Mimi’s Rock Corp (MIMI-V)

COVID Tailwind Stock Hiding in Plain Sight

BEACON Securities Limited

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We are initiating coverage of Mimi’s Rock (MIMI – V) with a Buy rating and a target price of $1.50. In summary, our recommendation is based on the following:

- While the global supplement industry has always been large, the pandemic has added a “tailwind” as the general population has increased its awareness of health and wellness and, in particular, the importance of strengthening one’s immune system;
- As with most consumer products, there is a strong movement away from “brick and mortar” to online. Over the past year, online sales of vitamins increased by 40%, significantly outpacing the already strong growth of e-commerce itself and clearly outpacing the already strong growth of vitamins through traditional retailers. The move towards online is best exemplified by the June 2020 bankruptcy of GNC, the largest specialty retailer of supplements;
- Amazon (AMZN – US, NR) is the largest beneficiary of this transition of consumer buying preferences with an estimated 77% market share of the online supplement market;
- Mimi’s Rock is a company that benefits from all of these trends as its sells its Dr. Tobias brand of dietary supplements and All Maritime Natural skin care brand online, predominantly through Amazon and as such is well positioned for growth;
- We are forecasting revenue/EBITDA of $48.2m/$7.9m and $53.7m/$9.7m for FY21 and FY22 respectively. Based on the recent share price of $0.45, the stock is trading at an EV/EBITDA valuation of 5x and 4x respectfully;
- We believe Mimi’s closest comparable is Jamieson Wellness (JWEL – T, NR), who is also benefiting from the “COVID tailwind” in the vitamin, mineral and supplement (VMS) industry, but it trades at 16x and 14x the forecast EBITDA for FY21 and FY22. This premium valuation is despite the fact that JWEL has a minimal online presence. As such, we believe that not only is Mimi’s Rock undervalued based on its own intrinsic value but especially versus JWEL. In fact, we believe JWEL could pay a significant premium to purchase Mimi’s Rock and still be materially accretive. Not only would such a transaction be financially accretive but, we believe, strategically important for Jamieson as it would significantly strengthen its online presence.

As one can see from the above, we believe Mimi’s Rock is ideally positioned for growth as a “COVID tailwind” stock. Given its current valuation, we do not believe the market price reflects the intrinsic value nor any take-out premium, which creates an exceptional risk-return opportunity. We are therefore initiating coverage with a Buy recommendation and 12-month target price of $1.50, based on 10x our FY22 EBITDA forecast of $9.7 million.

Initiating Coverage

BUY	$1.50
Recent/Closing Price	$0.45
12-month Target Price	$1.50
Potential Return	233%
52 Week Price Range	$0.12 - $0.56

Estimates

YE: Sept. 30	FY20e	FY21e	FY22e
Revenue ($MM)	$43.3	$48.2	$53.7
EBITDA ($MM)	$6.5	$7.9	$9.7
EPS	$0.07	$0.10	$0.12

Valuation

	FY20e	FY21e	FY22e
EV/Sales	0.9x	0.8x	0.7x
EV/EBITDA	5.9x	4.9x	4.0x
P/E	6.1x	4.7x	3.7x

Stock Data (MM)

Shares Outstanding	
Basic	53
FD	57
Market Cap (C$)	
Basic	$24
FD	$26
Net Debt	$15
EV (C$)	$39

About the Company

Mim's Rock is an online wellness company, owning brands in the Vitamin, Mineral and Supplement (VMS) industry as well as skin care sector. The company went public through an RTO in May 2019 that followed its July 2018 acquisition of the Dr. Tobias brand. Mimi's Rock utilizes an "asset light" business model in which it employs 3rd party manufacturers who ship the products directly to Amazon's fulfillment centres and then ultimately shipped to the consumer.

All prices in C$ unless otherwise stated

Stock Performance

Investment Thesis

As has become habitual, your author started his morning routine as do millions of others around the world, by taking his nutritional supplements. In my case, it is omega-3, vitamin D and C as well as zinc. According to a report from Fortune Business Insights in February 2020, the global supplement market was US$45.8 billion in 2018 and is expected to grow at an annual CAGR of 6.5% to reach US$74 billion by 2026. We note that this forecast was prior to the impact of the pandemic. As such, we believe this growth rate could be under-stated. While the supplement market has always been large, the pandemic has added a strong tailwind as the general population has increased its awareness of health and wellness and, in particular, the importance of strengthening one's immune system. **A recent study by the Council for Responsible Nutrition found that not only has dietary supplement usage increased during the pandemic, but more importantly, 98% of those surveyed indicated that they are likely to continue their current elevated supplement routine**.

While there is no doubt that such a large market is competitive, we also note the changing dynamics of it, specifically in terms of how consumers purchase the products. As with most consumer products, there is a strong movement away from "brick and mortar" to online. Over the past year, online sales of vitamins increased by 40%, significantly outpacing the already strong growth of e-commerce itself and clearly significantly outpacing the growth of vitamins through traditional retailers. The pandemic has only accelerated the trend that has been in place for some time. Perhaps this movement is best encapsulated by the June 2020 bankruptcy filing of GNC, the largest specialty retailer of supplements. Not surprisingly, Amazon is the primary beneficiary of the transition of consumer buying preferences with an estimated 77% market share of the online supplement market.

As one can see, there are 3 major trends within the supplement industry:

a) It is undergoing significant growth driven by an increased awareness of the importance of health and wellness and the need to boost one's immunity (driven home by the pandemic);

b) The rapidly changing preference of consumers' buying patterns from brick and mortar to online;

c) Amazon controls the majority of online sales.

The conclusion one draws from this is that a company that sells dietary supplements online, predominantly through Amazon, is well positioned for growth. Mimi's Rock (MIMI – V) is one such company.

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Mimi's Rock, through its Dr. Tobias supplement brand as well as its All Natural and Maritime Naturals skin care brands, has some of the top-rated category brands on Amazon. Over the course of its history including its time prior to its acquisition by Mimi in July 2018, Dr. Tobias, who SKUs include omega-3 fish oils, multi-vitamins, probiotics and colon cleanse, has grown from ~US$5 million in revenue in 2016 to an estimated US$28 million this year. Likewise, All Natural and Maritime Naturals saw very strong growth prior to its acquisition by Mimi in December 2019 to its current $5.9 million level. Through the positive macro trends noted above, Mimi's 100% exposure to the online channel (predominantly Amazon but also its own e-commerce site as well as Walmart.com and others) and bundling opportunities between its brands, we anticipate strong growth to continue over our forecast period.

Yet despite having all of the attributes of a "COVID tailwind" stock, MIMI trades at just 0.9x LQA sales and 6x LQA EBITDA – a far cry from the 5x/31x LQA sales/EBITDA multiples of Jamieson, not only MIMI's closest comparable, but also a stock who has greatly benefited from the COVID tailwind sentiment. In fact, since the start of the pandemic, JWEL has seen its valuation metrics materially increase. Looking out over the next couple of years, the valuation gap looks just as wide with MIMI trading at a 75% discount to JWEL. In our view, this sets-up a few ways to win with the stock with little downside risk (assuming MIMI's revenues remain at least stable):

a) A catch-up trade in terms of a significant upwards multiple revision for MIMI. We believe this will be driven by strong growth in revenues and EBITDA over the coming quarters;

b) An acquisition by JWEL or another industry player. Note in particular that JWEL has a significant multiple advantage versus MIMI as noted above, yet it has minimal online presence and excess manufacturing capacity (contract manufacturing now makes up ~20% of its revenues). As such, we believe such a transaction would be strategically important and incredibly accretive, likely dropping a 40-50% contribution margin to JWEL from MIMI's revenue. Given that, we believe JWEL could pay up to ~$2.00/share for MIMI and still be accretive.

Given the attractiveness of the industry, its leading online position and its incredibly cheap valuation, we believe the shares of Mimi's Rock represent an excellent risk-return proposition. We therefore are initiating coverage with a Buy recommendation and target price of $1.50, based on 10x our FY22 EBITDA forecast of $9.7 million.

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Huge Market for Supplements

Taking dietary supplements is nothing new as the industry has been around for a century. However, it really became a growing trend in the 1970s. Perhaps it is not surprising that the supplement industry started to gain in prevalence with the decline in the diet of the average American. According to a Harvard Review study published in 2013, the average American diet lacks in a number of essential nutrients including calcium, potassium, magnesium and vitamins A, C and D. Over the years, consumer interest in health and wellness has increased, which in turn has led to an increase in the vitamin, mineral and supplement (VMS) industry. According to a February 2020 report by Fortune Business Insights, the dietary supplement market is expected to reach US$74.1 billion by 2026, exhibiting a CAGR of 6.34% over that time.

While this is clearly a huge market with more than half of Americans taking one or more dietary supplement daily, the pandemic has created an even more positive macro backdrop as people have an increased awareness of health and wellness and, in particular, immune health. **A recent study by the Council for Responsible Nutrition indicated more than 40% of supplement users have changed their routines since the start of the pandemic. Of those, 91% reported increasing their intake by adding new supplements, taking them more regularly or increasing the dosage.**

With that "new normal" in place, we believe the aforementioned anticipated 6.34% growth CAGR of the industry is likely understated.

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Brick and Mortar Versus Online

We don't think anyone needs convincing that the online channel continues to take a significant share of sales from traditional brick and mortar retailers – and this was before the onset of the pandemic, a situation that has just ameliorated the already well-established trend. According to the US Department of Commerce, while total retail sales rose from US$3.38 trillion to US$3.5 trillion in 2017 (+3.6%), e-commerce sales rose from $0.39 trillion to US$0.45 trillion, a 16% increase. Stripping out e-commerce, therefore, brick and mortar sales rose 2% versus the aforementioned 16% increase for on-line. Over the past decade, e-commerce has risen to 13% of total sales from 5% in 2007. In terms of demographics, every age category is becoming more comfortable shopping online, albeit skewing to the younger audience:

a) 67% of millennials prefer to shop on-line;
b) 56% of gen-xers;
c) 41% of baby boomers;
d) 28% of seniors.

The rationale for the on-line preference are:

a) Being able to shop 24/7;
b) Saving money;
c) Not having to drive;
d) Saving time;
e) Convenience;
f) Free shipping if, for example, one uses Amazon Prime

Shopping for supplements is no different than the rest of the retail environment. In fact, the trend towards e-commerce may be more pronounced, especially during the pandemic. A few data points to back-up such an assertion:

a) According to Statistics Canada, in-person sales of health and personal care products are down 16.1%, while online sales of similar products are up 56%.
b) In June 2020, GNC, the largest brick and mortar retailer of vitamin and dietary supplements filed for bankruptcy protection. We believe this speaks volumes as to the trend of preferred sales channel of consumers.

The net result of all of these factors is that online sales of vitamins and supplements are growing faster than e-commerce in general with sales +40% in the last year. As one might expect, Amazon commands the largest market share in the online channel with an approximate 77% share. Mimi's Rock is a leading player in the VMS industry who sells entirely (100%) online with its largest channel through Amazon. As such, we believe the company is perfectly positioned for continued growth.

Mimi's Rock

Profile

Mimi's Rock is an online wellness company, owning brands in the VMS as well as skin care sectors. The company went public through an RTO in May 2019 that followed its July 2018 acquisition of the Dr. Tobias (DTI) brand, a German-based company created by its namesake in 2013 and who was engaged in selling VMS in the United States through Amazon.com. Total consideration for that transaction was $29.8 million. At the time, DTI was generating ~$30 million in revenue. In December 2019, Mimi acquired All Natural Advice and Maritime Naturals, a Canadian-based company that sells skin care products, primarily through Amazon.ca. Total consideration for this was ~$8.5 million, including $5.5 million in cash, $2 million VTB and $1.1 million of stock (priced at $0.67), which represents ~1.5x sales. Based on its last quarter (Q2/FY20), Mimi was on a run-rate of ~$45 million in revenue with EBITDA of ~$6.5 million, indicating organic growth from the time of the acquisitions as the company has expanded its product offering, its geographic coverage as well as its channel partners.

Brands, SKUs and Growth Strategy

Since its founding in 2013, Dr. Tobias' lead product has been its omega-3/fish oil liquid-gels which contain 3-5x more DHA and EPA than most other brands. Furthermore, it is enteric coated, which helps to avoid the off-putting fishy burps found in many of the other products. After a consumer survey rated it the highest quality Omega-3 fish oil supplement in the United States in 2014, the Dr. Tobias brand grew substantially. Today on Amazon.com, there are ~20,000 consumer reviews with an average of 4.5 stars of its fish oil product and 38,900 reviews for its colon cleanse. In our view, this is one of the highest number of reviews for any product we have seen on Amazon and speaks to its market position within the VMS segment. From the leverage earned from its strong brand recognition, Dr. Tobias expanded the number of SKUs as well as its geographic and channel reach. The Dr. Tobias line-up now includes multi-vitamin, turmeric curcumin, probiotics, colon cleanse amongst others to a total of 31 different nutraceutical products. The brand has also branched-out to include a line of health supplements co-branded with former heavy weight boxing champion Lennox Lewis. While Dr. Tobias still has the majority of its sales in the United States through Amazon.com, it has expanded its reach with Amazon to include Canada, Europe, Australia and Japan and has also expanded its distribution breadth to include Walmart.com as well as its own e-commerce site.

Mimi's All Natural and Maritime Natural brands compete in the large and lucrative skin care market. With the majority of its sales in Canada through Amazon.ca, the products are also very well reviewed with the flagship SKUs having over 4,000 reviews. In terms of products, All Natural and Maritime have a number of SKUs including retinol moisturizers, exfoliating scrubs and vitamin C serums. The next stage of growth will come from leveraging its relationship forged with Dr. Tobias and Amazon.com to enter the much larger US market.

Amazon Strategy

Mimi's exposure to Amazon is in-line with the latter's market share within the VMS industry. However, much as vendors had to understand how to do business with Walmart, they must now understand how to do business with Amazon, the new 800 lbs gorilla. The business model of Amazon is different than traditional retailers in that it runs a "market place" on which companies can list their products and Amazon takes a fee. As such, Amazon does not take title to the goods. In terms of process, Mimi works with AMZN to determine demand, gets the product manufactured at its 3rd party manufacturing facilities (in the US and Canada for Dr. Tobias and in Canada and the US for its skin care line) and ships to AMZN's fulfillment centers. When a consumer buys from the website, the product leaves AMZN's fulfillment center and is shipped to the buyer. Amazon controls the buyers' information and takes care of the marketing to them (for an additional fee). The fees to Amazon include:

a) 15% per unit fee for access to the market place;

b) 15% per unit fulfillment fee;

c) 10-15% per unit advertising fee (up to discretion of company but essential to sell product)

Total 40%-45%

As Amazon does not take "title" to the goods, these costs show-up below gross profit and are included in the "selling and marketing" line of expenses. As a point of reference, in its Q2/FY20 results, revenue was $10.9 million with "selling and marketing" costs of $4.79 million or 44% of sales.

The key to a successful partnership with Amazon, therefore, is working with them to manage the advertising budget to drive sales. Product reviews are critically important as part of this process and both Dr. Tobias and All/Maritime Naturals have well above average number of positive reviews.

Financials: Operating Leverage From Scale and Diversification

As we have noted above, online sales of VMS is a growth industry. The Dr. Tobias brand itself has enjoyed strong growth since its launch with Amazon in 2013 and should reach $38 million this year. We have conservatively modeled 10% growth over our projection period for the brand. Regarding All/Maritime Naturals, the current revenue run-rate is $5.9 million. Given the smaller revenue base and the strategic initiative to introduce the skin care brands into the larger US market through Amazon.com, we are forecasting a revenue growth rate of 20% over our projection period. On a consolidated basis, therefore, we project revenue of $43.3 million this year, growing to $48.2 million in FY21 and to $53.7 million in FY22. We note that Amazon Prime Day fell in Q4 this year (Oct 13/14) versus Q3 last year (July 15), which means that 2H20 sales will be more skewed to Q4 than Q3. As such, we would expect Q3/FY20 results to be essentially flat with Q2/FY20 and strong growth in Q4 to exit the year.

Under the assumption that the aforementioned costs related to Amazon as a percent of sales are essentially fixed as are the costs associated with its 3rd party manufacturing (ie. 30% of sales), operating leverage will come from increased sales against its "general and admin" expense line, which stood at $1.2 million in Q2 and should be relatively stable on an absolute basis. Additionally, further diversification of its distribution platforms, either through its own e-commerce site and/or others, such as Walmart.com, which carry lower associated costs (especially the former) should help to reduce "selling and marketing" expenses as a percentage of sales and therefore expand EBITDA margin. As we noted earlier, in Q2/FY20, Mimi reported EBITDA of $1.6 million ($6.4 million annualized) or a margin of 14.4%. For FY21, we have modeled revenue/EBITDA of $48m/$8 million or a 16.5% margin. The ~200 basis point improvement is from the incremental revenue dropping to EBITDA at a ~35% rate ($1.6m incremental EBITDA on $4.3 million of incremental revenue).

From a balance sheet perspective, Mimi has ~$14 million in debt with Scotiabank at a rate of 3.5% and the aforementioned $2 million VTB, which represents ~2.5x LQA EBITDA, in-line with its current covenant, and dropping to ~2x based on our FY21 EBITDA forecast. While the debt load is slightly more than we would prefer for a company of this size, its interest and principal repayments are easily manageable given the free cash flow expectation (no material cap-ex given outsourced manufacturing model). As a point of reference, interest expense in Q2 ($0.18 million) was almost covered 9x by the Q2 EBITDA ($1.6 million).

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Summary of Financial Forecast and Valuation

Year End: December 31	FY18	FY19	FY20e	FY21e	FY22e
($000s)					
Total Revenue	17,754	35,409	43,300	48,180	53,658
EBITDA	2,736	2,383	6,495	7,950	9,658
EPS (FD)	-0.06	-0.10	0.07	0.09	0.11
Valuation @ $0.45					
Ev/Sales			0.9	0.8	0.7
EV/EBITDA			6.1	5.0	4.1
P/E			6.1	5.1	4.0

Source: Company Reports and Beacon Securities Estimates

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Peer Group Analysis – Mimi Trades at a 75% Discount to Jamieson Wellness

The most notable peer to Mimi's Rock is Jamieson Wellness. Founded in 1922, JWEL is Canada's leading branded manufacturer of natural health products. In addition to its Jamieson brands, the company also offers manufacturing and product development services on a contract manufacturing basis (segmented under "strategic partners" in its financial reporting). **Interestingly, JWEL acts as a "strategic partner" to Mimi's Rock for the manufacturer of its products for the Canadian market.** (Note that Mimi uses another 3rd party manufacturer for the Dr. Tobias brand in the United States). In our opinion, JWEL has been a classic "COVID tailwind stock" as the company's share price is ~+40% YTD, predominantly driven by a multiple expansion as EBITDA was only +10% in 1H20 versus 1H19. Based on current FY21 First Call estimates, the stock is trading at 3.7x sales and 16 EBITDA. Historically, the stock has traded at ~3x sales and 14x EBITDA. The catalyst for such a multiple expansion is the macro dynamic of the VMS industry noted above, specifically more consumers taking supplements to boost their immune systems. However, the vast majority of Jamieson's sales are through traditional brick and mortar retailers. While the company does not specifically segment revenue by its sales channels, we believe online sales represent less than 10% of its branded sales and significantly less of its total sales, given that contract manufacturing represents ~20% of total revenue.

JWEL Valuation

Year End: December 31	FY16	FY17	FY18	FY19	FY20e	FY21e	FY22e
($000s)							
Revenue	248,331	300,619	319,776	344,980	390,000	421,900	466,500
EBITDA	43,521	59,762	59,270	70,708	85,600	96,400	109,000
EPS	n/a	0.70	0.85	0.96	1.12	1.27	1.53
Valuation @ $39.00							
Ev/Sales					4.0	3.7	3.3
EV/EBITDA					18.2	16.2	14.3
P/E					34.8	30.7	25.5

Source: Company Reports and Fact Set Data

As one can see from the comparison of the two valuation tables, Mimi trades at an average discount of ~75% versus JWEL based on the FY21 estimates. While some discount may be warranted given the size of and long operating history of JWEL as well as its much better stock trading liquidity, we believe there is an argument to be made that Mimi is better positioned for the sales growth trends of the future, notably its longer operating history of selling online. Nevertheless, such a profound discount is far overstated and thus represents an opportunity, not only for investors, but, in our opinion, to Jamieson as a massively accretive acquisition opportunity.

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How Accretive to JWEL Could Mimi Be? Very

Aside from Mimi's revenue and EBITDA growth, which should translate into a higher valuation multiple, as well as its potential to grow through its own M&A program, we believe the company could, and should, be a very strategic and accretive acquisition target for Jamieson. Consider:

a) Both participate in the VMS segment;

b) Mimi augments JWEL's channel strategy through its online relationships and experience;

c) JWEL could move Mimi's current 3rd party manufacturing (which is does not currently do) in-house. This would effectively eliminate Mimi's current COGS, which is all related to its 3rd party manufacturing;

d) JWEL could cut Mimi's corporate overhead as it relates to public company costs as well as duplicate sales relationships.

<u>Scenario Analysis</u>:

As an indication of how accretive such a transaction could be to JWEL, we have run the following scenario analysis in which Jamieson buys Mimi for $2.00 per share for a total purchase price of $115 million. We have assumed JWEL buys the company using all shares. At $39.00, that would imply JWEL issues 2.94 million shares to Mimi. For this analysis, we have used First Call FY21 estimates for Jamieson as well as our current forecast for Mimi. The assumptions we have made is that JWEL moves all of Mimi's current 3rd party manufacturing in-house, which would save it ~$10 million per year. We have also assumed that JWEL could reduce corporate overhead by $3 million. Finally, we have assumed that all of Mimi's Selling & Marketing costs remains as they are a "fixed cost" of doing busines with Amazon.

($000's)	JWEL	Mimi	Adjustments	Consolidated
Revenue	421,900	48,180	0	470,080
COGS	253,140	14,180	-10,000	257,320
Gross Profit	168,760	34,000		212,760
Gross Margin	40.0%	70.6%		45.3%
Selling & Marketing	72,360	20,477	0	92,837
G&A*	0	5,300	-3,000	2,300
EBITDA	96,400	8,223		117,623
Shares O/S	40,000		2,940	42,940
EBITDA/Share	2.41			2.74
*JWEL G&A included in Selling & Marketing				

Source: Fact Set and Beacon Securities Estimates

We believe this tables captures the current massive valuation discount between the two companies. Even if JWEL were to pay a 400% premium to Mimi's current share price, we believe it would still be 14% accretive to JWEL on an EBITDA per share basis.

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Risks

Competition: The level of competition in the on-line market for VMS and skin care products is very intense. The success of Mimi's products are dependent of maintaining a level of consumer acceptance. Poor online product reviews could have a detrimental impact on its business. However, as we have noted, Mimi's products, especially Dr. Tobias, have an extensive breath of product reviews, which, to date, have re-inforced the positive acceptance by consumers.

Relationship with Amazon: Amazon's marketplace represents ~90% of Mimi's sales. Any issues that imperil that relationship or its level of profitability would negatively impact sales. Mimi is attempting to mitigate its concentration risk through distribution through other on-line channels such as its own e-commerce site as well as others such as Walmart.com.

Financial: As noted earlier in the report, Mimi has ~$16 million in debt. The company was in violation of its covenant in Q2/FY20 with that debt being re-classified as current debt, which pushed the company into a negative working capital position. We believe this situation has been rectified with Mimi back in compliance and the debt back as a long-term liability. Nevertheless, if revenue and EBITDA does not unfold as we anticipate, it may again have issues with its debt.

Initiating Coverage with Buy Rating and $1.50 Target Price

We are initiating coverage of Mimi's Rock with a Buy rating and a target price of $1.50. In summary, our recommendation is based on the following:

a) While the global supplement industry has always been large, the pandemic has added a "tailwind" as the general population has increased its awareness of health and wellness and, in particular, the importance of strengthening one's immune system;

b) As with most consumer products, there is a strong movement away from "brick and mortar" to online. Over the past year, online sales of vitamins increased by 40%, significantly outpacing the already strong growth of e-commerce itself and clearly outpacing the already strong growth of vitamins through traditional retailers. The move towards online is best exemplified by the June 2020 bankruptcy of GNC, the largest specialty retailer of supplements;

c) Amazon is the largest beneficiary of this transition of consumer buying preferences with an estimated 77% market share of the online supplement market;

d) Mimi's Rock is a company that benefits from all of these trends as its sells its Dr. Tobias brand of dietary supplements and All Maritime Natural skin care brand online, predominantly through Amazon and as such is well positioned for growth;

e) We are forecasting revenue/EBITDA of $48.2m/$7.9m and $53.7m/$9.7m for FY21 and FY22 respectively. Based on the recent share price of $0.45, the stock is trading at an EV/EBITDA valuation of 5x and 4x respectfully;

f) We believe Mimi's closest comparable is Jamieson Wellness, who is also benefiting from the "COVID tailwind" in the VMS industry, but it trades at 16x and 14x the forecast EBITDA for FY21 and FY22. This premium valuation is despite the fact that JWEL has a minimal online presence;

g) As such, we believe that not only is Mimi's Rock undervalued based on its own intrinsic value but especially versus JWEL. In fact, we believe JWEL could pay a significant premium to purchase Mimi's Rock and still be materially accretive. Not only would such a transaction be financially accretive but, we believe, strategically important for Jamieson as it would significantly strengthen its online presence.

As one can see from the above analysis, we believe Mimi's Rock is ideally positioned for growth as a COVID tailwind stock. Given the current valuation of the shares, we do not believe they reflect the intrinsic value nor any take-out premium, which creates an exceptional risk-return opportunity. As such, we are initiating coverage of Mimi's Rock with a Buy recommendation and a 12-month target price of $1.50, which is based on 10x our FY22 EBITDA forecast.

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As at October 31st, 2020	#Stocks	Distribution
BUY	56	67.5%
Speculative Buy	19	22.9%
Hold	0	0.0%
Sell	0	0.0%
Under Review	8	9.6%
Tender	0	0.0%
Total	83	100%

BUY	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Under Review	
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

Dissemination
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