226	$ 1,085,505	$ 1,907,134	$ 2,063,318	**$ 6,005,183**	**$ 10,139,593**
Depreciation and amortization	$ 76,218	$ 7,413	$ 72,190	$ 75,000	$ 230,821	$ 315,303
Total operating expenses	$ 1,025,444	$ 1,092,918	$ 1,979,324	$ 2,138,318	**$ 6,236,004**	**$ 10,454,896**
Net operating loss	$ (903,194)	$ (2,473,391)	$ 337,625	$ 1,383,741	**$ (1,655,220)**	**$ 10,425,494**
Other income (expense):	$ -	$ -	$ -	$ -	$ -	$ -
Interest expense,	$ (498,336)	$ (847,509)	$ (3,641)	$ (171,880)	$ (1,521,366)	$ (627,520)
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)	$ (3,641)	$ (171,880)	**$ (1,521,366)**	**$ (627,520)**
Net Income (Loss)	$ (1,401,530)	$ (3,320,900)	$ 333,984	$ 1,211,861	**$ (3,176,586)**	**$ 9,797,974**
Weighted Average Number of Shares Outstanding, Basic	4,845,851	4,854,208	5,123,735	5,603,083	**5,106,719**	**5,603,083**
Weighted Average Number of Shares Outstanding, Diluted	4,845,851	5,873,295	8,066,577	7,308,910	**6,523,658**	**7,606,400**
Earnings Per Share, Basic	$ (0.29)	$ (0.68)	$ 0.07	$ 0.22	**$ (0.62)**	**$ 1.75**
Earnings Per Share, Diluted	$ (0.29)	$ (0.57)	$ 0.04	$ 0.17	**$ (0.49)**	**$ 1.29**

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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.