

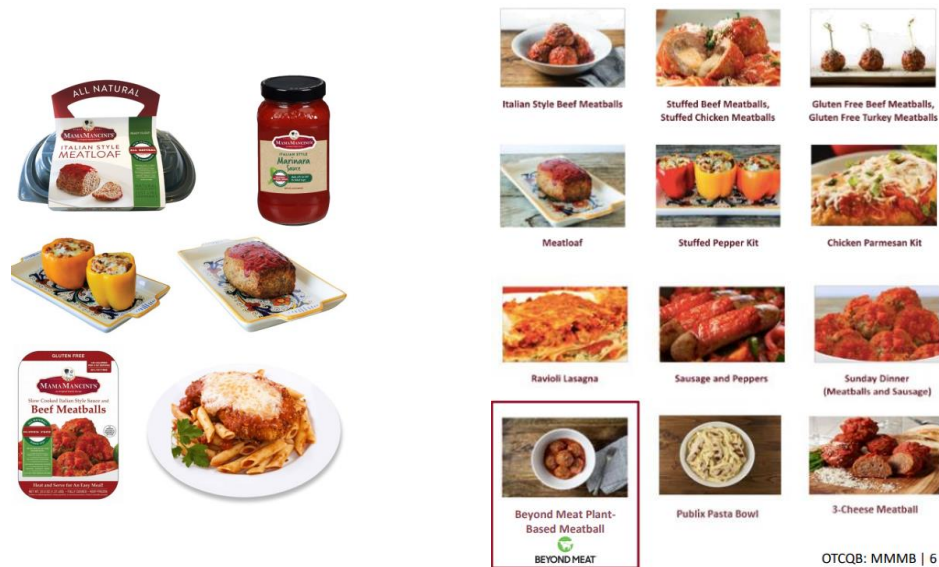
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**Executive Summary**

Mamamancini’s (MMMB) is a micro-cap consumer staples company with a trailing 3-year organic sales CAGR of 30% and similar growth opportunities going forward, the opportunity to more than double EBITDA margins from ~8.6% to 18.0% in the next three years, and trades for <6x NTM forward earnings (<8x fully taxed—company has NOL’s). Insiders own over 40% of the company, take modest salaries, and the 76-year old CEO is highly motivated to sell the company. We see a clear path to ~\$4.00/share by CY 2023, ~300% upside from today’s ~\$1.00 stock price and a 70%+ IRR. Importantly, this risk/reward comes with a clean balance sheet, incentivized management with good shareholder communication and stewardship, and a very defensive business in a COVID-19 environment.

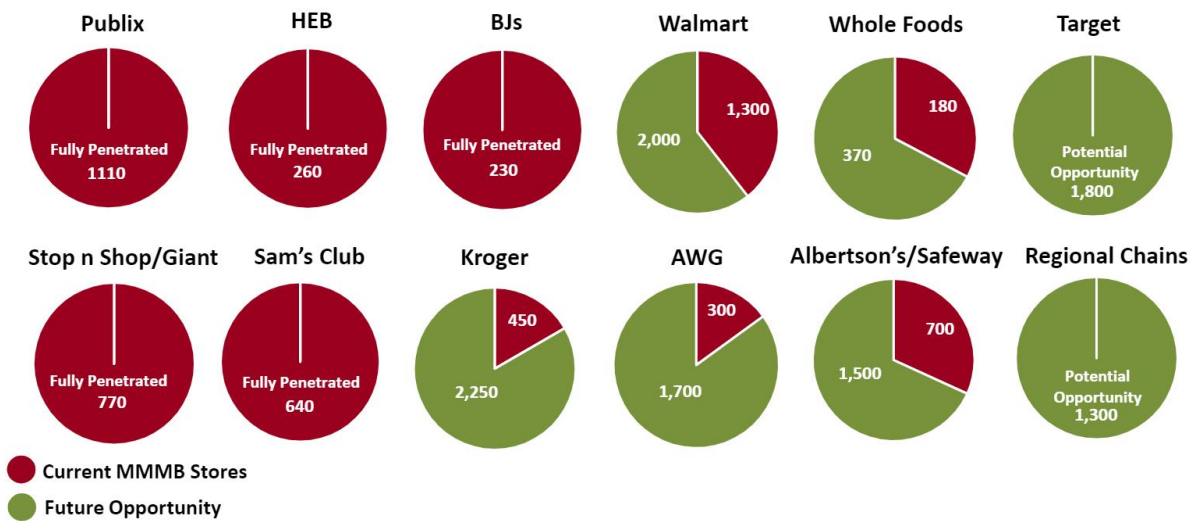
**Business Overview**

MamaMancini’s is a pure play producer of Italian food, producing 26 distinct products. They specialize in beef and turkey meatballs that feature their own MamaMancini’s traditional Italian style marinara sauce, and offer other products such as sausage, stuffed peppers, and pasta bowls (think meat + pasta + sauce).



The vast majority of their products today are sold to supermarkets & mass-market retailers found in refrigerated and frozen sections, hot/salad bars, prepared foods/sandwiches area, deli & “to-go” food sections. ~50% of sales are white labeled. Key customers include: Sam’s Club (~30%), Walmart (~20%), Publix (~10%), Ahold (~10%), and QVC (~5%). See customer graphic below:

# Distribution & Penetration



The company has benefited from three trends in supermarkets over the last few years:

- 1) Larger food companies have seen their advantages erode over their smaller competitors as previous advantages such as local sourcing, logistics, software and analytics have been democratized.
- 2) Consumers are increasingly looking for foods with high-quality ingredients and strong consumer appeal. Our channel checks indicate MamaMancini's often places in the top 1-3 items in sales for QVC shows, which usually have 20-25 offerings, demonstrating top notch consumer appeal. It is difficult for larger consumer staples companies (generally with high debt loads and a cost-cutting focus) to shift to this changing consumer dynamic.
- 3) MamaMancini's sells branded product primarily alongside the perimeter of grocery stores (graphic below). Sales on the perimeter of grocery stores are growing 8-10% annually vs the center of the store which is decreasing at 1-2% annually. This phenomenon is driven by today's customer having less time to peruse through every aisle of a grocery store. Moreover, it is harder for large companies to rely on mass branding on the perimeter of the store and smaller companies' flexibility and turnaround times help them successfully compete.

## Historical Financial Highlights (our estimates for Q4 FY2020)

This is a small and boring business, but it has delivered strong fundamental growth over the last few years:

- From FY 2016-FY 2020 (FYE 1/31), revenue has increased from \$12.6m to ~\$35m, almost tripling in 4 years (a CAGR of 29%).
  - This growth has been entirely organic from increased sales at existing locations and increased distribution.
- EBITDA has flipped from -\$1.6m in FY 2016 to ~\$3.0m in FY 2020, and FCFE (ex-sbc) has gone from -\$1.7m to >\$1.0m in 2020.
- The business is turning the corner on leveraging their fixed cost base, and will start generating meaningful free cash flow in 2020, as current manufacturing capacity can handle ~\$75M+ in sales (>2x the sales the company does today) and will not require significant incremental investments.

## Mamamancini's Brand

The company advertises themselves in many ways to build their brand image, but their primary DTC channels are as follows:

- MamaMancini's has an active Facebook page (326K+ followers), posting multiples times weekly to highlight various products and QVC sales.
  - <https://www.facebook.com/MamaMancinis/>
- QVC live recordings
  - [https://www.youtube.com/results?search\\_query=mama+mancini%27s+qvc](https://www.youtube.com/results?search_query=mama+mancini%27s+qvc)
- QVC – Buy MamaMancini's online (only place you can buy their non-white labeled product online)
  - [https://www.qvc.com/kitchen-&-food/food/mama-mancini's/\\_/N-1ciq2Z1z12y5d/c.html](https://www.qvc.com/kitchen-&-food/food/mama-mancini's/_/N-1ciq2Z1z12y5d/c.html)
- MamaMancini's radio ads
  - <https://www.mamamancinis.com/radio-jingle/>

MamaMancini's has successfully built a niche brand with a relatively loyal following in the food industry. The brand evokes a "mamas' cooking" feeling having been named after Dan Mancini's grandmother by using her recipes. The emphasis on family, authenticity, and Italian roots are all great marketing tactics when pitching an Italian food product. Their rise in sales speaks to brand loyalty and customer acquisition success, as does the consistent commentary and engagement on their Facebook page. The below quote is the start of the company's "our story" page on their website. Link here: <https://www.mamamancinis.com/our-story/>

*Home style, old world Italian food created from recipes my Grandmother brought with her to America. Never written down, existing only in her heart. At the age of 15 my Grandmother Anna Mancini, taught me all of them. Now stored in my heart. I am so proud to bring Anna's amazing recipes to your table. My dream come true. From Anna's heart to my heart to your table.*

## Management

Carl Wolf, the CEO and co-founder owns over 20% of the equity and his son in law, Matthew Brown, is President and owns 17.5% of equity. Each earn \$180k in annual comp, and given their ownership stakes, they are highly incentivized to improve profitability and likewise the share price.

Carl is an entrepreneur who built Alpine Lace Brands (cheese company) in 1983 and sold it in 1997 for \$62M. He has served on the boards of other companies, some public: (TOGA, MBAY), and in 2001 bought a frozen food appetizer plant. Things were not working out in 2008-2009 and he pivoted to look for new opportunities. He hired an outside consultant to explore new opportunities which led him to Dan Mancini (Dan Dougherty is Dan's real name). Carl is very financially and emotionally invested in the business and he previously funded the business with personally guaranteed loans. Ex-employees have vouched for his work ethic, and expressed frustration at his unwavering attitude towards being uncompromising on price and margins (which we view as a strength in a very competitive business). Our own interactions with Carl have led us to appreciate his intensity and focus on the business. He knows the industry and his own company's metrics extremely well, and is focused on getting to \$10M+ in EBITDA.

Dan Mancini is the grandson of THE MamaMancini. Recipes are his IP which MamaMancini's Holdings inc. licenses, paying Dan Mancini a small royalty % on each sale. He is the front-man for the brand, and invokes his family lineage every chance he gets. He is an effective presenter and they nearly always sell out on QVC during his appearances.

Photos from Mama Mancinis's post  
in Mobile Uploads

**Mama Mancinis**  
Like This Page · January 28 · 🌐

Gonna be on QVC Wednesday 1/29 on the 4:00 Gourmet Holiday Show with a very delicious offer choose 6 pounds of our jumbo 3 cheese beef meatballs in sauce or 6 pounds of our pork sausage in sauce or get the combo 3 pounds each! And yes, I'll have my pic of my Nonna holding me. She is always on air with me.  
Post will but up in the morning so you can get yours before showtime  
❤️ Daniel Mancini

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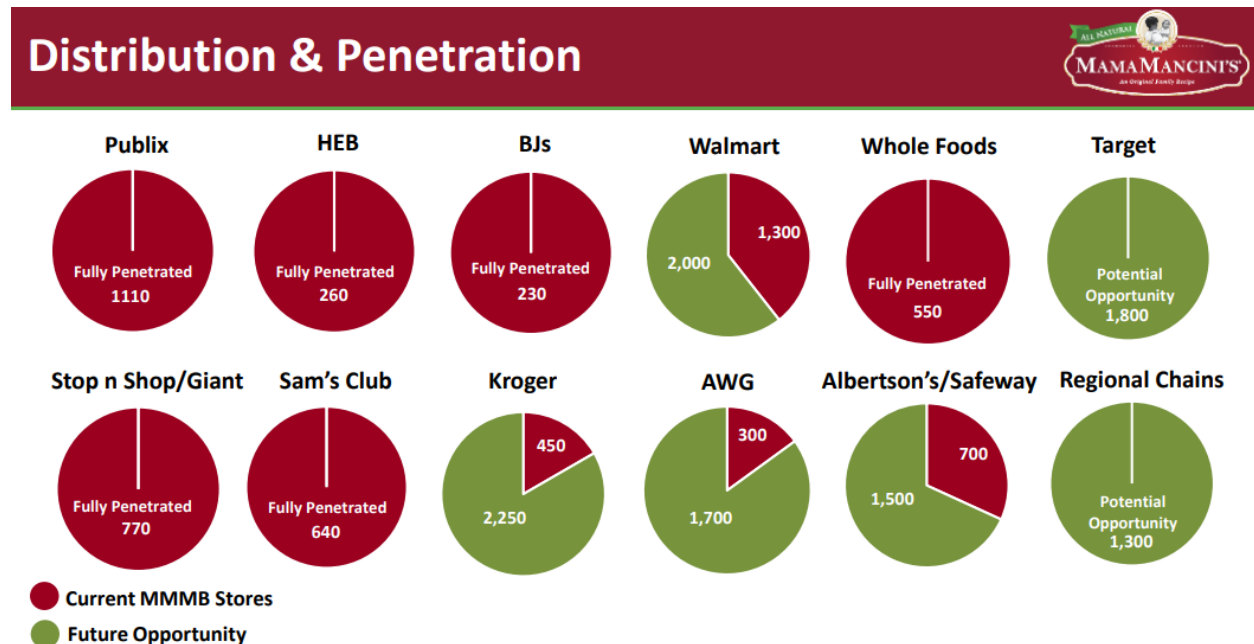
- Abbate Carmine** The Best Quality Products You can Get 🇮🇹  
Like · Reply · 8w
- Gary H Langford** Ive asked for help on a backordered item and am not getting any help on it from mama mancinis...  
Like · Reply · 8w
- Donna Herndon** If dont watch qvc is there a different way?  
Like · Reply · 8w

Write a comment...

## Investment Thesis

The meat of the thesis is as follows:

MamaMancini's has relationships with a wide network of major grocery chains in the US that they have cultivated over the last several years. Despite their investor deck graphic giving off the impression of full penetration at many large chains (shown below), in most cases they only supply 1-2 SKUs out of the 26 products they offer. **On average, each addition SKU at one chain fully penetrated represents a \$3-5m annualized sales opportunity for the business.** We believe MamaMancini's is just getting started in terms of maximizing the potential of their customer relationships, and they have reported increases in volumes from all major customers as of their last investor presentation (March 2020). As an example, the business has been in talks with Costco and has referenced that one SKU fully penetrated at Costco would represent a \$20-25m opportunity. The combination of MMMB's customer relationships along with the strength and execution of the brand should lead to big sales wins for the foreseeable future.



MamaMancini's has other "shots on goal" that will also contribute to topline in the coming years.

- **Food Service**

- Management has been talking about this opportunity for a while, but just as it was materializing, COVID19 struck and has halted all non-essential food service. MamaMancini's has plenty of experience providing quality food service – ask any patrons from the many investor conferences management has catered for. Carl feels passionately that Food Service will *double* the market opportunity for MamaMancini's, and has tossed around a \$10m revenue opportunity by 2022. We do not think food service will be a meaningful contributor in 2020 given the global pandemic, but do think this will develop into a solid business for them over time.

- **Canada**

- MamaMancini's has recently added customers in Canada, and management thinks that the near-term opportunity (2-3 years) could add an incremental \$5-7m in sales.

- **Beyond Meat**

- MamaMancini's started shipping their first orders of Beyond Meat in January (slower start than they initially expected) but are very bullish on the opportunity set and think the product could be anywhere from a \$15M product line to \$60-70m product line. We will take the under on \$60M and are not factoring anywhere near that upside, but it should be a decent boost and be a nice incremental piece of business going forward.

Management has guided investors to a \$50M run-rate in sales coming out of calendar year 2020, up from ~\$35M in 2019. Given the opportunity set present, and the channel shift to grocery sales accelerated by covid19, we think that management should be able to execute on this plan. The business is being run lean and is hitting scale on the cost side. We are estimating sales of \$79.3M in Jan 2024 up from ~\$35M at Jan 2020, through a combination of new SKUs at existing locations, new grocery clients, and incremental food service, Beyond Meat, and Canada expansion.

The business has significant unutilized manufacturing capacity (100% utilization at ~\$75M in sales) and has brought in an outside consultant to help streamline operations which management thinks will add 100-200 bps to gross margins. Overall gross margins dropped from 35% in FY19 to 32% in FY20, but we think gross margins should return to mid-30% in short order. Gross margins were artificially lowered by the reclassification of some depreciation from G&A to COGS, some manufacturing inefficiencies, and lower margin product mix. We believe EBITDA margins will climb from 8.6% in FY 2020 to 18.0% in FY 2023 as MamaMancini's leverages their G&A spend. A useful sanity check is publicly traded Armanino Foods (AMNF), which is a similarly sized Italian food business and has 35% gross margins and 20% EBITDA margins.

The combination of fast topline growth with operating leverage, ultimately translating into real free cash flow, should wake investors up to the earnings power of the business. We think EPS can CAGR at 50%+ for the next 4 years (calendar year 2019-2023), driven heavily by the next 2 years which we think will see the most margin expansion as MamaMancini's leverages their fixed cost base. In addition, we believe the company's next two quarters will have 40%+ y/y revenue growth. Given the company does not have consensus estimates and there are many retail investors involved, we think many people are looking at trailing metrics at the moment, which include two down y/y growth qtrs. (Q1-2020 and Q2-2020). As those get cycled out of the TTM calculation over the next two quarters and are replaced by two explosive revenue quarters with good operating leverage, we think the stock will "screen better" and start to get noticed by growth investors.

At current prices (\$1.02) we have the business trading at 6.1x our FY2021 EPS (calendar year 2020) which we believe is far too cheap for a business showing this type of growth and margin expansion. Note that the business has ~\$9.7m in NOLs, which we expect them to fully utilize by 2023.

**At 10x FY 2023E EBITDA of \$11.8M, we arrive at a price target of \$4.05, 300%+ higher than the current price and an IRR of 80%+.**

On a shorter-term basis, 10x our FY 2021E EBITDA of \$6.4M results in a \$2.00+ share price, ~100% higher than current prices. Said another way, a \$2.00 price target implies 12x FY 2021 earnings (with no taxes due to their NOL) or 16x fully taxed FY 2021 EPS of \$0.17. These seem like very reasonable multiples for a 30%+ organic top-line grower in a defensive category.

## Valuation Output

	Jan-16 FY2016	Jan-17 FY2017	Jan-18 FY2018	Jan-19 FY2019	Jan-20 FY2020	Jan-21 FY2021	Jan-22 FY2022	Jan-23 FY2023	Jan-24 FY2024
Model Sheet Currency : USD (000s)									
Scenario:									
<b>Valuation</b>									
Revenue	12,603	18,049	27,543	28,522	35,076	45,883	55,059	66,071	79,285
y/y %		43%	53%	4%	23%	31%	20%	20%	20%
EBITDA	(1,657)	833	1,665	2,377	3,001	6,400	9,454	11,870	14,903
y/y %		-150.3%	99.8%	42.8%	26.2%	113.3%	47.7%	25.6%	25.5%
margin %		4.6%	6.0%	8.3%	8.6%	13.9%	17.2%	18.0%	18.8%
EV / EBITDA						10.0x	10.0x	10.0x	10.0x
Target EV						64,000	94,540	118,702	149,027
(-) debt	-	4,374.6	5,616.9	5,750.1	4,938.2	1,264.8	-	-	-
(+) cash	-	587.4	670.8	581.3	610.6	2,100.3	6,978.7	13,947.2	22,932.1
Market Cap						64,835	101,518	132,649	171,959
FDSO						32.1	32.4	32.7	33.1
Price Target						\$2.02	\$3.13	\$4.05	\$5.20
Implied IRR using EV/EBITDA						16.0			
Share Price					-\$1.00	-\$1.00	-\$1.00	-\$1.00	-\$1.00
Future Value						\$2.02	\$3.13	\$4.05	\$5.20
Today's Date					3/30/2020	3/30/2020	3/30/2020	3/30/2020	3/30/2020
Date fair value realized					8/1/2019	8/1/2020	8/1/2021	8/1/2022	8/1/2023
Total Shareholder Return						102%	213%	305%	420%

- *The company has had high promises of growth before and disappointed. Why is now different?*
  - We are not assuming pie in the sky numbers for MMMB's growth opportunities in food service, Beyond Meat, etc. Our numbers are a discount to what we think management truly believes they can achieve—and management's expectations have been tempered due to hiccups in previous periods.
    - Ex: management believes the food service opportunity can double the TAM of the business. We expect a much more modest HSD to LDD eventual revenue opportunity in this segment.
    - Even a single win at someone like Costco could materially change the trajectory of the business. We are assuming steady growth going forward without any transformative wins.
    - We are assuming lower revenue growth on an annualized basis going forward than the company has achieved over the last four years—even though the company has more “shots on goal.”
  - The company debuted in the public markets several years ago at \$2.00/share while it was burning cash. While the fundamental performance of the business has been good, the expectations were just too elevated. Of the few investors willing to follow this microcap over time, many of them have dismissed management's bullish language recently and accelerating results given past disappointment. We believe punishing MMMB for too lofty expectations in the past will prove to be a big mistake. In our view, expectations are clearly too low going forward given the strong execution over the last couple of years and our assessment of the company's realistic future growth opportunities.
  - Given the company used to be EBITDA negative and there are no consensus estimates, a simplistic way of looking at valuation over time is just EV/TTM Sales:





prospects have never been more promising. My sense is that Carl has learned his lesson and now wants to set expectations that he knows he can meet or exceed.

## Risks

- Customer concentration.
  - Walmart (20%) and Sam's club (30%) made up 50% of MamaMancini's revenue in FY19 – note that this product is all white labeled. Their revenue as a % of overall sales increased from 40% to 50% from FY18 to FY19, so they continue to add more SKUs to more stores. According to management, their largest customers continue to increase purchase volumes from MamaMancini's so we see no indication of these relationships as being at risk. Channel checks suggest strong sell throughs and opportunities for additional SKUs.
  - Key man risk
    - Both Carl Wolf and Dan Mancini fall into the key man risk category. Without Dan Mancini to be the face of the brand and without Carl to run the operations, we would not have as much faith in our forecasts.
  - Manufacturing concentration
    - MamaMancini's produces 90% of their products from their manufacturing plant in New Jersey, and outsource 10%. Operations would be at risk if issues were to arise at their facility.
    - Note: they are an "essential service" and have therefore not been materially impacted by COVID-19.
  - Lumpy demand
    - Management underperformed guidance throughout FY19 as demand was lumpy and customers had specific "issues". With a small number of high-volume customers, the business is unfortunately exposed to this type of intra-quarter risk. The company sent out the following to investors in October 2019 to explain the disappointing FY19 sales figures.
      - "Sam's Club reduced their inventory from 10 weeks to 2 weeks this year which had an effect of \$2m-\$3m from prior year. Nothing wrong, just never should have been that high prior. It is frozen product and holds for a year. Our business is very strong and increasing on actual movements every year with Sam's Club."
      - "Ahold, our third largest customer with 800 locations, reorganized from one headquarters buying group to three groups and in the process, merchandising was thrown off for about six months which reduced sales significantly during that time before rebounding back to normal this year."
      - "Publix, our second largest customer, asked us to extend shelf life on our packaged retail product (to reduce shrink) which took a while to implement and is in place now and going very well. In a recent meeting, they said they wish all their other brands were performing as well as MamaMancini's. Publix is one of our largest customers with 1,200 locations."

## Summary

This is not a sexy business and we are not suggesting that MMMB has a dominant brand. After all, most readers are probably unfamiliar with their product. However, their product quality is good (if you want to try them, I'd recommend ordering directly from the QVC app—pretty easy), they have an attractive niche without many focused competitors, and management has done a good job cultivating and maintaining their brand. The last 4 years are validation of the company's strategy as they grew revenue ~30% annualized organically while significantly improving margins. We expect the next four years to be a continuation of that sales trend with significant operating leverage. An eventual sale of the company is likely and we think at a much higher EBITDA number and multiple. At <8x fully taxed forward earnings, we think this is an extremely attractive risk/reward.

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