

Trickle Research

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



Model Update



Sow Good Inc.

(OTC: SOWG)

Report Date: 09/11/24

12- 24 month Price Target: \$32.00

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

Closing Stock Price at Price Target Increase (Closing Px: 03/25/24): \$10.19

Closing Stock Price at This Update (Closing Px: 09/10/24): \$11.27

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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.

We have updated our model/earnings projections largely around narrative from the Company regarding some of the challenges to Q3F24 around product quality as a result of higher-than-normal temperatures across much of the Company's distribution footprint. We are providing after reviewing the prior model and attempting to extrapolate the impact of the event given the limited information the Company has provided. To be clear, since the Company has provided little or no guidance around the objective impact of the event, we and ostensibly everyone else, are "shooting in the dark" here, but we did review some of our prior assessments and have made some adjustments, which include some seasonality we did not account for in prior models. In short, at this point we view the event/quarter as largely anomalous, and we expect Q4F24 to be robust both in the aggregate and comparatively.

Projected Operating Model

Sow Good Inc.						
Projected Operating Model						
By: Trickle Research						
	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<u>3/31/2024</u>	<u>6/30/2024</u>	<u>9/30/2024</u>	<u>12/31/2024</u>	<u>Fiscal 2024</u>	<u>Fiscal 2025</u>
Revenues	\$ 12,543,611	\$ 15,648,046	\$ 8,838,578	\$ 21,565,667	\$ 58,595,902	\$ 110,946,595
Cost of goods sold	\$ 7,339,209	\$ 6,640,917	\$ 5,970,180	\$ 12,650,889	\$ 32,601,194	\$ 65,520,646
Gross profit	\$ 5,204,402	\$ 9,007,129	\$ 2,868,399	\$ 8,914,778	\$ 25,994,708	\$ 45,425,948
General and administrative expenses:						
Salaries and benefits	\$ 2,487,032	\$ 2,123,572	\$ 2,186,122	\$ 2,886,112	\$ 9,682,837	\$ 12,902,063
Professional services	\$ 467,826	\$ 594,278	\$ 415,157	\$ 796,970	\$ 2,274,231	\$ 3,928,398
Other general and administrative expenses	\$ 872,260	\$ 1,399,244	\$ 1,132,579	\$ 1,011,871	\$ 4,415,953	\$ 5,091,362
Intangible Asset Impairments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Goodwill impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total general and administrative expenses	\$ 3,827,118	\$ 4,117,094	\$ 3,733,858	\$ 4,694,952	\$ 16,373,022	\$ 21,921,822
Depreciation and amortization	\$ 9,538	\$ 4,939	\$ 5,018	\$ 5,098	\$ 24,593	\$ 21,222
Total operating expenses	\$ 3,836,656	\$ 4,122,033	\$ 3,738,876	\$ 4,700,051	\$ 16,397,615	\$ 21,943,045
Net operating loss	\$ 1,367,746	\$ 4,885,096	\$ (870,477)	\$ 4,214,727	\$ 9,597,093	\$ 23,482,904
Other income (expense):						
Interest Expense	\$ (418,669)	\$ (599,664)	\$ (41,880)	\$ (31,880)	\$ (1,092,093)	\$ (27,520)
Other income	\$ -	\$ 4,130	\$ -	\$ -	\$ 4,130	\$ -
Gain on disposal of property and equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gain on early extinguishment of debt	\$ -	\$ (696,502)	\$ -	\$ -	\$ (696,502)	\$ -
Gain on investment in Allied Esports Entertainment, Inc	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other income (expense)	\$ (418,669)	\$ (1,292,036)	\$ (41,880)	\$ (31,880)	\$ (1,784,465)	\$ (27,520)
Net Income (Loss) Before Taxes	\$ 949,077	\$ 3,593,060	\$ (912,357)	\$ 4,182,847	\$ 7,812,628	\$ 23,455,384
Income Tax Expense	\$ -	\$ 3,593,060	\$ (912,357)	\$ 4,182,847	\$ 6,863,550	\$ 23,455,384
Net Income (Loss)	\$ 949,077	\$ 3,335,142	\$ (912,357)	\$ 4,182,847	\$ 7,554,710	\$ 23,455,384
Weighted Average Number of Shares Outstanding, Basic	6,071,769	9,624,999	10,245,388	10,245,388	9,046,886	10,245,388
Weighted Average Number of Shares Outstanding, Diluted	7,972,645	11,385,708	12,185,283	12,305,350	10,962,246	12,418,925
Earnings Per Share, Basic	\$ 0.16	\$ 0.35	\$ (0.09)	\$ 0.41	\$ 0.84	\$ 2.29
Earnings Per Share, Diluted	\$ 0.12	\$ 0.29	\$ (0.07)	\$ 0.34	\$ 0.69	\$ 1.89

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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.