

December 18, 2019

## RAPID NUTRITION PLC (RPNRF: OTCQB)

### BUSINESS DESCRIPTION

Rapid Nutrition is focused on the research, development and production of natural health-care supplements designed to address obesity, sports nutrition and skincare. The company focuses on using high-quality ingredients in an attempt to drive maximum results.

Primary focus markets are the United States, China and the United Kingdom, as well as the native Australia market, among others. The company views the United States and Australia as notable growth drivers for the current fiscal year. Globally, the company has assembled a robust roster of key partnerships and distribution agreements that position it to build growth within and beyond this footprint. In addition, Rapid Nutrition is focused on supporting its organic growth by pursuing strategic acquisitions that are complementary to the current business model.

North America accounts for nearly half of the multi-billion dollar global weight-management market, and has shown favorable end-user trends due to an expanding obese population and largely recession-proof market demand. It is the largest contributor to Rapid's revenue line. Asia Pacific represents the largest growth opportunity in the global weight-management market.

In recent years, Rapid Nutrition has moved approximately 70% of its production to the United States from Australia. This has allowed it to better capitalize on more favorable production costs and increased manufacturing capacity to meet the expected growth in global demand for its products. That demand has been driven by an expanded and robust distribution network through market leaders such as GNC, Sigma Healthcare and Mr. Vitamins.

Rapid Nutrition's initial product, Leisa's Secret<sup>®</sup>, generated peak global sales of 3 million GBP in 2015 (approximately \$4 million U.S. dollars) and has been sold in 10 countries under a royalty-based licensing model. However, Rapid Nutrition recently transitioned to a distribution model and introduced a follow-on and new flagship product line, SystemLS<sup>™</sup>, in late 2015. The company plans to leverage SystemLS<sup>™</sup> to become a vertically integrated company in the life sciences/nutraceutical space.

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### KEY STATISTICS

#### Key Stock Statistics

Recent price (12/17/19)	\$0.11
52 week high/low	\$0.53-\$0.05
Shares outstanding (M)	34.4
Market cap (M)	\$3.6
Dividend	Nil
Yield	Nil

#### Sector Overview

Sector	Healthcare
Sector % of S&P 500	14.1%

#### Financials (\$M)

Cash & Mkt Securities	0.2
Debt	1.8
Working Capital (\$M)	4.5
Current Ratio	3.2
Total Debt/Equity (%)	24.0%
Payout ratio	NM
Revenue (M) TTM	2.2
Net Income (M) TTM	0.4
Net Margin	17.5%

#### Risk

Beta	-0.45
Inst. ownership	NA

#### Valuation

P/E forward EPS	NA
Price/Sales (TTM)	1.6
Price/Book (TTM)	NA

#### Top Holders

NA  
NA  
NA  
NA  
NA

#### Management

Exec. Director & CEO	Mr. Simon St. Ledger
Chief Financial Officer	Mr. Michael Zhu
VP of Sales	Mr. Douglas Kuskopf-Dallas
Company website	<a href="http://www.rnplc.com/">http://www.rnplc.com/</a>

### PRICE CHART



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SystemLS™, which carries a slogan of “slim with science,” uses ingredients derived from organic whole foods and non-GMO sources to produce products such as high-protein meal replacement shakes, a range of organic vegan supplements as well as an award winning organic and vegan certified hi-fiber bar. The company states that these shakes have a superior amino acid profile (compared with dairy-sourced proteins) and require minimal processing to boost nutrient absorption. Other products in the portfolio include energizing greens powders and fat burning formulas. The company continues to develop evidenced-based nutrition products to introduce into its expanding distribution pipeline.

According to the World Health Organization, obesity has reached epidemic proportions globally, tripling since 1975 and with at least 2.8 million people dying each year from its impacts. Such trends have given rise to a weight-management market that continues to show recession-proof growth characteristics. Despite the market being extremely competitive, these trends have led to considerable M&A interest, led by Amazon’s 2017 acquisition of Whole Foods Market; activity by such global consumer leaders as Kellogg and Nestle; and robust peer-group trading multiples.

## COMPETITIVE ADVANTAGE

In our view, Rapid Nutrition is poised to establish a robust foothold in its target markets, driven by product differentiation, distribution and marketing. The company’s product portfolio utilizes evidenced-based science to select ingredients with health and well-being benefits. It then develops certified products that are designed to appeal to personalized market segments and that can be marketed through both brick-and-mortar and online distribution channels. Rapid’s products have been recognized in Australia’s Premier of Queensland and Australian Government Export Awards (in Product of the Year and Health & Biotechnology categories) for more than a decade.

We believe that Rapid Nutrition should generate significant growth over the coming years due to a robust and expanding global distribution network. In April 2018, Rapid signed a five-year deal to become the sole Australian distributor for GNC (NYSE: GNC), one of the world’s leading global specialty health, wellness and performance retailers. Rapid has the right to distribute its brands through GNC’s global network of approximately 9,000 locations, more than 70% of which are located in the United States. During calendar 2019, Rapid launched the distribution of SystemLS™ products into an initial 500 GNC stores in North America, and GNC’s online store, and revenues are expected from this key distribution channel throughout fiscal 2020. Importantly, Rapid has also established a distribution agreement for selected System LS™ products with Amazon, the world’s

largest internet retailer. Other U.S. distribution deals include Select Nutrition, North America’s largest health supplement distributor, and Super Health Center, a global distribution company. Internationally, Rapid Nutrition has partnered with Lucky Vitamins, Earth Origin, and other key retailers. In Sydney, Australia, the company has also generated direct-to-consumer (DTC) revenues through the Top Ryde Health Food store channel.

Rapid Nutrition also has built a global business model designed to provide value-add to its customers, who increasingly use interactive online services for fitness education and shopping. The company has developed an online fitness service called DICED by SystemLS™, with trainers and classes available on demand (streaming); it is being offered for free as a complement to the GNC rollout. In addition, Rapid has developed an iTunes app called SystemLS™ Coach, which provides fitness coaches and leverages the personal profile of individual users in order to create a tailored weight-loss program.

Rapid expects its technological initiatives to drive traffic to its platforms as well as those of its retail partners, extending the customers shopping experience, and generating additional advertising and sponsorship revenue opportunities.

Given the inherent competition in the health food and weight-management space, Rapid has focused on marketing in its core markets through a multi-channel messaging experience. This includes social media, bloggers, influencers and personal trainers who connect with consumers and drive awareness and brand loyalty. Such activities carry low capital requirements and are cost effective when compared with celebrity endorsements. They also enable a more-direct connection with the potential audience.

## ANALYST COMMENTARY- EARNINGS

For the 12 months ended June 30, 2019, Rapid Nutrition reported EPS of AU\$0.04 compared with EPS of AU\$0.07 in 2018. In fiscal 2019, the company reported revenue of roughly AU\$3.1 million, representing a 25% decline from 2018, which we attribute to the company’s nascent product rollout across key global retail channels. Specifically, timing for the recognition of initial revenues from new contracts, including GNC and Sigma Ltd., shifted into the beginning of fiscal 2020, which we believe will drive favorable comparable results year-over-year. In our view, Rapid Nutrition’s sustained profitability during this transition bodes well for the company’s ability to maintain adequate resources and should enable Rapid to invest in the global rollout and sustain growth over the long-term.

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PEER COMPARISON											
Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
Rapid Nutrition Plc	RPNRF	0.11	0.53	0.05	4	NA	-25	-43	27.5	-0.45	NA
GNC	GNC	2.61	3.5	1.32	221	4	-5	NA	5.1	1.29	NA
Nature's Sunshine Products	NATR	9.49	10.73	6.12	183	15	7	NA	65.5	0.68	NA
Natural Health Trends Corp.	NHTC	5.78	21.75	5.06	67	-75	-3	32	23.0	0.77	5.9

The company its fiscal 2019 with approximately AU\$9.2 million in current assets compared with current liabilities of AU\$2.9, and AU\$4.6 million in total liabilities. As such, we view Rapid Nutrition's working capital position to be on solid footing and we expect it will be able to move forward with its growth strategy.

Rapid Nutrition PLC's shares are dual listed, both in Switzerland (SIX: RAP) and, since March 2019, on the OTCQB under ticker symbol RPNRF. The company expects this will result in access to a broader capital market audience and greater access to capital. Further, Rapid is working towards uplisting to the OTCQX, and eventually plans to uplist onto NASDAQ.

## MANAGEMENT

### **Simon St. Ledger: Executive Director & CEO**

For more than two decades, Simon St. Ledger has been a recognized figure in the Australian fitness industry, as a personal trainer, dietary consultant, and adviser. He was chiefly responsible for the establishment of the Australian National Weight Loss Clinic and founded Rapid

Nutrition Pty Ltd in 2001, which was later renamed Rapid Nutrition PLC. Mr. St. Ledger was named a finalist for the 2012 Brisbane Young Entrepreneur Award. In recent months, Rapid has made additional hires to its senior leadership team, including new VP of Sales Doug Kuskopf-Dallas, a 25-year retail pharmacy industry veteran, to help execute its international sales growth strategy.

## RECENT DEVELOPMENTS

In November 2019, Rapid Nutrition completed a non-brokered equity placement of 240,000 euros, led by Swiss Asset Manager, Alternative Gestion, S.A. We believe this underscores an emerging recognition of Rapid's investment case among institutional investors. Across calendar 2019, Rapid Nutrition announced multiple new global distribution partnerships that we expect will enable the company to penetrate new and established global markets and achieve its growth objectives. As well, Rapid announced collaborations to expand its global footprint, including with ASX-listed pharmaceutical company Sigma Healthcare (Australia), international distribution company Super Health Center (UK/Europe), and health nutrition retailer GNC (North America).

Steve Silver

**INCOME STATEMENT**

<b>Growth Analysis (\$MIL)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Revenue	NA	2.0	2.5	3.1	2.2
Gross Profit	NA	1.7	1.7	3.0	1.4
G&A	NA	1.0	1.3	1.6	0.7
R&D	NA	NA	NA	NA	NA
Operating Income	NA	1.5	0.6	1.4	0.7
Interest Expense	NA	NA	NA	NA	NA
Pretax Income	NA	NA	NA	1.5	0.6
Tax Rate (%)	NA	NA	NA	10.0	36
Net income	NA	1.5	0.6	1.4	0.4
Diluted Shares	NA	NA	NA	NA	NA
EPS	NA	0.06	0.03	0.05	0.03
Dividend	NA	NA	NA	NA	NA

<b>Growth Rates (%)</b>					
Revenue	NA	NA	24%	23%	-25%
Operating Income	NA	NA	NA	NA	NA
Net Income	NA	NA	NA	NA	NA
EPS	NA	NA	NA	NA	NA

<b>Valuation Analysis</b>					
Price (\$): High	NA	NA	NA	NA	NA
Price (\$):Low	NA	NA	NA	NA	NA
PE: High	NA	NA	NA	NA	NA
PE: Low	NA	NA	NA	NA	NA
PS: High	NA	NA	NA	NA	NA
PS: Low	NA	NA	NA	NA	NA
Yield: High	NA	NA	NA	NA	NA
Yield: Low	NA	NA	NA	NA	NA

<b>Financial &amp; Risk Analysis (\$MIL)</b>					
Cash	NA	0.0	0.1	0.2	0.2
Working Capital	NA	6.3	7.3	4.1	4.5
Current Ratio	NA	5.30	5.50	4.33	3.2
LTDebt/Equity (%)	NA	3.2	3.4	5.6	12.8
Total Debt/Equity (%)	NA	NA	NA	NA	24.0

<b>Ratio Analysis</b>					
Gross Profit Margin	NA	84.0%	70.0%	97.0%	66%
Operating Margin	NA	35.0%	16.0%	46.0%	33%
Net Margin	NA	NA	28.0%	54.0%	18%
Return on Assets (%)	NA	NA	NA	NA	NA
Return on Equity (%)	NA	NA	NA	NA	NA
Op Inc/Int Exp	NA	NA	NA	NA	NA
Div Payout	NA	NA	NA	NA	NA

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