



Better Choice Company

Q2 2022 Earnings Presentation

August 11, 2022

Safe Harbor

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These risks, uncertainties and assumptions could adversely affect the outcome and financial effects of the plans and events described herein. In addition, even if the outcome and financial effects of the plans and events described herein are consistent with the forward-looking statements contained in this presentation, those results or developments may not be indicative of results or developments in subsequent periods. Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. Forward-looking information contained in this presentation is based on the Company’s current estimates, expectations and projections, which the Company believes are reasonable as of the current date. The Company can give no assurance that these estimates, expectations and projections will prove to have been correct. Given these uncertainties, you should not place undue reliance on these forward-looking statements. All statements contained in this presentation are made only as of the date of this presentation, and the Company undertakes no duty to update this information unless required by law. You are also reminded that during this presentation, certain non-GAAP financial measures, such as Adjusted EBITDA, and Adjusted Net Sales and Gross Profit may be discussed. These measures should not be considered an alternative to net income, or any other measure of financial performance or liquidity presented in accordance with generally accepted accounting principles (GAAP). These measures are not necessarily comparable to a similarly titled measure of another company. Please refer to our reconciliations of these discussed figures with the most comparable GAAP measures.

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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



1,500+ New Brick & Mortar Locations in 1 H 2022 (Petco, PSP, Indy)



Rapidly Growing International Sales (~\$25M Run-Rate Platform)



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 segments 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

~\$40M YTD Gross Sales

\$10.2M

Brick & Mortar

\$14.1M

International

+

\$15.2M

Online (E-Comm + DTC)



Halo Holistic™ Relaunch on Track for Q3 - Q4 '22

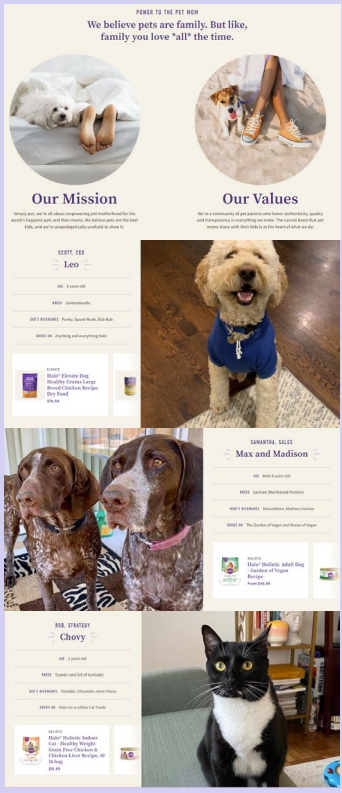
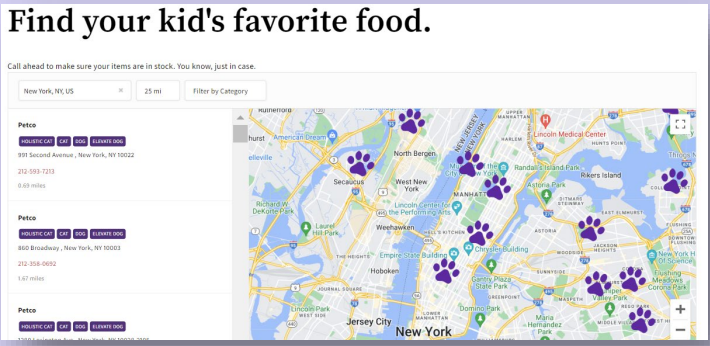
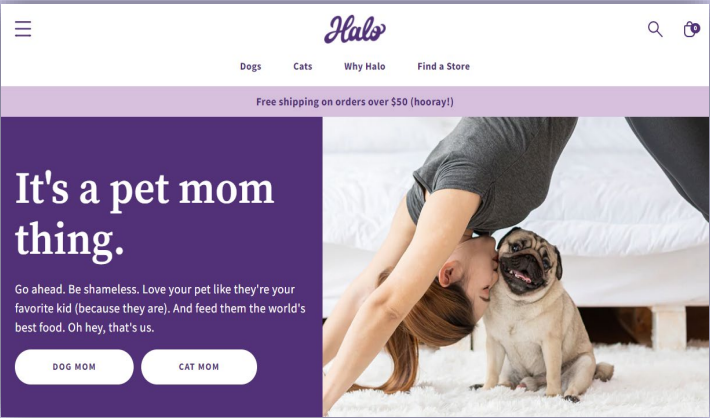


2H '22

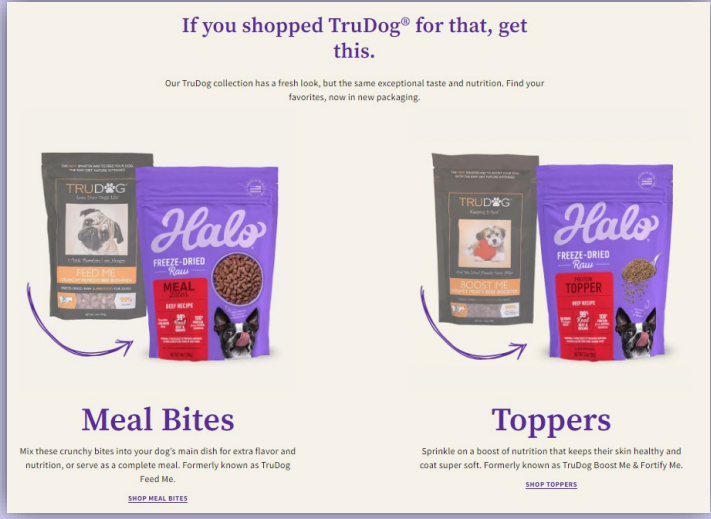


Direct-to-Consumer Platform is Fully Integrated

Halopets.com Launched



TruDog Transition Complete



In Q2 '22 We Delivered Record Gross Sales While Simultaneously Improving Gross Margin

\$ in millions	Q4 2021		Q1 2022		Q2 2022		Adjusted Q2 2022	
	\$	%	\$	%	\$	%	\$	%
Gross Sales:								
Domestic	\$9.7	71%	\$12.7	65%	\$12.7	64%	\$12.7	64%
International	\$3.9	29%	\$7.0	35%	\$7.1	36%	\$7.1	36%
Total	\$13.6	100%	\$19.7	100%	\$19.8	100%	\$19.8	100%
Net Sales:								
Domestic	\$7.1	64%	\$10.1	59%	\$9.4	57%	\$9.9	58%
International	\$3.9	36%	\$6.9	41%	\$7.1	43%	\$7.1	42%
Total	\$11.0	100%	\$17.0	100%	\$16.5	100%	\$17.0	100%
Gross Margin:								
Domestic	\$2.0	28%	\$3.3	33%	\$2.8	30%	\$3.3	33%
International	\$0.8	20%	\$1.4	20%	\$1.9	27%	\$1.9	27%
Total	\$2.8	25%	\$4.7	28%	\$4.7	29%	\$5.2	31%

- Adjusting for one-time Elevate launch costs, adjusted gross margin improved ~300 basis points relative to Q1 '22 gross margin
- Price increases for both Domestic & International effective Apr '22 (announced January '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
- Completed transition of international dry kibble production to new co-manufacturer in mid-June, resulting in ~10%+ margin improvement across entire international channel in mid-June onwards

Halo Elevate Has National Distribution in 1,500+ Stores

Represents \$3.7M of Gross Sales in Q2 '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"

Key Independent Retailers (Distributor + Direct Sales)



Independent Pet (Distribution + Direct Sales)

- Smaller independent accounts managed by Phillips
- Larger independent accounts managed directly by Halo
- 4'+ Shelf Space (Opportunity to grow key local accounts)
- Focus on partner quality in launch year one

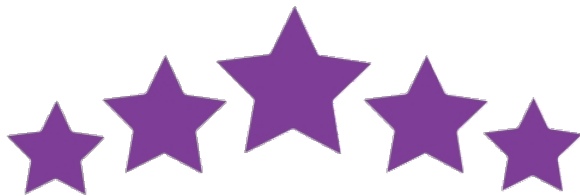
Pet Specialty Launch is Performing to Plan

petco
THE HEALTH + WELLNESS CO.

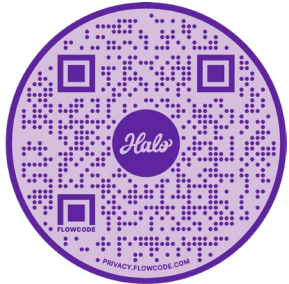
+43%
Repeat
Within
90 Days

14
Weeks
Consecutive
POS Growth

380 Reviews
Average Review
4.9 Stars



SCAN HERE FOR
AR EXPERIENCE



NEW TO petco  **SCAN NOW. SAVE TODAY.**  **View our Augmented Reality experience to get a \$5 off coupon and learn more about Halo Elevate.** 

DG HLO Up: 02/14/22 Down: 08/01/22

Note: As of August 2022

Marketing Campaign Update



Just 6 Weeks In...


- 
42MM Impressions
- 
45k Link Clicks
- 
22MM Video Views





Making Waves On TikTok





- 
9MM Views
- 
33k engagements
- 
Rapidly gaining new followers



Michelle M Forstner
 I'm absolutely howling right now! 🐾 I love this 😊
 1w ago Reply 4



Halo Pets · Creator
 So happy you're part of our Halo fam 💜
 4d ago Reply 1


Skate Hags
 people with human kids when they see this ad: 😬
 people with pets when they see this ad: 😊
 people with kids AND pets: 🤪 "YUPI!"
 6-6 Reply 7


Halo Pets · Creator
 You read our minds 🤪
 4d ago Reply 3


ana
 Boss baby was right all along!
 1w ago Reply 19

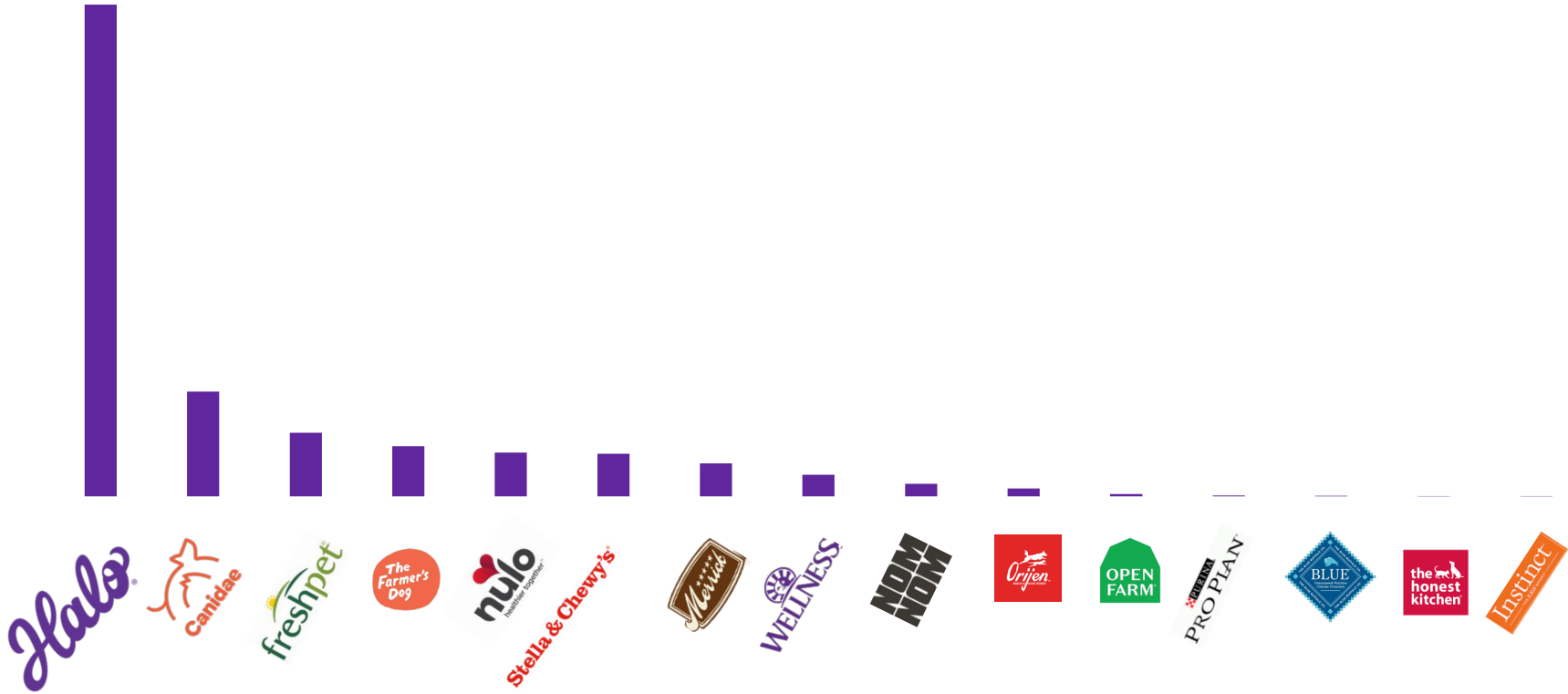
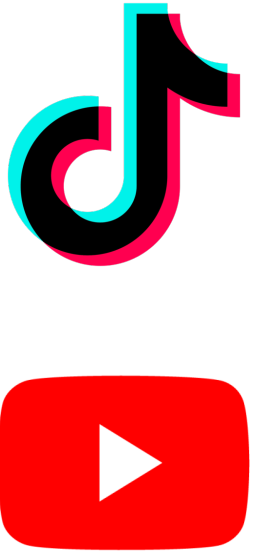

Halo Pets · Creator
 We see no lie 🤪
 4d ago Reply 3


PRIDEKINGZ.Animation
 I subscribed because truth 🤪🤪🤪
 1w ago Reply 1

Note: As of August 2022

Marketing Campaign Update (Cont'd)

Total Video Views
(YouTube + TikTok, Brand's Top Video, L1 2M)



Note: As of August 2022

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**

\$7.1M Q2 '22 Sales
+75% vs. Q2 '21

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



Summary of Q2 '22 Operating Results

	Q4 2021		Q1 2022		Q2 2022		Adjusted Q2 2022	
	\$	%	\$	%	\$	%	\$	%
<i>\$ in millions</i>								
Gross Sales:								
Domestic	\$9.7	71%	\$12.7	65%	\$12.7	64%	\$12.7	64%
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Total	\$13.6	100%	\$19.7	100%	\$19.8	100%	\$19.8	100%
Net Sales:								
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Gross Margin:								
Domestic	\$2.0	28%	\$3.3	33%	\$2.8	30%	\$3.3	33%
International	\$0.8	20%	\$1.4	20%	\$1.9	27%	\$1.9	27%
Total	\$2.8	25%	\$4.7	28%	\$4.7	29%	\$5.2	31%

We Have Achieved Key Gross Margin Improvement Initiatives and Continue to Take Steps to Increase Long-Term Gross Margin

1 H '22 Actions Taken

Actions Taken in 1 H:

- 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

International Margin Upside in 2H '22

International Upside:

- 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 Q2 assuming transition completed by April 1, 2022:

	GAAP		Adjusted		Illustrative Pro Forma ¹	
	Q2 2022		Q2 2022		Q2 2021	
<i>\$ in millions</i>	\$	%	\$	%	\$	%
Gross Margin:						
Domestic	\$2.8	30%	\$3.3	33%	\$3.3	33%
International	\$1.9	27%	\$1.9	27%	\$2.7	37%
Total	\$4.7	29%	\$5.2	31%	\$5.9	35%

1. Illustrative Pro Forma reflects Q2 Adjusted Gross Margin adjusted further to assume transition of Int'l production to new co-manufacturer occurred at the beginning of Q2 with a 40% gross margin on those diets.

We Believe We Have Sufficient Cash to Achieve Profitability

We Expect to Benefit From Positive Changes to NWC in 2H 2022

\$ in millions	30-Jun-22	31-Mar-22
Current Assets:		
Cash and cash equivalents	\$10.9	\$16.5
Restricted cash	\$7.0	\$7.0
Accounts receivable, net	\$8.7	\$9.7
Inventories, net	\$10.5	\$8.3
Prepaid expenses and other current as	\$2.9	\$2.9
Total Current Assets	\$40.0	\$44.3
Current Liabilities:		
Accounts payable	\$4.0	\$5.7
Accrued and other liabilities	\$2.2	\$1.4
Term loan, net	\$1.1	\$1.0
Operating lease liability	\$0.0	\$0.0
Total Current Liabilities	\$7.4	\$8.2
Long-Term Debt:		
Term loan, net	\$3.9	\$4.2
Line of credit, net	\$7.4	\$7.4
Total Long-Term Debt	\$11.3	\$11.6

- Cash Balances of \$17.8M in Q1 '22 vs. \$23.4M in Q1 '22
- Adjusted EBITDA loss of \$2.1M consistent with management's estimates for quarterly cash burn from operations

- Accounts Receivable: We negotiated temporary extended payment terms with Int'l partner as part of Apr '22 price increase resulting in higher Q2 A/R balance.
- Inventory: Holistic Wet production returned to near-normal levels and we strategically purchased inventory in Q2 to finalize the Elevate inventory build to ensure a 100% fill rate and provide margin protection amidst inflationary environment.
- We expect positive changes to our net working capital position in 2H '22.

Unaudited Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net sales	\$ 16,515	\$ 10,989	\$ 33,529	\$ 21,819
Cost of goods sold	11,788	7,088	24,095	13,644
Gross profit	4,727	3,901	9,434	8,175
Operating expenses:				
Selling, general and administrative	8,187	6,766	15,764	13,653
Share-based compensation	801	332	1,892	2,857
Total operating expenses	8,988	7,098	17,656	16,510
Loss from operations	(4,261)	(3,197)	(8,222)	(8,335)
Other (expense) income:				
Interest expense, net	(106)	(2,234)	(182)	(3,069)
Gain on extinguishment of debt, net	—	851	—	457
Change in fair value of warrant liabilities	—	29,356	—	22,873
Total other (expense) income, net	(106)	27,973	(182)	20,261
Net (loss) income before income taxes	(4,367)	24,776	(8,404)	11,926
Income tax expense	—	—	3	—
Net (loss) income available to common stockholders	\$ (4,367)	\$ 24,776	\$ (8,407)	\$ 11,926
Weighted average number of shares outstanding, basic	29,364,712	11,126,909	29,327,316	10,361,462
Weighted average number of shares outstanding, diluted	29,364,712	21,389,413	29,327,316	20,498,829
Net (loss) income per share available to common stockholders, basic	\$ (0.15)	\$ 2.23	\$ (0.29)	\$ 1.11
Net (loss) income per share available to common stockholders, diluted	\$ (0.15)	\$ 1.19	\$ (0.29)	\$ 0.56

Reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net (loss) income available to common stockholders	\$ (4,367)	\$ 24,776	\$ (8,407)	\$ 11,926
Interest expense, net	106	2,234	182	3,069
Tax expense	—	—	3	—
Depreciation and amortization	430	413	839	824
EBITDA	(3,831)	27,423	(7,383)	15,819
Non-cash share-based compensation and warrant expense (a)	801	313	1,892	2,903
Loss on disposal of assets	1	210	3	265
Non-cash change in fair value of warrant liability and warrant derivative liability	—	(29,356)	—	(22,873)
Gain on extinguishment of debt, net	—	(851)	—	(457)
Offering relating expenses (b)	—	14	—	210
Non-recurring strategic branding initiatives (c)	365	—	671	—
Launch expenses (d)	480	—	480	—
Non-recurring and other expenses (e)	50	449	185	1,305
Adjusted EBITDA	\$ (2,134)	\$ (1,798)	\$ (4,152)	\$ (2,828)

(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 for our strategic re-branding initiatives.

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

(e) For the three and six months ended June 30, 2022, includes non-recurring severance costs and non-recurring professional fees. For the three months ended June 30, 2021 includes non-cash third party share-based compensation of \$0.3 million and non-recurring consulting costs of \$0.2 million. The six months ended June 30, 2021 additionally includes non-recurring severance costs of \$0.7 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 June 30, 2022		
	As Reported (GAAP)	Adjustments	As Adjusted (Non-GAAP)
Net sales	\$ 16,515	\$ 480 (a)	\$ 16,995
Cost of goods sold	11,788	—	11,788
Gross profit	\$ 4,727	\$ 480	\$ 5,207
Gross profit %	29 %		31 %

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

	Six Months Ended June 30, 2022		
	As Reported (GAAP)	Adjustments	As Adjusted (Non-GAAP)
Net sales	\$ 33,529	\$ 480 (a)	\$ 34,009
Cost of goods sold	24,095	—	24,095
Gross profit	\$ 9,434	\$ 480	\$ 9,914
Gross profit %	28 %		29 %

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

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