

## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### MamaMancini's Holdings, Inc.

**Speculative Buy**

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May 4, 2020

**MMMB \$1.57 — (OTC)**

|                           | FY2018 A | FY2019 A | FY2020 A | FY2021 E      | FY2022 E      |
|---------------------------|----------|----------|----------|---------------|---------------|
| Revenue (in millions)     | \$27.5   | \$28.5   | \$34.8   | <b>\$45.0</b> | <b>\$57.2</b> |
| Earnings (loss) per share | \$0.01   | \$0.02   | \$0.04   | <b>\$0.09</b> | <b>\$0.18</b> |

|                                 |                 |                         |         |
|---------------------------------|-----------------|-------------------------|---------|
| 52-Week range                   | \$1.74 – \$0.33 | Fiscal year ends:       | January |
| Shares outstanding a/o 04/23/20 | 32.0 million    | Revenue/shares (ttm)    | \$1.01  |
| Approximate float               | 14.8 million    | Price/Sales (ttm)       | 1.2X    |
| Market Capitalization           | \$50 million    | Price/Sales (2022) E    | 0.9X    |
| Tangible Book value/shr         | \$0.01          | Price/Earnings (ttm)    | 39.3X   |
| Price/Book                      | NMF             | Price/Earnings (2022) E | 8.7X    |

*MamaMancini's Holdings, Inc., headquartered in East Rutherford, NJ, is a specialty prepared foods marketer and distributor of natural, authentic Italian meatballs containing beef, turkey, chicken, and pork combined with its homemade slow cooked Italian sauce and other Italian products.*

#### Key Investment Considerations:

**Maintaining Speculative Buy rating and increasing our twelve-month price target to \$3.00 per share from \$1.90 per share due to an increase in sector valuation and our FY22 EPS forecast.**

*MamaMancini's has substantial growth potential for its specialty prepared food product lines of authentic Italian meatballs due to the estimated 38,300 US supermarket locations. During the COVID-19 pandemic, we anticipate strong sales from its product placements on QVC network as stay at home consumers order products at a robust pace. In April 2020, MMMB product sales were in excess of \$1 million (a record) on QVC.*

*Our forecasts should be supported by the 4Q20 launch of multiple expansions of product placements and special merchandising activity in 2,500 top tier US grocery retailer locations including Kroger, Albertsons, Sam's Club, and Publix. There is the potential to add its products to an additional 2,700 locations with these retailers if consumer acceptance is positive.*

*The company's strategic partnership with Beyond Meat, Inc. is likely to provide a boost to shelf placements in 2H21. Once customer testing is completed in 1H21, orders should begin to be placed for MMMB's new line of fully cooked authentic Italian foods to existing customers using Beyond Meat's plant-based Beyond Beef.*

*For FY21, we decreased our EPS projection by \$0.03 per share to \$0.09 on 29.2% sales growth to \$45 million (unchanged). Our sales reflects 1Q21 guidance of \$10.7 million or 45% increase from the year ago-period, offset in part by a lack of sales that was previously anticipated in the food service segment and distribution to Canadian customers due to the COVID-19 pandemic. Our EPS forecast reflects gross margin of 32.5%, up from 31.8% in FY20, but down from our prior forecast of 33%.*

*For FY22, we forecast EPS of \$0.18 per share on 27.1% sales growth to \$57.2 million. Our growth forecast anticipates restrictions surrounding the COVID-19 pandemic abating, allowing for sales to food service and Canadian customers, as well as gross margin expansion to 34.3% from 32.5% as plant efficiencies are realized.*

**Please view our Disclosures on pages 13 – 15.**

## Appreciation Potential

**Maintaining Speculative Buy rating and increasing our twelve-month price target to \$3.00 per share from \$1.90 per share due to an increase in sector valuation and our FY22 EPS forecast.** Our rating is based on a compound annual revenue growth rate of 28.7% to FY22 (from FY16) reflecting increased product shelf placements at retail and grocery locations. MMMB commenced shipments in 1H20 of nine new products into retail grocery customers including BJ's Club Stores, Walmart, and Ahold, owner of Stop & Shop supermarkets. In 4Q20, MMMB shipped products based on new product placements and special merchandising activity in approximately 2,500 major grocery retailer locations such as Publix, Sam's Club, Albertsons, and Tops Markets.

The investments made in prior years by MMMB in its manufacturing capabilities should allow for the easy introduction of new products along with automated plant operations and in-house testing that should enhance overall manufacturing efficiencies once COVID-19 pandemic restrictions ease.

**Our 12-month price target of \$3.00 per share implies shares could appreciate approximately 90% in the next twelve months.** The company's forward P/E multiple is 8.7X compared to the peer group (see table on the right) of 18.2X. We project FY22 EPS growth of approximately 100% to \$0.18 from our EPS forecast of \$0.09 in FY21, compared to 17.9% EPS growth for its peers. We believe investors could accord a valuation multiple equal to its peer group based on forecasted EPS growth. We applied an 18.2X (prior was 15.9X) multiple to our FY22 EPS forecast of \$0.18, discounted for execution risk, to obtain a year-ahead value of approximately \$3.00 per share.

| Name                        | Symbol | Price<br>5-01-20 | Market<br>Cap in<br>\$Mil | P/E<br>2020 E<br>(Dec.) | Earnings<br>Growth<br>Rate Est. | P/E<br>2021 E<br>(Dec.) |
|-----------------------------|--------|------------------|---------------------------|-------------------------|---------------------------------|-------------------------|
| B&G Foods Inc.              | BGS    | 19.64            | 1258                      | 11.5                    | 0.0%                            | 11.5                    |
| United Natural Foods Inc.   | UNFI   | 11.20            | 600                       | 7.8                     | (10.5%)                         | 8.8                     |
| Sunopta Inc.                | STKL   | 2.62             | 231                       | NMF                     | 62.5%                           | NMF                     |
| Sprouts Farmers Market Inc. | SFM    | 21.03            | 2472                      | 15.6                    | 0.7%                            | 15.5                    |
| Hain Celestial Group Inc.   | HAIN   | 25.63            | 2676                      | 35.6                    | 26.4%                           | 28.2                    |
| Landec Corp.                | LNDC   | 11.09            | 323                       | 61.6                    | 37.8%                           | 28.4                    |
| Sysco Corp.                 | SY     | 52.76            | 26829                     | 18.4                    | 8.6%                            | 17.1                    |
| Farmer Brothers. Co.        | FARM   | 9.19             | 158                       | NMF                     | NMF                             | NMF                     |
| <b>Average</b>              |        |                  |                           | <b>25.1</b>             | <b>17.9%</b>                    | <b>18.2</b>             |
| <b>Company</b>              |        |                  |                           | <b>1/31/2021</b>        |                                 | <b>1/31/2022</b>        |
| MamaMancini's Holdings Inc. | MMMB   | 1.57             | 50                        | 19.6                    | 100.0%                          | 8.7                     |

Source: Taglich Brothers estimates, Yahoo Finance, and Thompson Reuters \* MMMB Year Ends Jan. 2021 and 2022, respectively

MamaMancini's Holdings, Inc. valuation improvement is contingent upon consistent quarterly revenue growth, expense leverage, cash earnings, and sustained annual profitability. MMMB has produced profits in 10 out of its last 11 quarters. We forecast the company to generate consistent operating profits in FY21 and FY22, and produce cash earnings of \$6.9 million in FY22, up from our FY21 cash earnings projection of \$4.1 million and \$2.4 million reported in FY20.

**In our view this stock is suitable for risk-tolerant investors.** Revenue growth and reaching our earnings expectations for FY22/21 will depend on MMMB successfully increasing its penetration of supermarket locations and shelf placements, as well as successfully navigating the COVID-19 pandemic environment.

## Overview

MamaMancini's Holdings, Inc., headquartered in East Rutherford, New Jersey, is a specialty prepared foods marketer and distributor of all natural, authentic Italian meatballs that contain beef, turkey, chicken, and pork combined with its homemade slow cooked Italian sauce. Additional major product categories produced and sold by the company include Italian style meatloaf, stuffed pepper filling kits, chicken parmigiana stuffed meatballs, beef and turkey parmigiana meat loaves, slow cooked marinara sauce, and gluten free slow cooked Italian style sauce and meatballs (beef and turkey). New products include Meatball Pot Pie and Spaghetti and Meatballs.

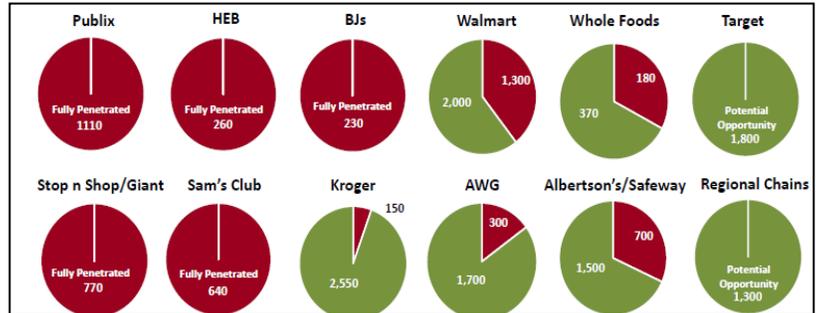
The company's all natural products contain a minimum number of ingredients and are generally derived from the original recipes of Anna "Mama" Mancini. The products are aimed at appealing to health-conscious consumers who seek to avoid artificial flavors, synthetic colors and preservatives that are used in many conventional packaged foods.

Dan Dougherty, the grandson of Anna 'Mama' Mancini, founded the company. Mama's recipes arrived in the US when she emigrated from Bari, Italy to Bay Ridge, Brooklyn in 1921. Her grandson developed the company's line of all natural specialty prepared, frozen and refrigerated foods that include beef, turkey, chicken and pork meatballs, all with slow cooked Italian sauce from her recipes. A trademark of the company's offerings is that they are produced

with as few ingredients as possible in order to appeal to health-conscious consumers seeking to avoid artificial flavors, synthetic colors and preservatives.

**Product Distribution Growth**

In 2018 (latest available), the Food Marketing Institute (FMI) estimated there were 38,300 supermarket locations in the US.



Distribution for the company's products includes supermarkets and mass-market club store retailers, such as Sam's Club. The company's products are sold in multiple places within a supermarket, but primarily in the fresh prepared food section, which is typically located along the perimeter of a retail or grocery location. MamaMancini's distributes (see picture on right – the company's January 2020 presentation) to retail and grocery locations, with Publix, Stop n Shop/Giant, Sam's Club and BJ's locations fully penetrated. Five other supermarket stores still have significant growth opportunities in terms of location expansion. While the company has 90 locations with Costco, it expects to expand into more of the remaining 470 US locations, as well as additional expansion within Walmart (current penetration is 1,300 locations). The company's aim is to develop merchandising and distribution programs with new customers such as Target (approximately 1,800 locations). In 1H20, the company began shipments of nine new products into retail grocery customers including BJ's Club Stores, Walmart, and Ahold (owns Stop & Shop supermarkets). In 4Q20, MMB has new product placements or special merchandising activity in approximately 2,500 major grocery retailer locations such as Publix, Sam's Club, Albertsons, and Tops Markets.

The company aims to expand sales and deliver more products within several areas frequented by consumers within the supermarket. The areas of growth include fresh packaged meat, fresh prepared meals, hot bars, cold bars in delis, and sandwich sections of supermarkets.

The company is in the process of developing a strategy to expand distribution of its products into the food service and alternate market channels, which could double its market size opportunity. The initial priority is likely to be distribution to convenience stores that have over 150,000 locations in the US. In the convenience store segment, prepared food sales more than tripled to \$375,000 per location, up from \$130,000 ten years ago (according to 2019 CSP report - Total Convenience & Petroleum Retailing Industry).

**Industry Dynamics**

The market for the company's specialty and prepared foods offerings of authentic Italian meatballs includes several perimeter sections of a supermarket, including deli-prepared foods, refrigerated meal kits, and the specialty section of the meat department such as the fresh hot bar (see chart at right – January 2020 presentation).

Consumer surveys, industry trends, and market growth indicate MamaMancini's product offerings are positioned for profitable growth through our forecast period. Consumer surveys funded by the Beef Checkoff (a producer-funded marketing and research program) show that 34.1% of consumers surveyed indicated their favorite sauce and style of meatballs is Italian meatballs with marinara sauce with 42.9% preferring 100% beef meatballs, and 57.3% willing to buy frozen cooked or ready-to-cook meatballs from the meat department. Approximately 61.6% still prefer to make their own meatballs from fresh ground meat.



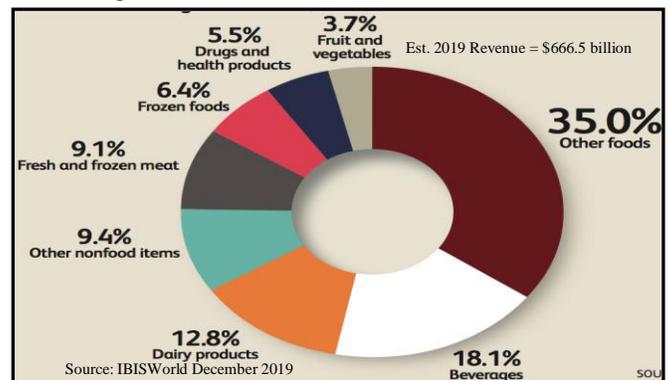
The 2019 industry report published by the Specialty Foods Association indicated specialty foods achieved 9.8% annualized sales growth to \$148.7 billion in 2018 from approximately \$121 billion in 2016. Specialty sales growth compares to 3.1% annualized growth for overall retail sales in the supermarket over the same time period. Specialty foods growth is being driven by convenience oriented consumers that are buying these products wherever they shop, including traditional multi-unit retail and grocery locations. In 2018, the top categories by dollar sales and sales growth were cheese and plant-based cheese and refrigerated plant-based meat alternatives, respectively.

Consulting firm Nielsen observed that the on-the-go lifestyles leave people less time to prepare traditional meals. In 2018, sales of meal kits within the grocery store increased 51% to \$93 million due primarily to 42% growth in units sold to 7.3 million. Nielsen reported that approximately 87% of in-store meal kits included meat in 2018, with beef at 52%, followed by pork at 17% and chicken at 16%. This should provide MMMB with a significant opportunity for growth of its meatball and meatball related products.

Nielson estimated US deli foods and prepared foods section sales were \$36.6 billion for the year-ended February 23, 2019. It is estimated the prepared foods section is approximately half the total section's sales. Market surveys indicate households with incomes in excess of \$100,000 are 20% more likely to purchase items in the deli prepared section of a supermarket. Empty nesters and senior couples in that same income category purchase 17% and 21% more than the average consumer, respectively.

A significant competitive advantage the company should have as it builds on its brand awareness and merchandising campaigns is the taste and nutritional value of MamaMancini's offerings since 25% of consumers feel that traditional deli prepared foods lack health and nutrition and 16% believe they lack freshness.

IBISWorld estimates (see table on the right) the supermarkets and grocery stores industry will grow 1.6% annually to \$731.7 billion in 2025 from an estimated \$666.5 billion in 2019. Supermarket growth will be sustained as per capita disposable income increases and consumers continue shifting to premium, organic and all-natural brands. If the market share holds, fresh and frozen meats should reach \$66.6 billion in 2025, up from \$60.7 billion in 2019.



## Projections

### Basis of Forecast

Our forecasts reflect the company growing its sales network of paid broker representatives and eventual (delayed until FY22 due COVID-19 pandemic) entry into the food service segment and Canada. Sales from the company's placements on QVC are likely to be higher than previously anticipated due primarily to the pandemic, as stay at home consumers are ordering the company's products at a robust pace. In April 2020, the company sold over \$1 million in MMMB products on QVC, a record month.

We anticipate product shelf placements on retail and grocery shelves will increase stemming from the company's ability to expand into new retail and grocery locations from new and existing customers, as well as utilizing its brokers to develop merchandising strategies to expand the scope of business within existing supermarket and club store locations, and new product launches such as pasta bowl meal component kits designed for supermarkets, club stores and food service customers.

We believe the strategic partnership (announced on September 27, 2019) with Beyond Meat, Inc. is likely provide a significant boost to shelf placements (likely in 2H21). As customer testing is completed in the 1H21, ordering for product placements should begin for MMMB's new line of fully cooked authentic Italian foods to existing customers using Beyond Meat's plant-based Beyond Beef.

Our forecast includes the company's 3Q20 announcement for multiple expansions of product placements or special merchandising activity in approximately 2,500 top tier US grocery retailer locations including Kroger, Albertsons, Sam's Club, and Publix.

We project FY21 gross margin of 32.5%, unchanged from FY20 due primarily to the inclusion of depreciation expense in cost of sales related to significant plant capacity additions made by the company, and potentially higher input costs due to the COVID-19 pandemic, offset by plant efficiencies that includes automation of certain processes that were previously conducted by plant staff. In FY22, we anticipate gross margin expanding to 34.3% from our FY21 estimate of 31.8% due to the realization of plant efficiencies and reduced input costs as the impact of the pandemic dissipates, offset in part by commencing initial product shipments to food service customers that are likely to carry lower margins. We anticipate operating margin expense decreasing to 23.8% in FY22 from an estimated 24.8% in FY21 and 25.8% in FY20. The improvement in our FY22 operating expense forecast is due primarily to streamlining G&A costs stemming from the company's ability to reduce freight costs.

During our forecast period, MMMB is unlikely to fully use its tax loss carry forwards of approximately \$9.5 million at January 31, 2020.

#### Operations – FY21

We project net sales growth of 29.2% to \$45 million (unchanged) due primarily to an estimated increase in shelf placements to new locations and higher volumes of product shipment to existing customers. On April 29, 2020, the company announced it expects to report record 1Q21 sales of \$10.7 million or a 45% increase from the year-ago period. Restraining our sales forecast is the impact of the COVID-19 pandemic that is temporarily halting shipments to food service and Canadian customers that were previously forecasted to occur in 2H21.

We project a 32.3% increase in gross profit to \$14.6 million driven by sales gains and gross margin expansion to 32.5% from 31.8% in FY20, reflecting plant efficiencies, partly offset by depreciation costs for plant improvements made in prior years and higher input cost due to the COVID-19 pandemic. We project operating profits increasing 68% to \$3.5 million from nearly \$2.1 million in FY21 due to sales growth and operating expense margin decreasing to 24.8% from 25.8% in FY20.

We anticipate operating expenses increasing 24% to \$11.1 million due to G&A expense of \$11 million compared to \$8.9 million in FY20. G&A expense should increase to support sales growth including expenses for enhanced cleaning operations at the company's manufacturing plant in order to maintain safe operations during the COVID-19 pandemic. We project an operating margin of 7.8% vs. 6% in FY20.

Non-operating expense (exclusively interest expense) should decrease to \$335,000 from \$483,000 (excludes \$67,000 in debt discount) due primarily to lower average debt balances.

We project net income of \$3.2 million or \$0.09 per share. We previously projected net income of \$3.7 million or \$0.12 per share.

#### Operations – FY22

We project net sales growth of 27.1% to \$57.2 million due primarily to an estimated increase in shelf placements and shipping volumes to new and existing customers including MMMB's new line of fully cooked authentic Italian foods using Beyond Meat's plant-based Beyond Beef. We anticipate a modest impact from shipments to food service and Canadian customers in the 1H22 that should increase significantly in 2H22.

We project a 33.9% increase in gross profit to \$19.6 million driven by sales gains and gross margin expansion to 34.3% from an estimated 32.5% in FY21 reflecting plant efficiencies, restrained in part by initial shipments to food service and Canadian customers. We project operating profits increasing 88.3% to nearly \$6.2 million from an estimated \$3.5 million in FY21 due to sales growth, gross margin expansion, and operating expense margin decreasing to 23.5% from an estimated 24.8% in FY21.

We anticipate operating expenses increasing 20.7% to \$13.5 million due to G&A expense of \$13.3 million compared to an estimated \$11 million in FY21. G&A expense should increase to support sales growth including expenses for the expansion of product shipments to food service and Canadian customers. We project an operating margin of 10.8% vs. 7.8%.

Non-operating expense (exclusively interest expense) should decrease to \$200,000 from \$335,000 due primarily to lower average debt balances. We project net income of nearly \$6 million or \$0.18 per share.

#### Finances

For FY21, we project cash earnings of nearly \$4.1 million and an increase in working capital of \$1.8 million due primarily to increases in inventories and decreases in payables. Cash from operations of \$2.3 million should cover capital expenditures and debt and capital lease repayments, increasing cash by \$949,000 to \$1.3 million at January 31, 2021.

For FY22, we project cash earnings of \$6.9 million and an increase in working capital of \$2.3 million due primarily to increases in receivables and inventories and decreases in payables. Cash from operations of \$4.6 million is likely to cover capital expenditures and debt and capital lease repayments, increasing cash by \$2.5 million to nearly \$3.9 at January 31, 2022.

#### **FY20 Results**

##### FY20

Net sales increased 22.3% to \$34.8 million from \$28.5 million in FY19, reflecting new customers, as well as expanded volumes within existing customers. A significant portion of the increase in sales occurred in 4Q20 as sales increased 46.5% to \$10.1 million compared to \$6.8 million in the year-ago period.

Gross profit increased 11.9% to \$11.1 million reflecting gross margin compression to 31.8% from 34.7%, offset in part by higher sales. Gross margin compression was due primarily to an increase in depreciation expense of approximately \$255,000 related to plant capacity additions and changes in product mix.

Operating expenses increased 6.7% to \$9 million compared to \$8.4 million due primarily to higher freight and compensation costs, commissions, and professional fees (an increase of approximately \$778,000 combined). The increase in operating expenses was partly offset by decreases in advertising and merchandising costs, as well as a reduction in stock-based compensation for services rendered by employees and consultants (a decrease of approximately \$100,000 combined).

The company reported operating income increased 41.9% to \$2.1 million compared to \$1.5 million. Operating income growth reflects sales growth, and improvements in operating margin expense to 25.8% compared to 29.6% in FY19, restrained by gross margin compression. Operating margin was 6%, an improvement from 5.2%.

Non-operating expense was \$550,000 compared to \$1 million in FY19. Interest expense decreased to \$483,000 from \$882,000 due primarily to lower debt balances. The non-operating expense reflects a \$67,000 decrease in amortization expense related to the debt discount to \$68,000.

Net income was \$1.5 million or \$0.04 per share compared to \$453,000 or \$0.01 per share. We projected EPS of \$0.06 on sales of \$34.8 million.

#### Finances

In FY20, cash earnings of \$2.4 million and an increase in working capital of \$629,000 resulted in cash from operations of \$1.8 million. Cash from operations did not cover capital expenditures and the repayment of nearly \$2.1 million in debt. Cash decreased by \$216,000 to \$394,000 at January 31, 2020.

### Capital Structure

On January 4, 2019, the company arranged a \$3.5 million working capital line of credit with M&T Bank at LIBOR plus four points with two year expiration and a \$2.5 million five-year note with M&T Bank at LIBOR plus four points with repayments in equal payments over 60 months. The new financing enabled the company to repay a previously outstanding senior note from Manatuck Hill Partners, working capital and term loans from EGC, and a term loan payable to Valley National Bank.

Advances under the new line of credit are limited to 80% of eligible accounts receivable and 50% of eligible inventory. The new financing is supported by a first priority security interest in all of the company's business assets and is further subject to financial covenants and a limited guaranty by the company's CEO.

MMMB estimates paying annual interest at a rate of approximately 6.5%, versus an average in excess of 12.5% annually with its prior financing.

At January 31, 2020, the company had total outstanding debt of \$3.4 million (down from \$5.7 million at January 31, 2019), of which \$424,000 is short-term (term loan). Outstanding long-term debt consists of nearly \$3 million line of credit, and \$642,000 of notes payable to related party.

### **Competition**

MamaMancini's meatballs are sold within the gourmet and specialty pre-packaged food industry, which has competitors specializing in global cuisine. The company competes in the niche Italian specialty market segment. Competition in this segment can be based on product quality, price and brand identification. The company aims to become an aggressive marketer and provide quality assurance programs that have the potential to drive consumer support and high value perceptions of its product offerings. Competitors within this industry includes Quaker Maid, Philly-Gourmet Meat Company, Hormel, Rosina Company, Inc., Casa Di Bertacchi, Inc., Farm Rich, Inc., Mama Lucia, and Buona Vita, Inc.

On a broader basis, MamaMancini's has the potential to compete against national and regional producers of meat and protein source, such as beef, chicken, pork, turkey, fish, peanut butter, and whey. National competition could come from Tyson Foods, Inc., Smithfield Foods, Inc., as well as ConAgra Foods, Inc., Cargill, Inc. and Butterball, LLC.

### **Risks**

In our view, these are the principal risks underlying the stock:

#### Customer Concentration

In FY20 (ended January 31, 2020), MMMB's three largest customers accounted for approximately 67% of gross sales compared to two customers accounting for 60% of gross sales in FY19. MMMB does not have long-term contracts with its principal customers, which if lost, could diminish future sales. In FY20, three customers accounted for approximately 58% of total gross outstanding receivables compared to three customers accounting for 76% in FY19.

#### Regulation

The company's food products manufactured at Joseph Epstein Food Enterprises are subject to extensive regulation by the US Food and Drug Administration (FDA), the US Department of Agriculture (USDA) and other national, state, and local authorities. If these regulators change regulations at some point in the future, or should MMMB change its existing recipes to include ingredients that do not meet regulation standards, the company's operations could be adversely affected.

#### Food Safety

MMMB's products are subject to numerous food safety and other laws and regulations regarding the manufacturing, marketing, and distribution of food products, as well as if those products cause injury or illness to consumers. The company's manufacturing operations are certified in the Safe Quality Food Program. These standards are integrated

food safety and quality management protocols designed specifically for the food sector and offer a comprehensive methodology to manage food safety and quality simultaneously. The certification provides an independent and external validation that a product, process or service complies with applicable regulations and standards.

#### Internal Controls

As of January 31, 2020, material weaknesses in internal controls continue to include deficiencies in functional controls and segregation of duties. The company is committed to improving its financial organization by creating a position to segregate duties consistent with control objectives and plans to increase its personnel resources and technical accounting expertise within the accounting function when funds are available.

#### Global Pandemic

A potential disruption of US economic conditions lies in the global spread of COVID-19 that could cause supply chain issues for MMMB, which could adversely impact corporate operating results. Production could be materially adversely affected if inputs become scarce (beef, chicken, turkey), the need to close any of MMMB's facilities were to occur, and/or a critical number of its employees became too ill to work. Overall, uncertainties surrounding the pandemic could have a material adverse effect on the financial condition and/or results of the company operations.

#### Shareholder Control

Officers and directors collectively own nearly 50.2% of the outstanding voting stock (as of the SEC filing in February 2020). This group could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

#### Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

#### Trading Volume

Over the last three-months to May 1, 2019 average daily volume was approximately 47,700 shares. The company has a float of 14.8 million shares and 32 million outstanding shares.

MamaMancini's Holdings, Inc.  
Consolidated Balance Sheets – Ending January 31  
FY2018 – FY2022E  
(in thousands)

|   | <u>FY2018A</u>         | <u>FY2019A</u>         | <u>FY2020A</u>         | <u>FY2021E</u>          | <u>FY2022E</u>          |
|---|------------------------|------------------------|------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>   |                        |                        |                        |                         |                         |
| Current assets:   |                        |                        |                        |                         |                         |
| Cash  | \$ 581                 | \$ 609                 | \$ 394                 | \$ 1,343                | \$ 3,886                |
| Accounts receivable, net  | 3,085                  | 2,651                  | 3,728                  | 3,850                   | 4,424                   |
| Inventories   | 824                    | 1,348                  | 1,246                  | 1,786                   | 3,007                   |
| Prepaid expenses  | <u>262</u>             | <u>155</u>             | <u>252</u>             | <u>265</u>              | <u>300</u>              |
| <b>Total current assets</b>   | <b><u>4,752</u></b>    | <b><u>4,763</u></b>    | <b><u>5,620</u></b>    | <b><u>7,243</u></b>     | <b><u>11,617</u></b>    |
| Property and equipment plus deposits, net includes deposit on machinery | 2,500                  | 2,885                  | 2,806                  | 2,810                   | 2,850                   |
| Operating lease right of use assets, net                                | -                      | -                      | 1,491                  | 1,885                   | 1,464                   |
| Deposits and Debt issuance costs, net                                   | 20                     | 20                     | 20                     | 20                      | 20                      |
| <b>Total assets</b>   | <b><u>\$ 7,272</u></b> | <b><u>\$ 7,668</u></b> | <b><u>\$ 9,937</u></b> | <b><u>\$ 11,958</u></b> | <b><u>\$ 15,951</u></b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                             |                        |                        |                        |                         |                         |
| Current liabilities:  |                        |                        |                        |                         |                         |
| Accounts payable and accrued expenses                                   | 3,457                  | 3,062                  | 3,553                  | 2,530                   | 2,088                   |
| Capital leases payable  | -                      | 54                     | 105                    | 365                     | 340                     |
| Line of credit  | 2,689                  | -                      | -                      | -                       | -                       |
| Term loan   | 107                    | 500                    | 424                    | -                       | -                       |
| Operating lease liability   | -                      | -                      | 127                    | 127                     | 127                     |
| Notes payable   | <u>1,403</u>           | <u>-</u>               | <u>-</u>               | <u>-</u>                | <u>-</u>                |
| <b>Total current liabilities</b>  | <b><u>7,656</u></b>    | <b><u>3,616</u></b>    | <b><u>4,208</u></b>    | <b><u>3,022</u></b>     | <b><u>2,555</u></b>     |
| Term loan - net   | 652                    | 1,914                  | -                      | -                       | -                       |
| Line of credit  | -                      | 2,612                  | 2,997                  | 2,737                   | 1,437                   |
| Operating lease liability - net   | -                      | -                      | 1,372                  | 1,550                   | 1,200                   |
| Finance leases payable - net  | -                      | 163                    | 315                    | 315                     | 315                     |
| Notes payable - includes related party                                  | 900                    | 642                    | 642                    | 642                     | 642                     |
| <b>Stockholders' equity:</b>  |                        |                        |                        |                         |                         |
| Common stock, \$0.00001 par value; authorized 250,000,000 shares        | 0                      | 0                      | 0                      | 0                       | 0                       |
| Paid-in capital   | 16,345                 | 16,547                 | 16,695                 | 16,820                  | 16,970                  |
| Treasury stock and common stock subscribed                              | (149)                  | (150)                  | (150)                  | (150)                   | (150)                   |
| Retained earnings (deficit)   | <u>(18,130)</u>        | <u>(17,677)</u>        | <u>(16,144)</u>        | <u>(12,979)</u>         | <u>(7,019)</u>          |
| <b>Total stockholders' equity</b>                                       | <b><u>(1,935)</u></b>  | <b><u>(1,279)</u></b>  | <b><u>402</u></b>      | <b><u>3,692</u></b>     | <b><u>9,802</u></b>     |
| <b>Total liabilities and stockholders' equity</b>                       | <b><u>\$ 7,272</u></b> | <b><u>\$ 7,668</u></b> | <b><u>\$ 9,937</u></b> | <b><u>\$ 11,958</u></b> | <b><u>\$ 15,951</u></b> |
| SHARES OUT  | 31,753                 | 31,866                 | 31,991                 | 32,025                  | 32,050                  |

Source: Company reports and Taglich Brothers estimates

MamaMancini's Holdings, Inc.  
Annual Income Statement – Ending January 31  
FY2018 – FY2022E  
(in thousands)

|   | <u>FY2018A</u> | <u>FY2019A</u> | <u>FY2020A</u>  | <u>FY2021E</u>       | <u>FY2022E</u>       |
|---|----------------|----------------|-----------------|----------------------|----------------------|
| Sales - net of slotting fees, discounts | \$ 27,543      | \$ 28,474      | \$ 34,837       | \$ 45,000            | \$ 57,200            |
| Cost of goods sold                      | <u>18,283</u>  | <u>18,580</u>  | <u>23,766</u>   | <u>30,355</u>        | <u>37,585</u>        |
| <b>Gross Profit</b>                     | 9,261          | 9,894          | 11,071          | <b>14,645</b>        | <b>19,615</b>        |
| Operating Expenses:                     |                |                |                 |                      |                      |
| Research and development                | 138            | 131            | 115             | <b>120</b>           | <b>120</b>           |
| General and administrative              | 8,060          | 8,294          | 8,873           | <b>11,025</b>        | <b>13,335</b>        |
| Total Operating Expenses                | <u>8,198</u>   | <u>8,425</u>   | <u>8,988</u>    | <u><b>11,145</b></u> | <u><b>13,455</b></u> |
| <b>Operating Income (loss)</b>          | 1,063          | 1,469          | 2,083           | <b>3,500</b>         | <b>6,160</b>         |
| Other Income (Expense)                  |                |                |                 |                      |                      |
| Interest income (expense)               | (680)          | (882)          | (483)           | <b>(335)</b>         | <b>(200)</b>         |
| Amortization of debt discount           | <u>(63)</u>    | <u>(133)</u>   | <u>(67)</u>     | <u>-</u>             | <u>-</u>             |
| Total Other Income (Expense)            | <u>(743)</u>   | <u>(1,015)</u> | <u>(550)</u>    | <u><b>(335)</b></u>  | <u><b>(200)</b></u>  |
| <b>Pre-Tax Income</b>                   | 320            | 453            | 1,533           | <b>3,165</b>         | <b>5,960</b>         |
| Income Tax Expense (Benefit)            | <u>-</u>       | <u>-</u>       | <u>-</u>        | <u>-</u>             | <u>-</u>             |
| <b>Income (loss)</b>                    | <u>\$ 320</u>  | <u>\$ 453</u>  | <u>\$ 1,533</u> | <u>\$ 3,165</u>      | <u>\$ 5,960</u>      |
| <b>Preferred dividends</b>              | <u>92</u>      | <u>-</u>       | <u>-</u>        | <u>-</u>             | <u>-</u>             |
| <b>Net Income (loss)</b>                | <u>\$ 228</u>  | <u>\$ 453</u>  | <u>\$ 1,533</u> | <u>\$ 3,165</u>      | <u>\$ 5,960</u>      |
| <b>EPS</b>                              | <u>\$ 0.01</u> | <u>\$ 0.01</u> | <u>\$ 0.04</u>  | <u>\$ 0.09</u>       | <u>\$ 0.18</u>       |
| Avg Shares (000)                        | <u>32,206</u>  | <u>32,522</u>  | <u>34,339</u>   | <u><b>34,180</b></u> | <u><b>34,056</b></u> |
| Adjusted EBITDA                         | \$ 2,069       | \$ 2,407       | \$ 2,897        | \$ 4,400             | \$ 7,060             |
| Margins                                 |                |                |                 |                      |                      |
| Gross Margins                           | 33.6%          | 34.7%          | 31.8%           | <b>32.5%</b>         | <b>34.3%</b>         |
| Operating Margin                        | 3.9%           | 5.2%           | 6.0%            | <b>7.8%</b>          | <b>10.8%</b>         |
| Pre-Tax Margins                         | 1.2%           | 1.6%           | 4.4%            | <b>7.0%</b>          | <b>10.4%</b>         |
| Research and development                | 0.5%           | 0.5%           | 0.3%            | <b>0.3%</b>          | <b>0.2%</b>          |
| General and administrative              | 29.3%          | 29.1%          | 25.5%           | <b>24.5%</b>         | <b>23.3%</b>         |
| Tax Rate                                | 0.0%           | 0.0%           | 0.0%            | <b>0.0%</b>          | <b>0.0%</b>          |
| YEAR / YEAR GROWTH                      |                |                |                 |                      |                      |
| Net Sales                               | 52.6%          | 3.4%           | 22.3%           | <b>29.2%</b>         | <b>27.1%</b>         |

Source: Company reports and Taglich Brothers estimates

MamaMancini's Holdings, Inc.  
Income Statement Model – Ending January 31  
Quarters FY2020A – 2022E  
(in thousands)

|   | 1Q20A          | 2Q20A          | 3Q20A          | 4Q20A          | FY2020A         | 1Q21E          | 2Q21E          | 3Q21E          | 4Q21E           | FY2021E         | 1Q22E           | 2Q22E           | 3Q22E           | 4Q22E           | FY2022E         |
|---|----------------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Sales - net of slotting fees, discounts | \$ 7,365       | \$ 8,099       | \$ 9,267       | \$ 10,106      | \$ 34,837       | \$ 10,695      | \$ 10,300      | \$ 11,515      | \$ 12,490       | \$ 45,000       | \$ 13,450       | \$ 13,250       | \$ 14,750       | \$ 15,750       | \$ 57,200       |
| Cost of goods sold                      | 4,994          | 5,408          | 6,366          | 6,998          | 23,766          | 7,275          | 6,985          | 7,715          | 8,380           | 30,355          | 8,850           | 8,705           | 9,665           | 10,365          | 37,585          |
| <b>Gross Profit</b>                     | <b>2,371</b>   | <b>2,691</b>   | <b>2,901</b>   | <b>3,108</b>   | <b>11,071</b>   | <b>3,420</b>   | <b>3,315</b>   | <b>3,800</b>   | <b>4,110</b>    | <b>14,645</b>   | <b>4,600</b>    | <b>4,545</b>    | <b>5,085</b>    | <b>5,385</b>    | <b>19,615</b>   |
| Operating Expenses:                     |                |                |                |                |                 |                |                |                |                 |                 |                 |                 |                 |                 |                 |
| Research and development                | 25             | 25             | 33             | 32             | 115             | 30             | 30             | 30             | 30              | 120             | 30              | 30              | 30              | 30              | 120             |
| General and administrative              | 1,866          | 2,216          | 2,365          | 2,427          | 8,873           | 2,625          | 2,650          | 2,800          | 2,950           | 11,025          | 3,175           | 3,225           | 3,375           | 3,560           | 13,335          |
| Total Operating Expenses                | 1,891          | 2,240          | 2,397          | 2,459          | 8,988           | 2,655          | 2,680          | 2,830          | 2,980           | 11,145          | 3,205           | 3,255           | 3,405           | 3,590           | 13,455          |
| <b>Operating Income (loss)</b>          | <b>480</b>     | <b>451</b>     | <b>504</b>     | <b>649</b>     | <b>2,083</b>    | <b>765</b>     | <b>635</b>     | <b>970</b>     | <b>1,130</b>    | <b>3,500</b>    | <b>1,395</b>    | <b>1,290</b>    | <b>1,680</b>    | <b>1,795</b>    | <b>6,160</b>    |
| Other Income (Expense)                  |                |                |                |                |                 |                |                |                |                 |                 |                 |                 |                 |                 |                 |
| Interest income (expense)               | (117)          | (87)           | (90)           | (189)          | (483)           | (95)           | (85)           | (80)           | (75)            | (335)           | (65)            | (55)            | (45)            | (35)            | (200)           |
| Amortization of debt discount           | (7)            | (5)            | (5)            | (49)           | (67)            | -              | -              | -              | -               | -               | -               | -               | -               | -               | -               |
| Total Other Income (Expense)            | (124)          | (93)           | (95)           | (239)          | (550)           | (95)           | (85)           | (80)           | (75)            | (335)           | (65)            | (55)            | (45)            | (35)            | (200)           |
| <b>Pre-Tax Income</b>                   | <b>356</b>     | <b>358</b>     | <b>409</b>     | <b>410</b>     | <b>1,533</b>    | <b>670</b>     | <b>550</b>     | <b>890</b>     | <b>1,055</b>    | <b>3,165</b>    | <b>1,330</b>    | <b>1,235</b>    | <b>1,635</b>    | <b>1,760</b>    | <b>5,960</b>    |
| Income Tax Expense (Benefit)            | -              | -              | -              | -              | -               | -              | -              | -              | -               | -               | -               | -               | -               | -               | -               |
| <b>Income (loss)</b>                    | <b>\$ 356</b>  | <b>\$ 358</b>  | <b>\$ 409</b>  | <b>\$ 410</b>  | <b>\$ 1,533</b> | <b>\$ 670</b>  | <b>\$ 550</b>  | <b>\$ 890</b>  | <b>\$ 1,055</b> | <b>\$ 3,165</b> | <b>\$ 1,330</b> | <b>\$ 1,235</b> | <b>\$ 1,635</b> | <b>\$ 1,760</b> | <b>\$ 5,960</b> |
| <b>Preferred dividends</b>              | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>        | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>        |
| <b>Net Income (loss)</b>                | <b>\$ 356</b>  | <b>\$ 358</b>  | <b>\$ 409</b>  | <b>\$ 410</b>  | <b>\$ 1,533</b> | <b>\$ 670</b>  | <b>\$ 550</b>  | <b>\$ 890</b>  | <b>\$ 1,055</b> | <b>\$ 3,165</b> | <b>\$ 1,330</b> | <b>\$ 1,235</b> | <b>\$ 1,635</b> | <b>\$ 1,760</b> | <b>\$ 5,960</b> |
| <b>EPS</b>                              | <b>\$ 0.01</b> | <b>\$ 0.01</b> | <b>\$ 0.01</b> | <b>\$ 0.01</b> | <b>\$ 0.04</b>  | <b>\$ 0.02</b> | <b>\$ 0.02</b> | <b>\$ 0.03</b> | <b>\$ 0.03</b>  | <b>\$ 0.09</b>  | <b>\$ 0.04</b>  | <b>\$ 0.04</b>  | <b>\$ 0.05</b>  | <b>\$ 0.05</b>  | <b>\$ 0.18</b>  |
| Avg Shares (000)                        | 32,098         | 31,982         | 32,091         | 34,339         | 34,339          | 34,345         | 34,350         | 34,000         | 34,025          | 34,180          | 34,035          | 34,050          | 34,065          | 34,075          | 34,056          |
| Adjusted EBITDA                         | \$ 688         | \$ 655         | \$ 705         | \$ 849         | \$ 2,897        | \$ 990         | \$ 860         | \$ 1,195       | \$ 1,355        | \$ 4,400        | \$ 1,620        | \$ 1,515        | \$ 1,905        | \$ 2,020        | \$ 7,060        |
| Margins                                 |                |                |                |                |                 |                |                |                |                 |                 |                 |                 |                 |                 |                 |
| Gross Margins                           | 32.2%          | 33.2%          | 31.3%          | 30.8%          | 31.8%           | 32.0%          | 32.2%          | 33.0%          | 32.9%           | 32.5%           | 34.2%           | 34.3%           | 34.5%           | 34.2%           | 34.3%           |
| Operating Margin                        | 6.5%           | 5.6%           | 5.4%           | 6.4%           | 6.0%            | 7.2%           | 6.2%           | 8.4%           | 9.0%            | 7.8%            | 10.4%           | 9.7%            | 11.4%           | 11.4%           | 10.8%           |
| Pre-Tax Margins                         | 4.8%           | 4.4%           | 4.4%           | 4.1%           | 4.4%            | 6.3%           | 5.3%           | 7.7%           | 8.4%            | 7.0%            | 9.9%            | 9.3%            | 11.1%           | 11.2%           | 10.4%           |
| Research and development                | 0.3%           | 0.3%           | 0.4%           | 0.3%           | 0.3%            | 0.3%           | 0.3%           | 0.3%           | 0.2%            | 0.3%            | 0.2%            | 0.2%            | 0.2%            | 0.2%            | 0.2%            |
| General and administrative              | 25.3%          | 27.4%          | 25.5%          | 24.0%          | 25.5%           | 24.5%          | 25.7%          | 24.3%          | 23.6%           | 24.5%           | 23.6%           | 24.3%           | 22.9%           | 22.6%           | 23.3%           |
| Tax Rate                                | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%            | 0.0%           | 0.0%           | 0.0%           | 0.0%            | 0.0%            | 0.0%            | 0.0%            | 0.0%            | 0.0%            | 0.0%            |
| YEAR / YEAR GROWTH                      |                |                |                |                |                 |                |                |                |                 |                 |                 |                 |                 |                 |                 |
| Net Sales                               | (4.9%)         | 43.6%          | 12.4%          | 46.5%          | 22.3%           | 45.2%          | 27.2%          | 24.3%          | 23.6%           | 29.2%           | 25.8%           | 28.6%           | 28.1%           | 26.1%           | 27.1%           |

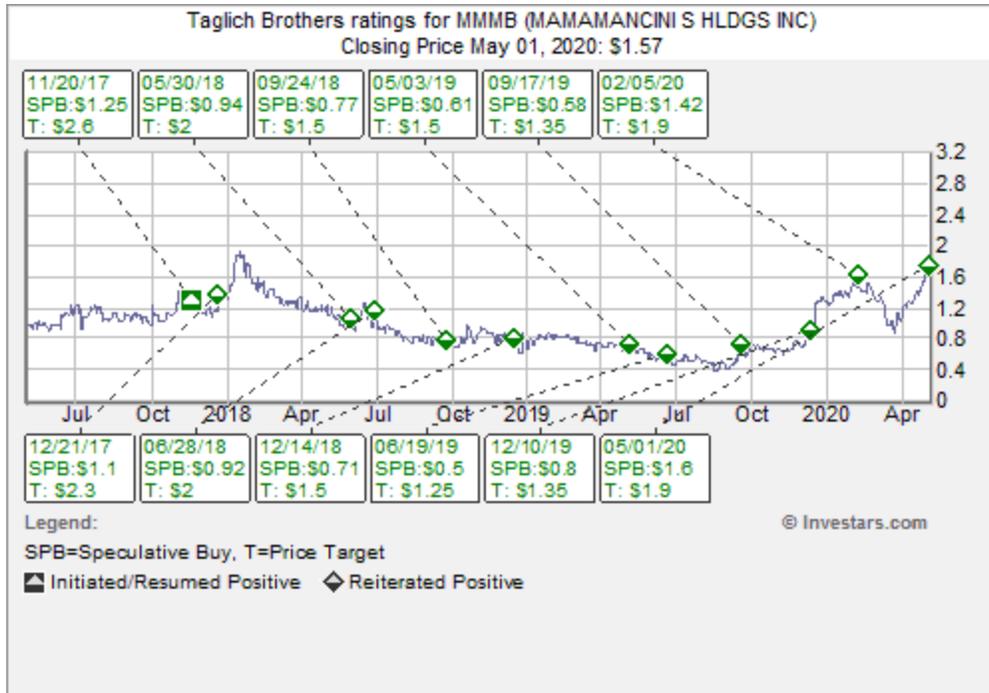
Source: Company reports and Taglich Brothers estimates

MamaMancini's Holdings, Inc.  
Cash Flow Statement – Ending January 31  
FY2018 – FY2022E  
(in thousands)

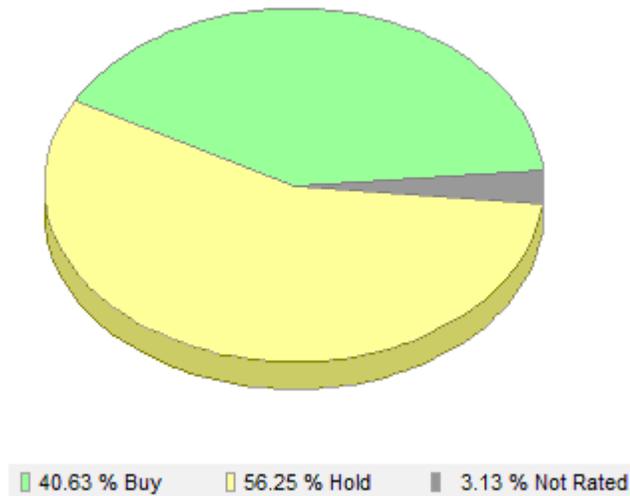
|   | FY2018A        | FY2019A        | FY2020A        | FY2021E         | FY2022E         |
|---|----------------|----------------|----------------|-----------------|-----------------|
| <i>Cash Flows from Operating Activities</i>                                   |                |                |                |                 |                 |
| Net Income (loss)   | \$ 320         | \$ 453         | \$ 1,533       | \$ 3,165        | \$ 5,960        |
| Depreciation  | 538            | 679            | 640            | 675             | 700             |
| Amortization of debt issuance and discount costs                              | 63             | 133            | 68             | 90              | 90              |
| Share-based compensation  | 428            | 162            | 94             | 125             | 150             |
| Amortization of right of use assets   | -              | -              | 109            | -               | -               |
| Cash earnings (burn)  | <u>1,350</u>   | <u>1,428</u>   | <u>2,444</u>   | <u>4,055</u>    | <u>6,900</u>    |
| <i>Changes In:</i>  |                |                |                |                 |                 |
| Accounts receivable   | (1,267)        | 434            | (1,077)        | (122)           | (574)           |
| Inventories   | (18)           | (523)          | 101            | (539)           | (1,221)         |
| Prepaid expenses  | (82)           | 107            | (43)           | (13)            | (35)            |
| Current portion of operating lease liability                                  | -              | -              | (101)          | (70)            | (70)            |
| Accounts payable and accrued expenses   | 1,332          | (2)            | 491            | (1,023)         | (442)           |
| Net (increase)/decrease in Working Capital                                    | <u>(34)</u>    | <u>15</u>      | <u>(629)</u>   | <u>(1,767)</u>  | <u>(2,342)</u>  |
| <b>Net cash Provided (used) by Operations</b>                                 | <u>1,316</u>   | <u>1,443</u>   | <u>1,815</u>   | <u>2,288</u>    | <u>4,558</u>    |
| <i>Cash Flows from Investing Activities</i>                                   |                |                |                |                 |                 |
| Cash paid for fixed assets  | <u>(1,475)</u> | <u>(1,034)</u> | <u>(268)</u>   | <u>(300)</u>    | <u>(350)</u>    |
| <b>Net cash used in Investing</b>   | <u>(1,475)</u> | <u>(1,034)</u> | <u>(268)</u>   | <u>(300)</u>    | <u>(350)</u>    |
| <i>Cash Flows from Financing Activities</i>                                   |                |                |                |                 |                 |
| Proceeds from issuance of common stock and exercise of options                | -              | 40             | -              | -               | -               |
| Debt issuance and deferred offering costs                                     | (25)           | (120)          | -              | -               | -               |
| Proceeds (repayment) from credit line   | 1,339          | (90)           | 385            | (260)           | (1,300)         |
| Proceeds (repayment) of demand and promissory notes                           | (1,350)        | (2,131)        | -              | -               | -               |
| Borrowings (repayment) from term loan   | 105            | 1,741          | (2,058)        | (424)           | -               |
| Capital lease obligations (repayment) proceeds                                | -              | 186            | (89)           | (355)           | (365)           |
| Borrowings (repayment) from convertible note and notes payable -related party | -              | (8)            | -              | -               | -               |
| <b>Net cash provided by Financing</b>   | <u>70</u>      | <u>(382)</u>   | <u>(1,762)</u> | <u>(1,039)</u>  | <u>(1,665)</u>  |
| Net change in Cash  | (89)           | 28             | (216)          | 949             | 2,543           |
| Cash Beginning of Period  | <u>671</u>     | <u>581</u>     | <u>609</u>     | <u>394</u>      | <u>1,343</u>    |
| Cash End of Period  | <u>\$ 581</u>  | <u>\$ 609</u>  | <u>\$ 394</u>  | <u>\$ 1,343</u> | <u>\$ 3,886</u> |

Source: Company reports and Taglich Brothers estimates

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



| <b>Investment Banking Services for Companies Covered in the Past 12 Months</b> |   |    |
|--|---|----|
| Rating   | # | %  |
| Buy  | 1 | 5  |
| Hold   |   |    |
| Sell   |   |    |
| Not Rated  | 1 | 50 |

**Important Disclosures**

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. In October 2017, the company paid Taglich Brothers a monetary fee of \$4,500 (USD) representing payment for the creation and dissemination of research reports for three months. In February 2018, the company began paying Taglich Brothers a monthly monetary fee of \$1,500 (USD) for the creation and dissemination of research reports.

**General Disclosures**

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**Analyst Certification**

**I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.**

**Public Companies mentioned in this report:**

|                 |                |                        |                |
|-----------------|----------------|------------------------|----------------|
| B&G Foods Inc.  | (NYSE: BGS)    | Farmer Brothers. Co.   | (NASDAQ: FARM) |
| Conagra Brands  | (NYSE: CAG)    | Hormel Foods           | (NYSE: HRL)    |
| Inventure Foods | (NASDAQ: SNAK) | Sysco Corp.            | (NYSE: SYY)    |
| Sunopta Inc.    | (NASDAQ: STKL) | Sprouts Farmers Market | (NYSE: SFM)    |
| Tyson Foods     | (NYSE: TSN)    |                        |                |

### **Meaning of Ratings**

**Buy** – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

**Speculative Buy** – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

**Neutral** – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

**Sell** – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

**Dropping Coverage** – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

### **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.