



Better Choice Company

Q3 2022 Earnings Presentation

November 10, 2022

Safe Harbor

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Better Choice Company Overview



The Most Innovative Premium Pet Food Company in the World

Halo

Portfolio of Established Premium and Super-Premium Pet Products



Executive Team Purpose Built for Success in the Pet Industry



1,800+ Brick & Mortar Locations Launched through Q3 '22



Rapidly Growing International Sales (~\$24M Q3 '22 LTM Sales)



Significant Online Recurring Revenue Base (Chewy, Amazon and DTC)



Exciting Three-Year Innovation Pipeline Key to Future Growth



Asset Light Model with Established Co-Manufacturing Partners

Note: Premium and super premium defined as being sold with a retail price greater than \$0.20 per ounce.

Halo is the brand for a new generation of pet parents

~\$54M YTD Gross Sales

\$12.1M

Brick & Mortar

\$19.7M

International

+

\$21.9M

Online (E-Comm + DTC)



International Growth Continues to Exceed Expectations

- On pace to exceed contracted volumes in 2022
- International growth driven by Asian demand for dry cat food (99% Dry Kibble / 88% Cat Food)
- Additional drivers of growth include:



+



+



**Holistic
Renovation**

**High Protein
Cat Innovation**

**New Market
Opportunities**

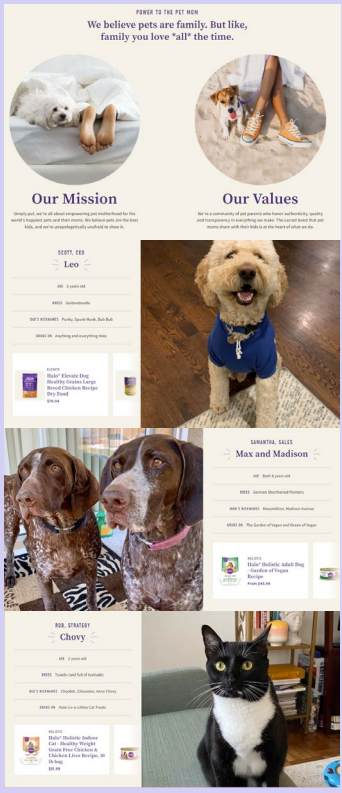
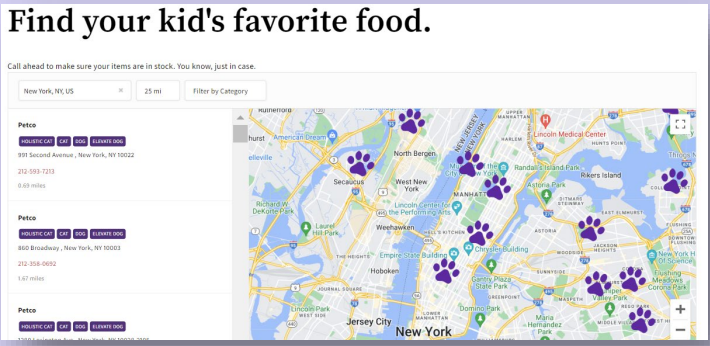
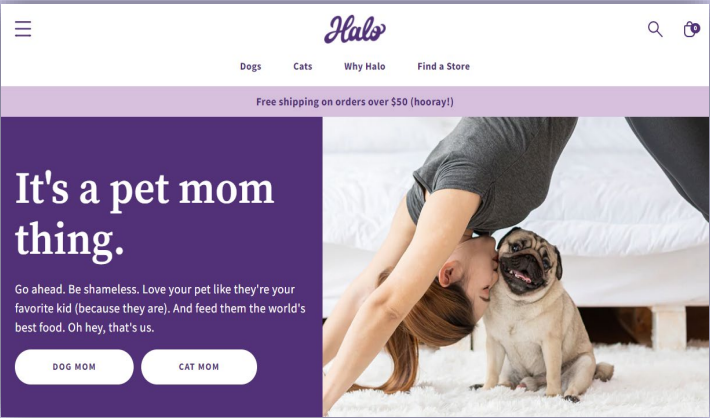
\$19.7M YTD Q3 Sales
+82% vs. YTD Q3 '21

\$100M '21-'25 Sales
Aggregate Contracted Minimums

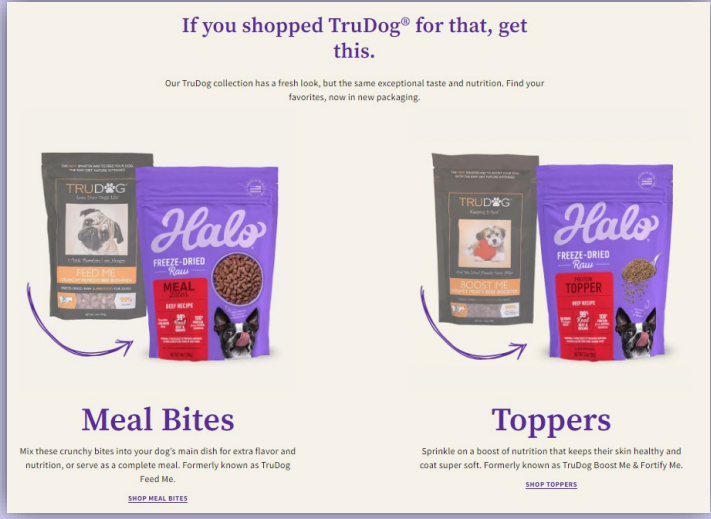


Direct-to-Consumer Platform is Fully Integrated

Halopets.com Launched



TruDog Transition Complete



Halo Holistic™ Domestic Relaunch in Q4 '22



Q4 '22



Halo Elevate® Has National Distribution in 1,800+ Stores

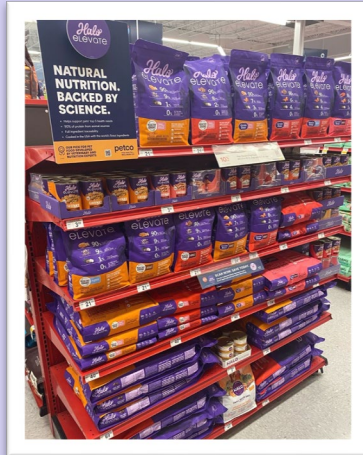
Represents \$6.9M of Gross Sales YTD through Q3 '22

petco



Petco: Seasonal Wall

- Placement: May - July '22
- ~900 Petco Stores
- 4' - 8' Shelf Space
- "Best Choice Brand"



Petco: Dog Aisle

- Launch Date: July '22
- 1,000+ Petco Stores
- 4' - 8' Shelf Space
- "Best Choice Brand"

PET SUPPLIES PLUS.



Pet Supplies Plus: Dog Aisle

- Launch Date: April '22
- 600+ Stores
- 5' Shelf Space
- "Preferred Brand"

Pet Supermarket



Pet Supermarket: Jan '23 Launch

- January 1st Launch Date
- 4th Largest Chain in US
- Expansion Opportunity in 2023
- 4'+ Shelf Space

Independent Retailers (Distributor + Direct)



Independent Pet (Distribution + Direct Sales)

- Smaller accounts managed by Phillips
- Larger accounts managed directly
- 4'+ Shelf Space (growth opportunity)
- Focus on partner quality

Summary of Q3 and YTD '22 Operating Results

	Q4 2021		Q1 2022		GAAP Q2 2022		Adjusted Q2 2022		GAAP Q3 2022		Adjusted Q3 2022		GAAP Sep YTD 2022		Adjusted Sep YTD 2022	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Gross Sales:																
Domestic	\$9.7	71%	\$12.7	65%	\$12.7	64%	\$12.7	64%	\$8.5	60%	\$8.5	60%	\$33.9	63%	\$33.9	63%
International	\$3.9	29%	\$7.0	35%	\$7.1	36%	\$7.1	36%	\$5.7	40%	\$5.7	40%	\$19.8	37%	\$19.8	37%
Total	\$13.6	100%	\$19.7	100%	\$19.8	100%	\$19.8	100%	\$14.2	100%	\$14.2	100%	\$53.7	100%	\$53.7	100%
Net Sales:																
Domestic	\$7.1	64%	\$10.1	59%	\$9.4	57%	\$9.9	58%	\$6.2	52%	\$6.2	52%	\$25.7	57%	\$26.2	57%
International	\$3.9	36%	\$6.9	41%	\$7.1	43%	\$7.1	42%	\$5.7	48%	\$5.7	48%	\$19.7	43%	\$19.7	43%
Total	\$11.0	100%	\$17.0	100%	\$16.5	100%	\$17.0	100%	\$11.9	100%	\$11.9	100%	\$45.4	100%	\$45.9	100%
Gross Margin:																
Domestic	\$2.0	28%	\$3.3	33%	\$2.8	30%	\$3.3	33%	\$1.9	31%	\$2.1	34%	\$8.0	31%	\$8.7	33%
International	\$0.8	20%	\$1.4	20%	\$1.9	27%	\$1.9	27%	\$2.3	40%	\$2.3	40%	\$5.6	28%	\$5.6	28%
Total	\$2.8	25%	\$4.7	28%	\$4.7	29%	\$5.2	31%	\$4.2	35%	\$4.4	37%	\$13.6	30%	\$14.3	31%

We Have Achieved Key Gross Margin Improvement Initiatives

Actions Taken in 2022

- Communicated domestic and international price increase in January '22 across majority of SKUs, effective April '22
- Completed transition of Halo Holistic™ domestic dry kibble to new co-manufacturer in Q4 '21, realizing 8% - 10% margin improvement on applicable SKUs beginning in Q1 and into Q2 '22
- Optimized mix, consolidated production runs and selectively prepaid production to secure ingredients & priority run-times
- Purchased significant Halo Elevate® inventory to ensure sufficient supply during launch and to lock in direct COGS
- Communicated Domestic price increase In June '22 (focus on new Holistic SKUs), effective Sep '22
- Completed transition of international kibble production to new co-manufacturer in mid-June
- Realized ~10%+ margin improvement in international channel beginning in mid-June '22 onwards
- Illustrative pro forma impact to YTD 2022 period assuming transition completed by January 1, 2022:

	GAAP		Adjusted		Illustrative Pro Forma ¹	
	Sep YTD 2022		Sep YTD 2022		Sep YTD 2022	
<i>\$ in millions</i>	\$	%	\$	%	\$	%
Gross Margin:						
Domestic	\$8.0	31%	\$8.7	33%	\$8.7	33%
International	\$5.6	28%	\$5.6	28%	\$7.6	38%
Total	\$13.7	30%	\$14.3	31%	\$16.3	35%

1. Illustrative Pro Forma reflects YTD Adjusted Gross Margin adjusted further to assume transition of Int'l production to new co-manufacturer occurred at the beginning of January with a 40% gross margin on those diets.

Extension & Upsize of Credit Facility to \$13.5M Complete

Quarterly Amortization Eliminated and Maturity Extended to October 2024

Summary of Key Terms

- Closing Date: October 24, 2022
- Facility Size: \$13.5M Revolver (increase from \$7.5M Revolver + \$4.7M Term Loan¹)
- Maturity Date: October 2024 (extended from January 2024)
- Amortization: None (\$4.7M of scheduled repayments through January 2024 eliminated)
- Liquidity Covenant: \$8.5M (reduced from \$13.0M¹)
- Restricted Cash: \$6.3M (reduced from \$6.9M¹)
- Interest rate: US FFR + 3.75%

Pro Forma Debt & Liquidity

	September 30, 2022	Pro-Forma for Amended Credit Facility
Cash and cash equivalents	\$5.7	\$5.5
Restricted cash	\$6.9	\$6.3
Line of credit availability	\$0.1	\$2.0
Total liquidity	\$12.7	\$13.8
Term Loan ^(a)	\$4.7	\$0.0
Line of credit ^(a)	\$6.8	\$11.5
Total Debt	\$11.5	\$11.5

^(a) Reflects amounts outstanding under the debt instruments, excluding debt issuance costs

1. As of 10.24.22 (immediately prior to closing).

Unaudited Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales	\$ 11,865	\$ 13,200	\$ 45,394	\$ 35,019
Cost of goods sold	7,700	8,762	31,795	22,407
Gross profit	4,165	4,438	13,599	12,612
Operating expenses:				
Selling, general and administrative	10,007	7,745	25,771	21,397
Share-based compensation	562	660	2,454	3,517
Total operating expenses	10,569	8,405	28,225	24,914
Loss from operations	(6,404)	(3,967)	(14,626)	(12,302)
Other (expense) income:				
Interest expense, net	(142)	(79)	(324)	(3,148)
Gain on extinguishment of debt, net	—	—	—	457
Change in fair value of warrant liabilities	—	590	—	23,463
Total other (expense) income, net	(142)	511	(324)	20,772
Net (loss) income before income taxes	(6,546)	(3,456)	(14,950)	8,470
Income tax expense	1	—	4	—
Net (loss) income available to common stockholders	<u>\$ (6,547)</u>	<u>\$ (3,456)</u>	<u>\$ (14,954)</u>	<u>\$ 8,470</u>
Weighted average number of shares outstanding, basic	29,364,712	29,466,520	29,339,918	16,799,796
Weighted average number of shares outstanding, diluted	29,364,712	29,466,520	29,339,918	23,685,351
Net (loss) income per share available to common stockholders, basic	\$ (0.22)	\$ (0.12)	\$ (0.51)	\$ 0.48
Net (loss) income per share available to common stockholders, diluted	\$ (0.22)	\$ (0.12)	\$ (0.51)	\$ 0.34

Reconciliation of Net (Loss) to EBITDA and Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (loss) income available to common stockholders	\$ (6,547)	\$ (3,456)	\$ (14,954)	\$ 8,470
Interest expense, net	142	79	324	3,148
Tax expense	1	—	4	—
Depreciation and amortization	426	431	1,265	1,255
EBITDA	(5,978)	(2,946)	(13,361)	12,873
Non-cash share-based compensation and warrant expense (a)	562	660	2,454	3,563
Loss on disposal of assets	23	10	26	275
Non-cash change in fair value of warrant liability and warrant derivative liability	—	(590)	—	(23,463)
Gain on extinguishment of debt, net	—	—	—	(457)
Offering relating expenses (b)	—	10	—	220
Non-recurring strategic branding initiatives (c)	277	—	948	—
Launch expenses (d)	43	—	523	—
Non-recurring and other expenses (e)	2,205	1,467	2,390	2,772
Adjusted EBITDA	\$ (2,868)	\$ (1,389)	\$ (7,020)	\$ (4,217)

(a) Reflects non-cash expenses related to equity compensation awards. 2021 additionally includes non-cash expenses related to stock purchase warrants issued for third-party services provided. Share-based compensation is an important part of the Company's compensation strategy and without our equity compensation plans, it is probable that salaries and other compensation related costs would be higher.

(b) Reflects administrative costs associated with the registration of common shares and other debt and equity financing transactions.

(c) Includes one-time marketing agency and design fees as well as other charges related to our strategic re-branding initiatives.

(d) Reflects non-recurring launch expenses related to the Elevate® launch.

(e) For the three months ended September 30, 2022, includes non-recurring severance costs of \$0.2 million and non-cash third party share-based compensation of \$2.1 million issued in 2020 as part of a multi-year contract, partially offset by \$0.1 million of non-recurring customer refunds related to prior year periods included in cost of goods sold. The nine months ended September 30, 2022 additionally includes non-recurring severance costs of \$0.1 million and non-recurring professional fees of \$0.1 million. For the three months ended September 30, 2021, includes non-cash third party share-based compensation of \$1.3 million and director costs of \$0.2 million. The nine months ended September 30, 2021 additionally includes non-recurring severance costs of \$0.7 million, non-cash third party share-based compensation of \$0.6 million, non-recurring consulting costs of \$0.4 million and director fees of \$0.1 million, partially offset by a \$0.5 million reduction to sales tax liability.

Reconciliation to Net Sales and Gross Profit to Adjusted Net Sales and Gross Profit

	Three Months Ended September 30, 2022		
	As Reported (GAAP)	Adjustments	As Adjusted (Non-GAAP)
Net sales	\$ 11,865	\$ —	\$ 11,865
Cost of goods sold	7,700	(190) (a)	7,510
Gross profit	\$ 4,165	\$ 190	\$ 4,355
Gross profit %	35 %		37 %

(a) Reflects an inventory write-off attributable to our Halo Holistic™ rebranding initiatives, partially offset by non-recurring customer refunds related to prior year periods.

	Nine Months Ended September 30, 2022		
	As Reported (GAAP)	Adjustments	As Adjusted (Non-GAAP)
Net sales	\$ 45,394	\$ 480 (a)	\$ 45,874
Cost of goods sold	31,795	(190) (b)	31,605
Gross profit	\$ 13,599	\$ 670	\$ 14,269
Gross profit %	30 %		31 %

(a) Reflects non-recurring launch expenses related to the Elevate® launch.

(b) Reflects an inventory write-off attributable to our Halo Holistic™ rebranding initiatives, partially offset by non-recurring customer refunds related to prior year periods.

Halos

The World's **Best Food**
For The World's **Best Kids**





Thank You!

Better Choice Company

The Most Innovative Pet Food Company In The World