



STOCKTRADES PREMIUM COMPANY SUMMARY

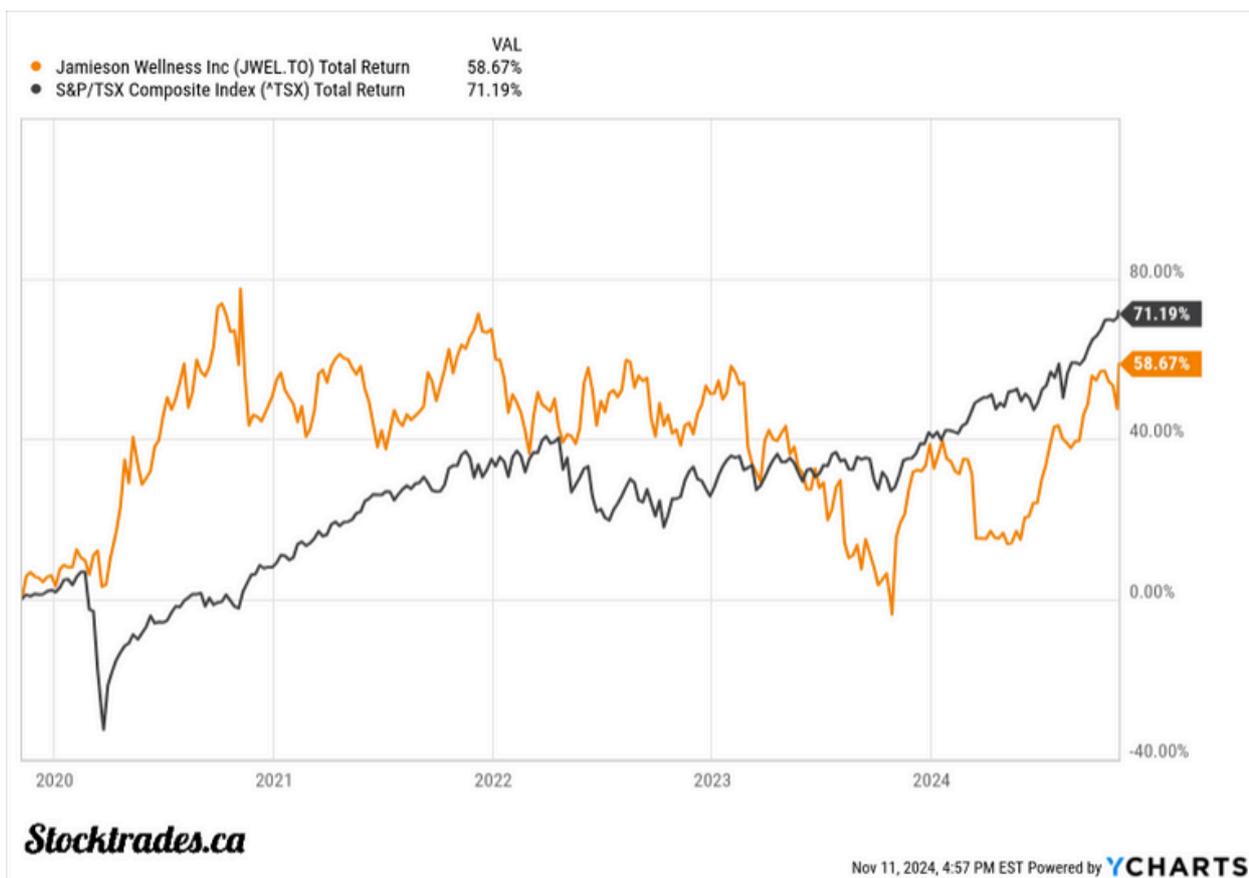
JAMIESON WELLNESS

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UPDATED NOVEMBER 11, 2024

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Stocktrades Premium



Jamieson Wellness Inc is engaged in the manufacturing, distributing, and marketing of branded natural health products, including vitamins, minerals, and supplements. The company operates in two segments: The Jamieson brands and The Strategic Partners. The majority of its revenue comes from the Jamieson brand segment. Some of its brands are Jamieson, Progressive, Precision, and Iron Vegan. Geographically, most of its revenue is derived from the domestic market, however international expansion is catching on in a big way.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	61	Dividend	54
Profitability	37	Outlook	100
Risk	36	Debt	53
Returns	14	Growth	65
Overall	55		

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

PROS

- The leading VMS company here in Canada
- The company has multi-bagger potential if international and Chinese expansion works out
- A Canadian Dividend Aristocrat with 7 years of dividend growth
- The company has high, double-digit dividend growth and plenty of room to continue at these rates
- The company's products are sticky, and sales are unlikely to have a material impact in a recession
- Jamieson has a double-digit return on equity and invested capital, and recent numbers are trending above 5-year averages
- Despite debt being added for acquisitions, balance sheet is still sound

CONS

- Brand perception is everything in the space. We've witnessed GNC file for bankruptcy in 2020 after the quality of its supplements was questioned
- Jamieson is already a leader in Canada. Our thesis is based heavily on international growth. If it doesn't materialize, the company's valuation would likely be deemed expensive
- International expansion brings with it higher levels of competition. It will not be as easy for Jamieson to capture international market share as it was in Canada
- Rising rates are impacting the bottom line and inflation is compressing margins slightly. These are short-term headwinds, but headwinds nonetheless
- One of its larger clients is sitting on record low inventory

OVERALL THESIS

Jamieson Wellness has a dominant market share here in Canada. The main thesis behind Jamieson is its international expansion, particularly in a large market like China. China is the second largest VMS market in the world, estimated to be more than \$20B.

The company is expected to grow international revenue by 6.5-12.5% in Fiscal 2024. This is down from previous years partially due to a 10-20% decline in a Strategic Partner transition. The Jamieson Brand segment is still going strong with expected topline growth in the 12-18% range, 47% of which comes from outside of Canada.

The company continues to be negatively hit by higher rates. However, before this, it was becoming much more efficient, with double-digit returns on equity and invested capital.

We think it can return to those numbers once it gets through this harsh macro environment. To go along with this, the company has improved its margins by just over 4% since 2017.

The company's recent acquisition of Nutrawise, which owns the brand youtheory, immediately opened it up to manufacturing and distribution capabilities in the United States. The acquisition is expected to be immediately accretive. It is a significant positive for us regarding fuel for growth for Jamieson moving forward. In fact, it already provided strong results in Fiscal 2023, and the U.S. segment (mainly youtheory) is expected to grow between 13-20% in Fiscal 2024.

During the market turmoil, the company's balance sheet is solid, with over \$200M in working capital. Its interest coverage ratio is nearly 4, signalling that the company has plenty of cash to cover the interest on its debts. Not only that, net debt dropped by 22.9% in Fiscal 2023 as it continues to de-leverage from recent acquisitions.

We feel the company has a long runway for growth. If the international expansion continues at its current pace, it is only a matter of time before Jamieson catches the market's eye. The market downturn should allow investors to accumulate shares for discounted prices.

POTENTIAL RISKS

A supplement company is only as good as its reputation to the public. Consumers need to believe the VMS they buy from Jamieson are healthy and high quality. Any damage to the company's reputation would significantly impact sales. Secondly, the debate on using VMS for health has been around forever. While there are strong arguments on either side of the

debate, there was no doubt that a statement made by Dr. Fauci during the pandemic, about the use cases and benefits of multivitamins, caused a surge in sales. The risk is this going the other way, and a person with significant influence discounting the use of supplements, causing a dip in sales.

Beta	0.37
Alpha	-2.3
Our Risk Rating	Mod*
Max Drawdown	45.8%

The company also presents a risk from an international expansion standpoint. The company's expansion outside of Canada can provide large-scale growth. However, valuations would likely go south if growth were not to materialize. This growth being focused around China adds another element of risk that investors simply aren't willing to pay for now, especially considering the Chinese economy isn't doing as well as many experts forecasted.

Adding to this international expansion, it has had to execute some of this via acquisition. Acquisitions, especially in our current environment, pose more risk, mainly if the company were to take on debt to fund the acquisition. Weaker-than-expected synergies or additional costs related to the acquisition can drag on company performance and, thus, stock price.

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The company is also exposed to much more significant and stiffer competition outside of Canada, so its international expansion efforts will likely not come as easy as they did in its home country.

VALUATION

	TTM	5 Year Average	Industry Average
P/E	39.3	31.8	47
P/S	2.14	3.07	0.61
P/B	3.37	3.98	1.66
P/FCF	36.5	61	28
PEG Ratio (FWD)	0.36	N/A	N/A

Jamieson Wellness has undergone a bit of a valuation reset due to some tough macro conditions and the weight of added financing expenses wearing on earnings.

Once projected to grow earnings in the 20%~ range, the company expects to grow earnings in the mid-single digit range in 2024. There is no doubt that a steep downgrade in earnings guidance like this is going to cause the market to value the company less. However, we feel the decline in earnings growth rates will be temporary, and the company should be able to come out of the situation fine and elevate growth rates in Fiscal 2025 and beyond. In fact, most analysts predict the company will return to 25%+ growth in Fiscal 2025.

It seems like the market is starting to figure this out as well, as the company has rebounded in a big way over the last three quarters after putting up some solid results.

As mentioned, most analysts have Jamieson growing earnings by 2-4% in Fiscal 2024 before rebounding and growing them by 20%+ in 2025. These are just estimates and are obviously reliant on the company executing its strategy, but the underlying core of our thesis and Jamieson's overall growth strategy, that being rapid international expansion, is still intact.

A decline in interest rates and the aggressive reduction in debt should lead to multiple expansion moving forward. Trading at only 17x its expected earnings and a PEG of 0.36 indicates that the market is not pricing in a lot of the company's growth moving forward.

This is likely due to the overall uncertainties of the direction of policy rates, the economy, and the financial health of consumers in China. Although it is impossible to predict any of this, the company is providing a strong risk/reward profile at the low earnings multiple it is currently trading at.

COMPETITOR ANALYSIS

Jamieson's ultimate competition is big box stores. Although there are other supplement companies, the threat of cheaper alternatives is one that investors must acknowledge if they're investing in Jamieson. There needs to be a brand perception that the company's products are of higher quality, or there is a chance that consumers could choose alternative discount-name products at stores like Walmart. However, it isn't fair to compare Jamieson directly to Walmart valuations, as they are not a pure-play supplement store.

Another significant competitor for the company is the Franchise Group (NYSE:FRG). However, there is only a small segment of the company that is relevant competition, so comparing valuations between the two would be of no use as well. Franchise Group owns Vitamin Shoppe, a large U.S.-based VMS store. However, Jamieson has taken a much different route than a company like the Vitamin Shoppe, which has been plagued with operational issues and slowing sales.

DIVIDEND ANALYSIS

Annual Dividend	Earnings Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
\$0.84	82%	17.02%	8

One thing we love about Jamieson is that the company presents a unique blend of growth via share appreciation and dividends. In the company's short publicly traded life, it has become a Canadian Dividend Aristocrat. It has grown the dividend by more than 80% over those 8 years.

Despite a challenging environment and a reduction in guidance, the company came through with an 11% increase to the dividend in the middle of 2024. This can be viewed in two ways. For one, it shows the company's commitment to returning capital to shareholders. However, with payout ratios becoming tight (82% of earnings), it can also be seen as somewhat of a risky bet on policy rates coming down. The bulk of Jamieson's struggles earnings-wise have been financing expenses. If rates decline, it will provide some relief on the financing end and ultimately, the payout ratio will improve, even with this raise.

On the other hand, many investors during this period of high interest rates would prefer the company utilize that money to pay down debt levels. In this environment, investors want to see the company prioritize debt levels at all costs, as it is one of the driving factors impacting the company's reduction in guidance and slower growth. We tend to agree with the side of

the market that says this dividend raise wasn't necessary and could have come in at the low to mid-single-digit end and still pleased income investors. The reduction of debt levels now would give it more room to raise the dividend in the future. It isn't detrimental in our eyes, but it's certainly something to watch.

RECENT EARNINGS

Earnings Estimates	2024	2025	N/A
EPS	\$1.61	\$2.01	\$2.50
Revenue	\$742M	\$831M	\$891M
EBITDA	\$140.6M	\$162M	\$187M
EBITDA Margins	19%	19.5%	20.8%

Jamieson put up its third straight quarter of solid results. Revenue of \$176M came in \$3M above estimates and earnings per share of \$0.37 topped expectations for \$0.35.

On a year-over-year basis, revenue increased by 16.3%, and earnings remained relatively flat. The company is still dealing with some economic headwinds, including higher interest rates impacting the bottom line. As rates continue to decline, as they should, the company will likely continue to see pressure relieved on earnings per share and should be able to get back to double-digit growth.

Margins continue to grow as well. Gross margins were up 460 basis points (4.6%) on the quarter. As a result, the company realized some relatively strong growth in gross profit.

The company's Canadian segment was likely the highlight of the quarter. Canadian revenue increased by 15.1% on the back of strong consumer spending in terms of supplements. As I've mentioned previously, Jamieson's Canadian segment is usually slower-growing, as its brand is already well established. It is typically the international segments that fuel most of the growth.

Regarding the international segments, China revenue increased by 81.7% to sit at \$22.6M. The country now sits at 18.9% of Jamieson Brand's total revenue, and I would expect this to continue to creep up as it grows its market share in the country. Its other international segments outside of Canada continue to grow as well, with revenue up by 25% year over year.

The company was able to narrow its Fiscal 2024 outlook on the back of some stronger results along with the predictability of the fourth quarter. It now expects revenue to grow by 7.2%-11.7%, EBITDA to grow by 3.6%, and earnings per share to grow by 5.2%.

Overall, the thesis remains intact for Jamieson. I feel continued international expansion into markets enormously bigger than Canada will allow it to fuel growth, all while Canada provides the moaty end of the business that can continue to provide stability if international markets slip up during the short term. The company is still attractively priced, especially if it can hit the 20%+ growth many analysts predict for the company in Fiscal 2025.



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