

WESTPEAK RESEARCH ASSOCIATION

JAMIESON WELLNESS Inc. (TSX: JWEL)

Consumer Staples - Natural Health Product

A Healthy Company is a Wealthy Company

February 12, 2020

Jamieson Wellness Inc. (JWEL, or 'Jamieson') is Canada's number one manufacturer and distributor of natural health products by sales, providing consumers with high-quality products since 1922. The company operates in over 40 countries mainly in the vitamin, supplement, and mineral (VMS) space, with subsidiaries in women's health and sports nutrition.

Thesis

We believe Jamieson Wellness will be able to sustain high revenue growth from its recent expansion to China as opposed to the market's perception of a growth slowdown. Their growth opportunity in China is sustained through consumer preferences towards foreign brands, a highly fragmented industry, and strict regulations that create high barriers to entry. In addition, investors can benefit from a limited downside as the nature of the natural health product business is non-cyclical and hedges against economic downturns.

Drivers

Aging population and consumers seeking to live a healthier lifestyle is the main industry driver for Jamieson Wellness. Another driver is the company's recent official expansion to China, in which we expect further growth as more Jamieson products are registered and distributed through local channels. Lastly, we see the company making potential strategic acquisitions with their healthy balance sheet, further driving the valuation.

Valuation

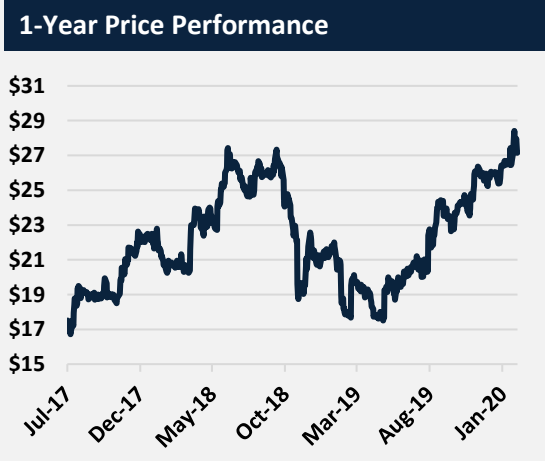
Given the current share price of \$27.15, we believe that Jamieson Wellness is undervalued by the market. Using a discounted cash flow analysis weighted at 80% and a comparable companies analysis weighted at 20%, we determined a target share price of \$35, representing a 12-month total return of 28.14%. We initiate a **BUY** rating on Jamieson Wellness.

Analyst: Davis Li, BCom. '22
contact@westpeakresearch.com

Equity Research	Canada
Price Target	CAD\$ 35.00
Rating	Buy
Share Price (Feb. 12 Close)	CAD\$ 27.15
Total Return	28.14%

Key Statistics	
52 Week H/L	\$28.83/\$17.38
Market Capitalization	\$882.6M
Average Daily Trading Volume	57.6K
Net Debt	\$123.6M
Enterprise Value	\$1.02B
Net Debt/EBITDA	2.5x
Diluted Shares Outstanding	39.6M
Free Float	98%
Dividend Yield	1.5%

WestPeak's Forecast			
	2019E	2020E	2021E
Revenue	\$339M	\$370M	\$396M
EBITDA	\$53M	\$58M	\$62M
Net Income	\$28M	\$36M	\$39M
EPS	\$0.72	\$0.91	\$0.97
P/E	31.0x	29.2x	26.6x
EV/EBITDA	19.1x	20.5x	18.5x



Business Overview/Fundamentals

Company Overview

Jamieson Wellness Inc is a leading branded manufacturer, distributor and marketer of natural health products, with a focus on vitamins, minerals and supplements (VMS). Being both Canada's #1 overall consumer health brand and Canada's #1 brand in VMS by sale, Jamieson Wellness's strong reputation originated in Canada and has spread to over 40 countries worldwide.

Segment 1: Jamieson Branded Products

The Jamieson Branded Products segment includes their line of Jamieson vitamins, minerals and supplements (VMS) products and certain over-the-counter remedies through their Jamieson and Lorna Vanderhaeghe Health Solutions Inc (LVHS) brands. In 2017, Jamieson purchased a health company, Body Plus, which added the following specialty sports nutrition brands to their portfolio: (1) Progressive Nutritional Therapies, (2) Precision Sports Supplements, and (3) Iron Vegan Brands.



Brand 1 (Original): Jamieson

Jamieson is a well-known VMS brand and the market leader in the VMS segment in Canada with 25% of the market share. The line of products in this brand includes vitamins, minerals, multivitamins, herbals and specialty supplements such as omega oils, probiotics and melatonin. Through research conducted by Jamieson and a third-party consultant in 2015, Jamieson's brand awareness is over 2x greater than the next four national VMS brands combined – these competitors are Centrum, Webber Naturals, Life and Kirkland. Jamieson's strong brand equity forms an economic moat as consumers associate the brand with trust.



Specialty Brand 2 (Acquired): Lorna Vanderhaeghe Health Solutions (LVHS)

LVHS is the top women's natural health-focused brand in Canada. This brand was purchased by Jamieson in 2014 and it retains a 26% share of retail dollars amongst the closest top 8 competitors. The company targets women's health with products that assist with hormone health, skin health, weight loss, and nutrition deficiency.



Specialty Brand 3 (Acquired): Progressive Nutritional Therapies

Progressive is a diverse line of premium, specialized supplements targeted to consumers with pre-existing healthy and active lifestyles. Their product portfolio stretches across several categories such as superfoods, vitamins and minerals, all-in-one formulas, fish oils, probiotics and protein and organic protein blends.



Specialty Brand 4 (Acquired): Precision Sports Supplements

Precision is a high-end version of nutritional supplements targeted towards amateur, semi-professional, and professional athletes. The product portfolio includes weight gainers, all-natural whey and vegan powders, muscle building and repair supplements, and weight management solutions.



Specialty Brand 5 (Acquired): Iron Vegan Brands

Iron Vegan is also a premium sports nutrition brand targeted towards athletes and other consumers with active lifestyles. Their point of difference is that they are a plant-based protein solution. The product portfolio includes certified vegan, organic, non-genetically modified and gluten-free products.

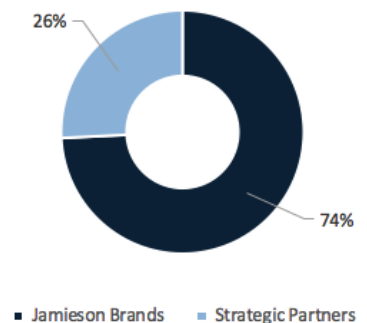


Segment 2: Strategic Partners

Aside from the Jamieson Brands segment, Jamieson also offers manufacturing and product development services to blue-chip consumer health companies and retailers globally, with a goal to leverage infrastructure and optimize costs. They selectively enter into manufacturing contracts based on a set of criteria that includes profitable growth, geography, purchasing and manufacturing synergies and the potential for creating mutually beneficial long-term relationships. Jamieson also offers value-added services to the companies which include regulatory advice, new product development and distribution services and industry insights. The portfolio includes several long-term partnerships lasting over 15 years. As Jamieson develops larger manufacturing capacities and capabilities, we expect this segment to grow.

Revenue Segmentation

FY2018



Industry Analysis

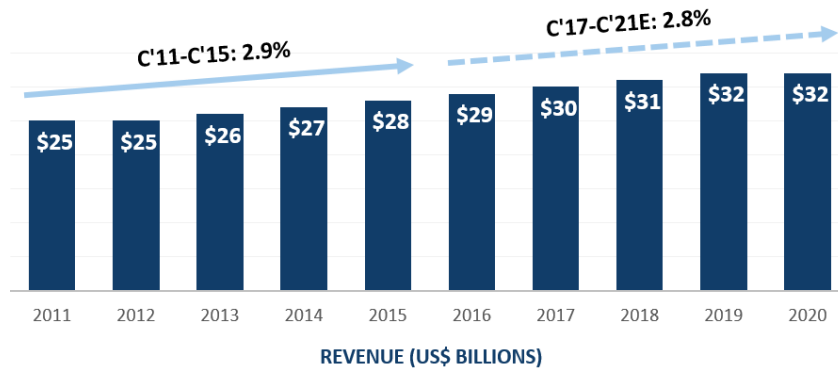
Jamieson operates under the Vitamin, Minerals and Supplements (VMS) market and the sports nutrition market. The Jamieson and LVHS brand operates under the VMS segment, whereas Progressive takes a hybrid approach to create VMS targeted towards consumers with active lifestyles. Jamieson then successfully acquired both the Precision and Iron Vegan brand, which operate largely under the sports nutrition industry.

North America: Vitamin, Minerals and Supplements (VMS)

Jamieson Wellness mainly operates in the Vitamin, Mineral and Supplement (VMS) industry. The industry is heavily consolidated with large multi-national companies such as Pfizer and Nestlé holding their own portfolio of VMS brands. Since VMS are considered health products, a brand’s success is largely determined by consumer trust. This creates high barriers to entry for new and smaller brands as they lack brand equity. Although there has been a surge in e-commerce shops backed by online influencers and celebrities, we do not believe this trend to be a threat to Jamieson as most consumers prefer reputation and quality over publicity when it comes to health products.

In 2015, an estimated 14 million Canadians take vitamins, contributing to sales of about \$370 million a year. VMS is a large and growing industry with Jamieson being Canada’s #1 brand in VMS by sales. In 2017, Jamieson had a leading market share of 25% of the Canadian VMS market, with at least 2.5x the market share of the next closest competitor, Centrum, owned by Pfizer. Statistically, 74% of Canadian households have included VMS in their consumer purchases, with 48% of those households also purchasing a Jamieson product.

NORTH AMERICAN VMS INDUSTRY GROWTH

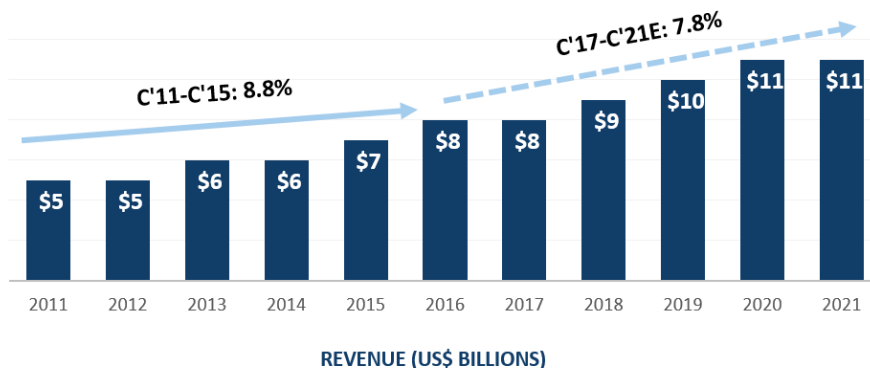


Source: Jamieson Wellness Investors Presentation Q3-2019

North America: Sports Nutrition

Jamieson Wellness has a small portion of its operations in the sports nutrition industry after acquiring brands that developed sports nutrition products. In 2016, North America held a dominant position in the global sports nutrition market, accounting for 30% of the industry. With North America having a higher body mass index (BMI) than most of the world, this fast growth in the sports nutrition industry could be explained by the increasing number of health clubs and fitness centers due to expanding health awareness and government healthcare campaigns. The number of gyms, health and clubs in Canada has experienced annual growth of 5.1% from 2014 to 2019. The sports nutrition industry contains a much more diverse product base, including sports drinks, supplements, protein powders, capsules/tablets, supplement powder, carbohydrate drinks, protein bars, and more. Like the VMS industry, the sports nutrition competitive landscape is consolidated with sales concentrated in a few multinational companies with sports nutrition brand.

NORTH AMERICAN SPORTS NUTRITION INDUSTRY GROWTH



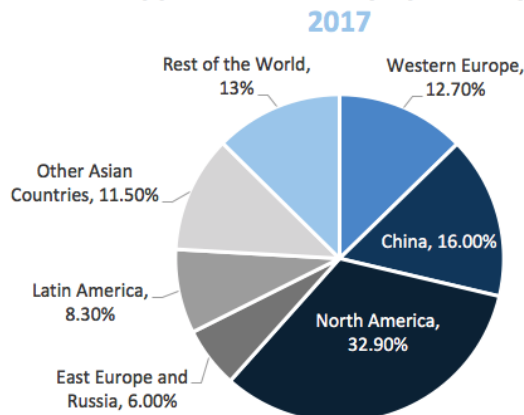
Source: Jamieson Wellness Investors Presentation Q3-2019

China: Vitamins Minerals, and Supplements

Although Jamieson’s products have had exposure to the Chinese VMS market in the past due to cross-border e-commerce, Jamieson made an official entry into the Chinese VMS market through establishing domestic distribution channels in early 2019. The VMS market in China makes up around 16% of the world’s VMS space in 2017, which makes China the second-largest VMS consumer in the world after North America. In addition, it is also growing considerably faster than other large markets. Historically, Chinese culture highly encourages the consumption of natural remedies such as herbs and tinctures to maintain a healthy body. We believe the idea of natural healthcare products such as vitamins, minerals and supplements fit well behind China’s long-lasting tradition of natural remedies. The Chinese VMS market plays a large portion of Jamieson’s international business revenues, as China is the world’s second-largest supplement industry. It must be noted that the Chinese industry is in a lot of ways different than the North American industry, largely due to a different set of regulations and distinct social factors. In 2017, the top 6 VMS brands occupied a combined market share of 43%, with the remaining 57% scattered across numerous smaller domestic brands. We believe this amount of dispersed competition leaves a huge area for market penetration.

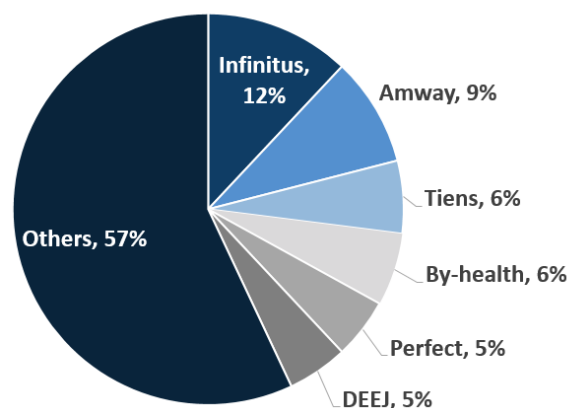
Due to health scares associated with the unregulated domestic health product industry, the skepticism amongst Chinese consumers has resulted in stricter regulations and favour towards foreign brands. Notably, one of Jamieson’s competitors, Blackmores, was publicly fined for misleading consumers through false advertising. To distribute natural health products in China, a company would need to register with the China Food and Drug Administration (CFDA), who oversees the inspection and supervision of all imported and locally produced health supplements. Additionally, each individual vitamin and supplement product will need to obtain a “blue hat certification” in order to be sold. Since obtaining these certifications can take over three months and be costly, it creates a high barrier to entry for many smaller companies with fewer resources compared to Jamieson, which currently holds the most certifications than any other foreign brand in China. With Jamieson’s years of brand equity and consumer trust in the North American market, we believe that the quality crackdown and regulatory reset can easily allow Jamieson’s products to rapidly penetrate the Chinese market.

Global Supplement Industry by Country or Region



Source: Nutrition Business Journal (\$mil, consumer sales)

Market Share of top VMS brands in China (2017)



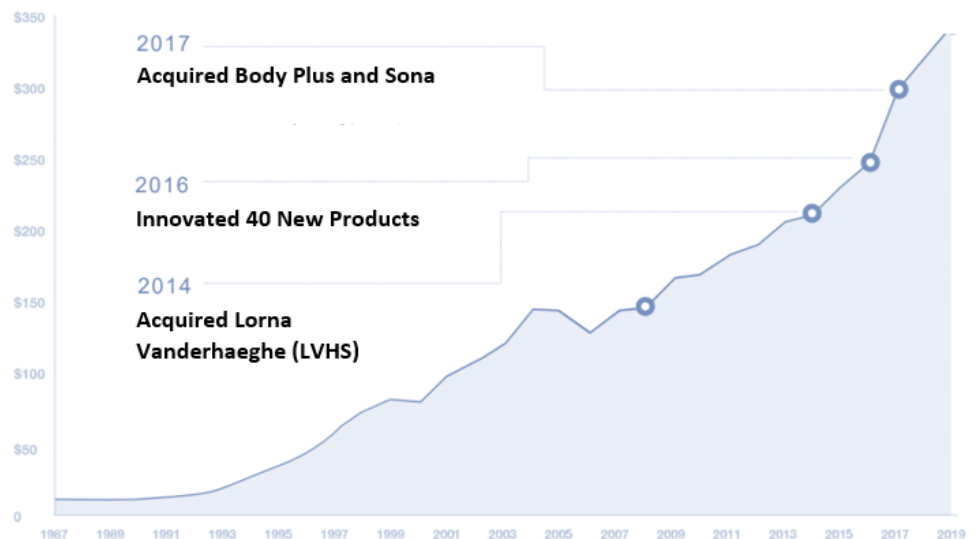
Source: DAXUE Consulting Industry Report, 2017

Company Strategy

Diversifying Through Strategic Acquisitions

Starting out as just the Jamieson brand in the VMS industry, Jamieson has rapidly expanded into other industries. In 2014, Jamieson acquired LVHS to diversify into women’s health and recently in 2017, Jamieson acquired Body Plus and Sonoma to enter the sports nutrition industry. Body Plus is a leading manufacturer and marketer of innovative natural health and sports nutrition supplements in Canada, which includes Progressive, Precision, and Iron Vegan in its brand portfolio. Sonoma, on the other hand, is a well-established manufacturer of private label supplements. As the North American VMS industry grew at a historical 3% CAGR for the past 8 years, Jamieson’s strategic entrance into the Sports Nutrition Industry which grew at 8-9% CAGR displays its ability to capture consumer trends and expand margins. The acquisitions of Body Plus and Sonoma were positioned well to capitalize on this trend. In addition to brand diversification as a goal, Jamieson also pursues acquisitions to increase manufacturing capabilities and capacity. With the acquisition of Body Plus, the ability to produce crucial protein powder and know-how were added. Jamieson currently has a healthy balance sheet and we believe they will continue to make more acquisitions. A possible focus for Jamieson could be to acquire an asset with the technology to produce chewable gummies – a manufacturing capability they currently do not own.

Jamieson Revenue Growth (1987-2019)











Source: Jamieson Wellness Investor Presentation Q3-2019

Strong Brand Equity Through State-Of-The-Art Facilities

Jamieson’s manufacturing process provides them with a significant advantage over competitors. One of the reasons why Jamieson is one of Canada’s top trusted brands is due to its high-quality product consistency. This is a result of “360 Pure,” their leading, full circle quality assurance protocol. Jamieson exceeds the standards implemented by Health Canada and carries numerous manufacturing certifications such as Health Canada Drug Establishment Licences and Australian Therapeutic Goods Administration (TGA) clearance. This company strategy is a heavy driver of Jamieson’s strategic partners revenue segment, where they gain a significant amount of revenue from co-manufacturing partnerships due to the high-quality production capabilities and economies of scale.

Leveraging Brand Equity for Product Innovation

The Jamieson brand is an almost 100-year-old iconic health brand that can be found in almost 40% of Canadian households. In the health care product industry where trust is one of the key drivers of consumer loyalty, Jamieson’s continuing production of high-quality products has gained them strong brand equity. In a 2015 study, consumers rated Jamieson as the top scorer for both the “Brand they love” and the “Brand they trust,” out of 7 other competitors such as Centrum, Webber Naturals, Life and Nature’s Bounty. Jamieson retains the leadership position by constantly innovating new products. For example, they were the first company to deliver mega-potency vitamins which are clinically proven, over-the-counter antioxidants to reduce cholesterol, as well as creating the smallest and most potent calcium mini tablets. We believe that Jamieson’s impressive history of product quality and innovation allows them to maintain strong brand equity that translates into their success when innovating new products.

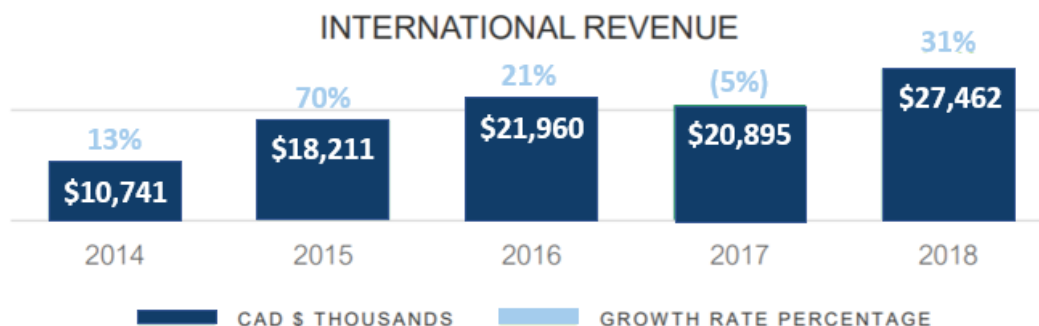
	BRAND I LOVE	BRAND I TRUST
	46	58
	23	40
	15	28
	15	25
	17	24
	10	17
	8	14
	7	13

Source: Jamieson Wellness Investors Presentation Q3-2019

Catalysts

Catalyst 1: Higher-Than-Expected Growth in China

Although historically Jamieson’s products have existed in the Chinese market through cross-border e-commerce, Jamieson officially entered the Chinese market through its domestic distribution channels in early 2019. Through its established “blue hat licenses,” which are certificates needed to distribute any health and wellness food products bearing functional claims in China, Jamieson has been able to register 20 of its product certifications at the end of 2019. In addition, Jamieson is also establishing partnerships with domestic retail channels such as Tmall, JD.com, and more. The market will be paying close attention to FY2019 earnings releases to see the true growth of Jamieson in China. International business is currently Jamieson’s fastest-growing division, with overall international sales doubling between 2013 to 2016. With the official entrance in China’s local distribution channels, we just saw a 23.9% increase in international business revenue in Q3-2019. If Jamieson shows stronger profits in the Chinese market, investors will be more confident seeing possible strong



Source: Jamieson Wellness Investors Presentation 2020

international growth in other international markets including India, Macedonia, Bosnia, and Croatia. Their profitability in China will also test the strength of Jamieson’s brand equity and distribution strategy to expand into other geographies.

Catalyst 2: Coronavirus Scare Increases Short Term Demand

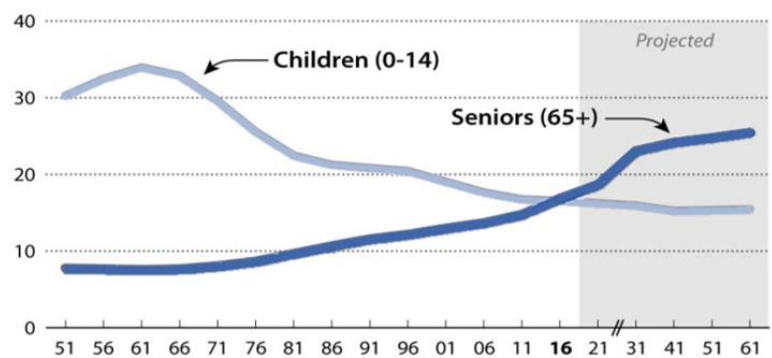
The Coronavirus, a widespread virus that first appeared in the Chinese city of Wuhan in December 2019, is causing global attention and scare. From the current research available, the Coronavirus is spread through human-to-human transmission such as coughing, sneezing, and close personal contact. Those who are more likely to die from this disease are people who have weak immune systems caused by other pre-existing health issues. This has led to the rising demand for protective equipment and health products such as surgical masks, hand sanitizer, and immune-system-boosting products. As high demand for surgical masks drove the price for one mask from \$1.50 to \$7, we believe natural health products will also increase in demand driven by those wanting to strengthen their immune system. With Jamieson’s recent expansion to China and domination in the North American industry, we believe its strong brand image combined with the Coronavirus scare will drive 2020 earnings.

Drivers

Driver 1: Aging Population and Health Trends Industry Tailwind

One demographic, the aging baby boomers, is heavily driving demand for products in the VMS industry. Baby Boomers are classified as those born between 1946 and 1964 – which would be about 56-74 years old in 2020. In 2016, it was the first time that Canada’s Census reported that the share of seniors (16.9%) exceeded the share of children (16.6%). We believe we can continue to see a larger age divide as the rate of birth decreases and the current population ages. As health problems usually start arriving as people age, many seniors are turning toward VMS products to obtain their necessary nutrients. Aside from the aging population, we can see that technological advances through time have resulted in higher living standards and rising disposable income. This has driven consumers to become more health-conscious and seek out a healthier lifestyle. We can observe this surge of health-conscious consumers through the rise of health clubs and fitness centers, with the number of new fitness gyms opened growing annually at 8.0% from 2014-2019. With Jamieson actively participating in the sports nutrition industry, we can see Jamieson being able to successfully match the 9% growing industry.

Canada’s Senior Population Share Versus Children Population Share from 1951 to 2061



Source: Statistics Canada (2051-2016) and The Canadian Press (2016-2061)

Driver 2: M&A Pipeline

Jamieson has a successful history of making strategic brand acquisitions to enter growing markets. For example, Jamieson recently acquired Body Plus to enter the sports nutrition industry which was growing faster than the VMS industry. We predict that Jamieson will continue to do M&A in this consolidating industry. Jamieson's ability to maintain a healthy balance sheet places itself in a strong position. In Q3-2019, cash flows from operating activities totalled \$6.7 million compared to \$2.2 million in the prior year, primarily due to increased earnings in the current year. Cash at end of Q3-2019 was \$4.1 million, which was drastically larger than \$2.8 million in Q3-2018. We also predict that Jamieson could be getting ready to make another acquisition, as they recently refinanced their existing credit facilities with one revolving facility for \$275MM and \$200MM of uncommitted funding through an accordion feature. They also renegotiated better terms to take on more debt with lower interest payments, which allows them to deleverage faster than before. We believe this displays strong management decision making to proactively manage their debt and possibly position themselves for potential M&A opportunities.

The past three acquisitions of LVHS, Body Plus, and Sona were not reflected in the stock price as all three acquisitions happened before the company went through its IPO process in mid-2017. However, the 23.1% Jamieson Brands segment revenue growth in FY2017 was heavily driven by the acquisitions of Body Plus and Sona, which leads us to believe that the market will look favourably towards a future acquisition. There are two types of M&A opportunities that will most likely be accretive: Acquiring an existing brand for marginal expansion and acquiring a manufacturer for larger manufacturing capabilities.

Acquiring an existing brand is an extremely viable option available to Jamieson right now. Jamieson can leverage its strong brand equity, combined with excess manufacturing capacity, to acquire a brand that can either launch Jamieson into a new product industry or into an international market. With the success Jamieson experienced through entering China, we believe Jamieson could potentially make acquisitions to enter another emerging market. We would personally choose India for a possible entrance opportunity, due to its rapidly growing per capita income and increasing consumer health consciousness.

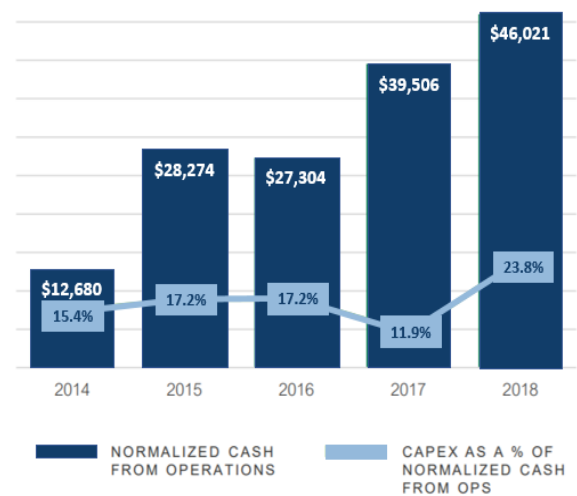
Acquiring a manufacturer can allow Jamieson to add to its production capabilities and increase the scale of its operations. Looking at the acquisition of Body Plus, manufacturing capabilities of producing crucial protein powder was added.

Jamieson Acquisition Focus

- Strategy focused on pursuing acquisitions that can benefit from leveraging Jamieson's strengths
 - Sales and marketing
 - R&D expertise and product commercialization
 - Quality manufacturing excellence
 - International distribution
- Key criteria considered for acquisition candidates
 - Entry into high-growth markets
 - Geographic or category expansion and complementary products
 - Brand, product and/or channel synergies
 - Financially attractive, margin accretive

Source: Jamieson Wellness Investors Presentation 2018

Normalized Cash from Operations



Source: Jamieson Wellness Investors Presentation Q3-2019

Jamieson can leverage an additional manufacturer to help create new products that are outside of its range production. One sector Jamieson could potentially get into is the gummies and probiotic product sector.

Management Team

Out of 38.9mm shares outstanding, insiders own 15.7mm shares, representing 40.46%. In addition, management's compensation plan is equity-based, and these awards are settled in common shares of the company and have no cash settlement alternatives. Furthermore, annual bonuses are earned and measured with reference to actual annual Adjusted EBITDA. We believe this shows that management is aligned with shareholder interests.

Mark Hornick, Director and Chief Executive Officer

Mark Hornick has held the Chief Executive Officer (CEO) position since June 2014. During his time at Jamieson, he led his team to implement a new vision and growth strategy for the company which yielded rapid sales and profit growth. Prior to Jamieson, Mr. Hornick served as the Executive Vice President and General Manager at Fiera Foods Company, a multinational bakery operation based in Toronto, where he focused on innovation and business development. Other experiences include Senior Vice President of Marketing and Innovation at Maple Leaf Consumer Foods and General Manager of Reckitt Benckiser Scandinavia. Mr. Hornick graduated from Wilfrid Laurier University with a Bachelor of Business Administration. Mr. Hornick owns 1.23% of shares outstanding worth approximately \$13mm.



Christopher Snowden, Chief Financial Officer and Corporate Secretary

Christopher Snowden has held the Chief Financial Officer (CFO) and Corporate Secretary position since July 2014. Prior to his current role, Mr. Snowden was the Vice President Corporate Controller at Sofina Foods, a large Canadian marketer of protein and grocery products. Before working at Sofina, he worked at Deloitte & Touche as a Senior Auditor and Petro Canada as a Business Analyst. He also holds a Chartered Public Accountant (CPA) certification of Ontario and a Bachelor of Commerce degree from the University of Windsor. Mr. Snowden owns 0.21% of shares outstanding worth approximately \$2mm.



John Doherty, Chief Science and Innovation Officer

John Doherty has held the Chief Science and Innovation Officer position since July 2013. His role includes overseeing product quality and products manufactured under both the Health Canada drug manufacturing license and Australia's Therapeutic Goods Administration clearance. Other responsibilities include regulatory matters, consumer affairs, clinical research and innovation. Prior to his current role, Mr. Doherty led clinical research and innovation at Iovate Health Sciences International, in the sports nutrition and weight loss sector, allowing him to bring his expertise to innovate Jamieson products in multiple areas. He graduated from



the University of Guelph with a bachelor's degree of Science in Plant Biotechnology. Mr. Doherty owns 0.04% of shares outstanding worth approximately \$0.4mm.

Investment Thesis

Market View:

The market views Jamieson as a mature company with a dominant leadership position in Canada and strong growth potential in China. With industry tailwinds such as an aging population and health-conscious consumers, the market expects favourable and stable revenues in the future. While holders are currently benefiting from a 23.9% increase in Jamieson's international business revenue in Q3-2019 from Q3-2018, many investors believe Jamieson will not be able to sustain a similar amount of growth in the long run and will regress back to the industry average.

Thesis 1: Global Expansion into China Market for Growth Opportunity

The Jamieson brand has already been known to Chinese consumers and available through cross border e-commerce in the country for around 20 years. Leveraging Jamieson's strong brand equity in Canada, the company has officially entered the Chinese market in early 2019 through local distribution channels. While domestic revenue growth in Q3-2019 for Jamieson has increased by 14.8% compared with last quarter, its international business revenue increased by 23.9%, driven by strong growth in China. Although we believe this is a short-run initial increase, we are still confident that Jamieson can continue outperforming the Chinese market at a similar rate. This growth can be credited to the first shipment of products for the domestic Chinese retail channel and strong demand in cross-border e-commerce. Jamieson has already won 20 product registrations by the end of 2020, which is the largest number of registrations of any foreign VMS manufacturer in China, reflecting strong regulatory performance. Due to strict product registration regulations creating high barriers to entry for competitors complimented by a highly fragmented market, we believe Jamieson is well-positioned to continue penetrating the market at a high sustainable growth rate.

Thesis 2: Non-Cyclical Business for Defensive Play

With recent economic activities such as the US-China trade war driving market uncertainty, investors can benefit from Jamieson being a non-cyclical business. Health care products are known to be a defensive industry, due to their ability to generate stable growth. Even during times of market uncertainty, people will continue getting sick and demand natural health products. Jamieson has a beta of 0.55, meaning that the company has a low correlation to market movement, further proving the point. Therefore, with uncertain economic outlooks into 2020, investors can hedge against the risk by investing in Jamieson.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

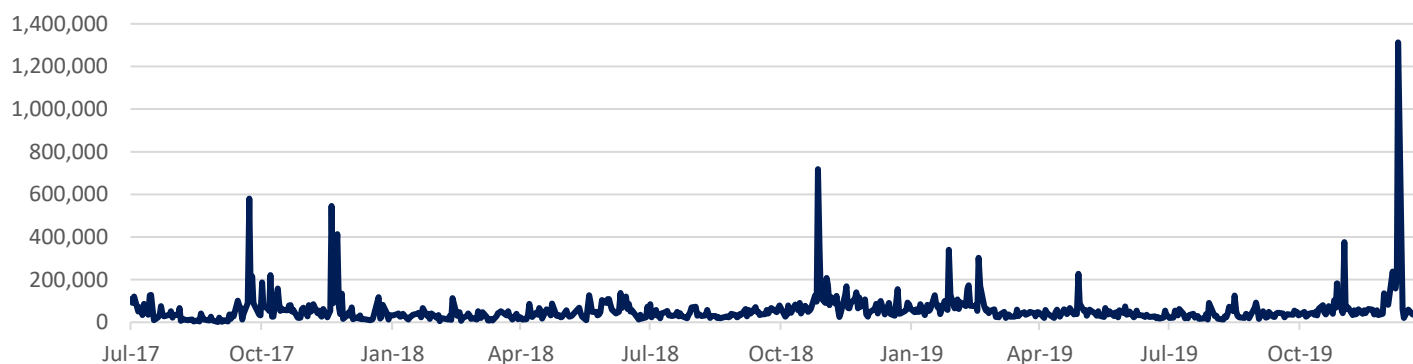
Jamieson Wellness's shareholder base is quite concentrated, with the top 11 holders occupying more than 55% of free float. Mackenzie Financial Corporation is the top holder with 17.4% of free float, while the CEO, Mr. Mark Hornick, is the 11th largest holder with 1.2% of free float. As most of Jamieson's top 11 shareholders view Jamieson as a growth stock, Jamieson's ambitious growth and expansion plans are in line with shareholder interests.

Shareholder (Name)	Shares Owned (mm)	% of Free Float (%)	Investment Style (Type)	Insider? (Y/N)	Position Date (Date)
Mackenzie Financial	6.77	17.37%	Growth	N	30-Sep-19
CIBC Asset Management	3.34	8.57%	GARP	N	30-Apr-18
Connor, Clark & Lunn Investment Management	3.04	7.80%	GARP	N	12-Apr-18
Mawer Investment Management	1.78	4.57%	Growth	N	30-Jun-19
Sentry Investments	1.64	4.21%	Growth	N	30-Sep-19
Fiera Capital	1.29	3.32%	Growth	N	29-Nov-19
RBC Global Asset Management	1.15	2.96%	GARP	N	30-Jun-19
Manulife Asset Management	0.95	2.43%	Growth	N	30-Sep-19
IG Investment Management	0.71	1.83%	GARP	N	30-Sep-19
CI Investments	0.63	1.61%	GARP	N	30-Sep-19
Hornick, Mark	0.48	1.24%	-	Y	15-Oct-19
Top 11 Identified Shareholders	21.78	55.91%			

Source: Capital IQ

Liquidity

Year-To-Date Daily Trading Volume



Source: Yahoo Finance

As of December 23, 2019, Jamieson Wellness's year-to-date average daily trading volume was 57.6k with a volume-weighted average price of \$21.49. This implies that the dollar amount traded on a year-to-date basis was approximately \$1.2 million, compared to its market cap of approximately \$1 billion. In addition, the free float is 38.3mm out of 38.9mm shares outstanding, representing a free float % S/O of 98%. This implies high liquidity. However, since the top 11 shareholders occupy more than 55% of free float, this poses risks should those shareholders make a large sell.

Valuation

Discounted Cash Flow Analysis Assumptions

Jamieson Brands Revenue: Revenue was projected separately for its Jamieson Brand segment and its Strategic Partners Segment. Jamieson Brand's revenue breakdown is composed of 70% Domestic Sales of Jamieson Products, 19% Specialty Brands (Jamieson Acquired Brands), and 11% International Sales of Jamieson Products. With a current domestic VMS market growth of 3%, a Specialty Brand market growth of 8% (based on the sports nutrition industry), and 14% international market growth (based on the VMS industry in China), we created a weighted average revenue growth rate.

Revenue Segment	Weight	New Weight	Projected Market Growth	Estimated Growth
Domestic	70%	65%	3%	5%
International	11%	16%	14%	24%
Specialty Brand	19%	19%	8%	12%
WEIGHTED AVERAGE GROWTH				9.37%

Projected market growth is forecasted from the aging population and consumer health trend driver. As Jamieson is the leading brand in Canada and has strong brand equity, we expect Jamieson to outperform the market in both domestic and specialty brand. Internationally, China's VMS market has been growing at 14%. With Jamieson's success re-entering the market in early 2019, our forecasts reflect Jamieson's expected rapid growth in the coming future. However, we expect Jamieson's international growth to slow down in the long run to be in-line with the overall market growth.

Strategic Partners Revenue: Revenue growth for the strategic partners brand has fluctuated historically, with negative growth in 2017 of (16.7%) to positive growth in 2018 of 19.5%. We estimate Q4-2019 to have a growth rate of 12% which results in FY-2019's growth rate to be 15.3%. This is due to management stating that they will focus on building stronger partnerships in this segment Q4-2019. However, we only projected consistent growth in this sector as we believe management will be allocating more time and resources to the expansion to China.

Capex: Although the average for FY-2017 and FY-2018 Capex as % of beginning P&E was only 16.1%, we projected Capex to hike to 20% in 2020 due to increasing investments from expanding to China. As re-entering the Chinese market was Jamieson's main focus in 2019, we can expect to see more capital being put in to ensure the growth of the brand internationally. In addition, 20% also reflects the possibility of Jamieson making an acquisition to develop higher manufacturing capabilities or capacities.

Dividend Policy: Since Jamieson went through its IPO in 2017, its quarterly dividend has been increasing constantly from \$0.08 to \$0.10 based on a constant payout ratio. As a result, we believe that the dividend will remain at \$0.10 in Q3-2019 and will be increased to \$0.11 starting Q1-2020.

Margins: We expect Jamieson to maintain a constant gross profit and operating margin.

Weighted Average Cost of Capital: The weighted average cost of capital (WACC) was calculated to be 5.3%. This took into consideration a risk-free rate of 1.67% based on the YTM of the 2-year Canadian treasury bills, a 5-year adjusted beta of 0.55, an expected market return of 8.8%, an effective tax rate of 26%, and an after-tax cost of debt of 4.5%.

Weighted Price Target: We have chosen to derive our implied share price based on a 60% weighting of the perpetuity growth method and 20% exit multiple method from our Discounted Cash Flow, alongside the remaining 20% of the Comparable Companies analysis.

Comparable Company Analysis Set

Pfizer Inc. (NYSE: PFE): Pfizer Inc develops, produces, and distributes healthcare products globally. Pfizer owns Centrum, a brand that offers a range of multivitamins formulated to include the essential vitamins and minerals. Pfizer also owns Emergen-C, a vitamin supplement powdered drink mix.

Nature's Sunshine Products (Nasdaq: NATR): Nature's Sunshine Products is a natural health and wellness company that manufactures and distributes nutritional and personal care products worldwide.

Blackmores Limited (ASX: BKL): Blackmores develops and distributes natural health products for both humans and animals in Australia, New Zealand, Asia, China and internationally. It offers vitamins and herbal and mineral nutritional supplements.

LifeVantage Corporation (Nasdaq: LFTV): LifeVantage provides research, development and distribution of nutraceutical dietary supplements and personal care products.

Nestlé (SWX: NESN): Nestlé, with all its subsidiaries, operates as a food and beverage company globally. Nestlé owns Garden of Life, Pure Encapsulations, Boost and many more health science-focused brands.

Amway Holdings (KLSE: AMWAY): Amway is an investment holding company in Malaysia that distributes consumer products. It offers nutrition and wellness products under its Nutrilite brand and owns another nutrition brand called Metagenics. Amway also owns Herbalife, a multi-level-marketing corporation that develops, markets, and sells dietary supplements, weight management, sports nutrition, and personal-care products.

GNC Holdings (NYSE: GNC): GNC Holdings, combined with its subsidiaries, operates as a specialty retailer of health, wellness, and performance products. It operates throughout Canada, the US, and other international segments.

Medifast (NYSE: MED): Medifast manufactures and distributes weight loss, weight management, healthy living products, and other consumable health and nutritional products.

USANA Health Sciences (NYSE: USNA): USANA develops, manufactures, and distributes science-based nutritional supplements and personal care products. It aims to reduce the risk of chronic degenerative disease.

Recommendation

We believe that Jamieson Wellness is undervalued by the market. Although Jamieson's stock price has been justified by its strong presence in the North American markets, we believe that the market has not yet realized the true potential growth through its expansion to China. With already seen success entering in China, we expect Jamieson to further extend their distribution channels in China as well as expand to other emerging markets. In addition, we also expect Jamieson to do another acquisition in the near future.

We decided to weigh DCF analysis at 80%, with the perpetuity growth method at 60% and the exit multiple at 20%. The comps analysis is weighed at the remaining 20%, with both multiples equal at 10%. We valued the perpetuity growth method higher than the exit multiple because Jamieson went through its IPO in 2017 and is still going through a strong growth phase. The reason why comps are weighed less significantly compared with DCF is because of its comp set. Since the industry is consolidating with multinational corporations holding their own portfolio of VMS brands, comparing Jamieson Wellness to companies such as Pfizer, Amway and Nestlé do not reflect the true value of Jamieson. Therefore, we decided to weigh 80% on DCF and 20% on comps.

Based on the Discounted Cash Flow model and our Comparable Companies Analysis, we determine a fair share price of \$35. We initiate a **buy** rating on Jamieson Wellness.

Risks

Fluctuations in Raw Material Prices

In the case of drastic changes to the price/availability of materials, Jamieson's production could be affected. More specifically, raw materials such as Vitamin C are only available through a select number of suppliers. If prices suddenly increase, it can negatively affect the company's margins. However, Jamieson mitigates this risk by sourcing its materials from multiple suppliers to limit the risk. In addition, Jamieson enters into one-year contracts for raw materials at fixed prices to avoid short-term price volatility.

Product Recalls

Although Jamieson has implemented its state-of-the-art "360 Pure" quality control protocols, potential unforeseen errors can cause Jamieson to have a production set back through product recalls. Depending on the severity of the product recall, it can be detrimental to the company's brand image and consumer trust, the fundamental things that helped Jamieson grow as a leading brand.

Failure to Build Brand Loyalty Internationally

Even though Jamieson strives to push its brand to various countries globally, a huge risk is whether Jamieson can successfully appeal to different cultures and demographics. Just from the expansion to China, we already saw massive differences in the markets as opposed to Canada, such as demographics and regulations. These differences will be seen in any country Jamieson expands to and could possibly create a risk if the company fails to establish brand loyalty with the everyday consumers.

Foreign Exchange Risk

The company is geographically diversified, with its products distributed around the world. Jamieson reports in CAD as its headquarters and main operations are in Canada but have a sizeable amount of sales in USD. In addition, Jamieson also purchases its materials in USD. Political uncertainty such as the US-China trade war can potentially negatively impact company operations, as Canada keeps close ties with the US. To mitigate this risk, the company enters hedging contracts to cover its net exposure on a rolling 12-month basis.

Appendix 1: Model Summary

(Figures in mm CAD)	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
	FY2014	FY2015	FY2016	FY2017	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Income Statement															
Revenue	193.2	230.9	248.3	300.6	319.8	72.6	80.6	88.6	99.5	341.3	377.0	413.0	451.5	493.6	539.9
EBITDA	14.8	32.0	36.0	51.3	53.2	10.7	12.6	14.5	15.5	53.4	59.2	64.4	72.7	81.9	92.3
Net Income	(33.2)	(95.4)	(25.2)	(23.8)	26.7	5.4	8.2	4.9	10.0	28.5	36.8	40.4	46.3	53.0	60.7
Earnings Per Share	#DIV/0!	#DIV/0!	\$ (1.01)	\$ (1.27)	\$ 0.67	\$ 0.14	\$ 0.21	\$ 0.12	\$ 0.25	\$ 0.72	\$ 0.93	\$ 1.02	\$ 1.17	\$ 1.34	\$ 1.53
Cash Flow Statement															
Capital Expenditures	(1.9)	(4.9)	(4.7)	(4.7)	(10.9)	(1.8)	(2.3)	(1.6)	(3.2)	(8.9)	(13.2)	(12.3)	(11.4)	(10.1)	(8.6)
Acquisitions	(322.8)	-	-	(82.5)	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	(0.3)	(0.6)	(0.2)	(0.0)	(0.0)	-	(0.3)	-	-	-	-	-
Dividend Payment	-	-	-	(15.6)	(12.9)	(3.4)	(3.5)	(3.9)	(3.9)	(14.6)	(17.3)	(4.6)	(4.6)	(5.0)	(5.0)
Dividend Per Share	\$ -	\$ -	\$ -	\$ 0.16	\$ 0.34	\$ 0.09	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.39	\$ 0.45	\$ 0.12	\$ 0.12	\$ 0.13	\$ 0.13
Dividend Payout to Earnings	-	-	-	-65.7%	48.5%	64.0%	42.1%	79.0%	38.5%	51.4%	47.1%	11.4%	10.0%	9.5%	8.3%
Dividend Payout to Core FCF	-	-	-	69.3%	33.4%	-42.3%	38.7%	46.4%	25.4%	60.1%	29.1%	7.4%	6.8%	6.8%	6.3%
Dividend Yield	-	-	-	0.8%	1.5%	0.5%	0.5%	0.4%	0.4%	1.7%	1.6%	0.4%	0.4%	0.5%	0.5%
Balance Sheet															
Current Assets	96.8	101.3	107.0	137.4	172.0	162.1	166.8	193.0	206.9	206.9	239.3	271.4	322.6	382.6	452.9
Non-Current Assets	306.7	302.6	298.2	375.1	377.0	383.8	388.3	387.8	389.0	389.0	392.7	395.3	396.5	396.3	394.6
Assets	403.5	403.9	405.2	512.6	549.0	546.0	555.2	580.8	595.9	595.9	632.1	666.7	719.1	778.9	847.6
Current Liabilities	128.8	232.4	251.8	81.7	102.6	86.4	86.0	92.9	101.9	101.9	118.6	117.4	128.2	140.0	152.9
Non-Current Liabilities	307.8	296.6	305.0	210.0	205.7	216.6	222.2	237.8	237.8	237.8	237.8	237.8	237.8	237.8	237.8
Liabilities	436.6	529.0	556.8	291.7	308.3	303.0	308.2	330.7	339.7	339.7	356.4	355.2	366.0	377.7	390.7
Shareholders' Equity	(33.0)	(125.1)	(151.6)	220.8	240.7	243.0	246.9	250.1	256.2	256.2	275.7	311.5	353.2	401.2	456.9
Cash	6.9	2.3	15.9	4.8	12.4	3.3	5.3	4.2	37.9	37.9	37.2	58.6	99.1	148.2	207.4
Debt	182.3	165.2	152.8	163.2	165.9	171.9	173.8	174.1	174.1	174.1	174.1	174.1	174.1	174.1	174.1
Net Debt	175.5	162.8	136.9	158.4	153.5	168.6	168.5	169.9	136.2	136.2	136.8	115.5	75.0	25.9	(33.3)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	11.9 x	5.1 x	3.8 x	3.1 x	2.9 x	-	-	-	-	2.5 x	2.3 x	1.8 x	1.0 x	0.3 x	n/a
Operating Metrics															
Return on Equity (ROE)	100.4%	76.2%	16.6%	-10.8%	11.1%	-	-	-	-	11.1%	13.4%	13.0%	13.1%	13.2%	13.3%
Return on Assets (ROA)	-8.2%	-23.6%	-6.2%	-4.6%	4.9%	-	-	-	-	4.8%	5.8%	6.1%	6.4%	6.8%	7.2%
Return on Invested Capital (ROIC)	-25.1%	-391.0%	171.1%	-6.4%	7.0%	-	-	-	-	7.3%	8.9%	9.5%	10.8%	12.4%	14.3%
Valuation Metrics															
Stock Price (High)	\$ -	\$ -	\$ -	\$ 22.76	\$ 27.88	\$ 21.69	\$ 20.52	\$ 24.97	\$ 27.32	\$ 27.32	\$ 27.32	\$ 27.32	\$ 27.32	\$ 27.32	\$ 27.32
Stock Price (Low)	\$ -	\$ -	\$ -	\$ 16.50	\$ 17.38	\$ 17.50	\$ 17.38	\$ 19.67	\$ 27.32	\$ 17.38	\$ 27.32	\$ 27.32	\$ 27.32	\$ 27.32	\$ 27.32
Stock Price (Average)	\$ -	\$ -	\$ -	\$ 19.63	\$ 22.63	\$ 19.60	\$ 18.95	\$ 22.32	\$ 27.32	\$ 22.35	\$ 27.32	\$ 27.32	\$ 27.32	\$ 27.32	\$ 27.32
Diluted Shares Outstanding (Average)	-	-	25.0	18.7	39.5	39.7	39.7	39.6	39.6	39.6	39.6	39.6	39.6	39.6	39.6
Market Capitalization (Average)	-	-	-	366.5	894.6	777.1	753.1	883.4	1,081.2	885.9	1,081.2	1,081.2	1,081.2	1,081.2	1,081.2
Enterprise Value (Average)	175.5	162.8	136.9	524.9	1,048.1	945.7	921.6	1,053.3	1,217.4	1,022.1	1,218.1	1,196.7	1,156.2	1,107.1	1,047.9
P/E	-	-	-	n/a	33.5 x	-	-	-	-	31.1 x	29.4 x	26.7 x	23.4 x	20.4 x	17.8 x
EV/EBITDA	11.9 x	5.1 x	3.8 x	10.2 x	19.7 x	-	-	-	-	19.1 x	20.6 x	18.6 x	15.9 x	13.5 x	11.3 x
FCF Yield to Market Capitalization	-	-	-	8.3%	3.0%	-	-	-	-	6.8%	1.5%	2.4%	4.2%	5.0%	5.9%
FCF Yield to Enterprise Value	12.6%	11.9%	22.7%	5.8%	2.5%	-	-	-	-	5.9%	1.4%	2.2%	3.9%	4.9%	6.1%
Free Cash Flow															
EBIT	10.7	25.5	31.0	44.9	50.1	9.9	11.9	13.3	13.5	48.6	49.8	54.6	62.5	71.6	82.0
Tax Expense	3.2	(1.9)	(3.7)	(8.2)	(10.6)	(2.1)	(1.5)	(2.1)	(3.5)	(12.6)	(12.9)	(14.2)	(16.2)	(18.6)	(21.3)
D&A	4.1	6.5	4.9	6.3	3.1	0.8	0.7	1.3	2.0	4.8	9.4	9.8	10.1	10.3	10.3
Capital Expenditures	(1.9)	(4.9)	(4.7)	(4.7)	(10.9)	(1.8)	(2.3)	(1.6)	(3.2)	(8.9)	(13.2)	(12.3)	(11.4)	(10.1)	(8.6)
Changes in NWC	6.1	(5.9)	3.5	(7.9)	(5.2)	(19.0)	(5.4)	(5.0)	28.7	28.7	(16.3)	(11.9)	0.1	0.9	1.9
Unlevered Free Cash Flow	22.1	19.3	31.1	30.5	26.5	(12.2)	3.5	5.9	37.6	60.6	16.7	26.0	45.1	54.1	64.2
Valuation Summary															
Current Price	\$ 27.32														
Target Price	\$ 34.39														
Total Return	25.9%														
Recommendation	BUY														
DCF Valuation															
Perpetuity Growth Implied Price	\$ 40.69														
Exit Multiple Implied Price	\$ 36.80														
Comps Valuation															
Comps - EV/EBITDA Implied Price	\$ 10.98														
Comps - P/E Implied Price	\$ 13.27														

Appendix 2: Discounted Cash Flow Analysis

(Figures in mm CAD)	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
	FY2014	FY2015	FY2016	FY2017	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
WACC Calculations															
Cost of Equity															
Risk-free rate	1.7%														
Expected market return	8.8%														
Market Risk Premium	7.2%														
Beta	0.55														
Cost of Equity	5.6%														
Cost of Debt															
Pre-tax cost of debt	4.5%														
Effective tax rate	26.0%														
Cost of Debt	3.33%														
WACC															
Market value of equity	1,046.9														
Market value of debt	174.1														
Total Capitalization	1,221.0														
Cost of equity	5.6%														
Cost of debt	3.3%														
WACC	5.3%														
Free Cash Flow															
EBIT	10.7	25.5	31.0	44.9	50.1	9.9	11.9	13.3	13.5	48.6	49.8	54.6	62.5	71.6	82.0
Less: Tax expense	3.2	(1.9)	(3.7)	(8.2)	(10.6)	(2.1)	(1.5)	(2.1)	(3.5)	(12.6)	(12.9)	(14.2)	(16.2)	(18.6)	(21.3)
Add: Depreciation and amortization	4.1	6.5	4.9	6.3	3.1	0.8	0.7	1.3	2.0	4.8	9.4	9.8	10.1	10.3	10.3
Less: Capital expenditures	(1.9)	(4.9)	(4.7)	(4.7)	(10.9)	(1.8)	(2.3)	(1.6)	(3.2)	(8.9)	(13.2)	(12.3)	(11.4)	(10.1)	(8.6)
Less: Change in net working capital	6.1	(5.9)	3.5	(7.9)	(5.2)	(19.0)	(5.4)	(5.0)	28.7	28.7	(16.3)	(11.9)	0.1	0.9	1.9
Unlevered Free Cash Flow	22.1	19.3	31.1	30.5	26.5	(12.2)	3.5	5.9	37.6	60.6	16.7	26.0	45.1	54.1	64.2
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow									37.1	37.1	16.3	23.1	38.2	43.5	49.0
Discounted Cash Flow Valuations															

Perpetuity Growth Method	
Perpetuity Growth Rate	2.0%
PV sum of unlevered FCF	207.2
Terminal value	1,525.1
Enterprise Value	1,732.3
Add: Cash	4.2
Less: Debt	174.1
Less: Other EV adjustments	3.2
Equity Value	1,559.2
Shares outstanding	38.3
Implied Share Price	\$ 40.69
Current Price	\$ 27.32
Implied Price	\$ 40.69
Total Return	48.9%

Exit Multiple Method	
Terminal EV/EBITDA Multiple	22.5 x
PV sum of unlevered FCF	
Terminal value	1,583.4
Enterprise Value	1,583.4
Add: Cash	4.2
Less: Debt	174.1
Less: Other EV adjustments	3.2
Equity Value	1,410.3
Shares outstanding	38.3
Implied Share Price	\$ 36.80
Current Price	\$ 27.32
Implied Price	\$ 36.80
Total Return	34.7%

		WACC				
		6.30%	5.80%	5.30%	4.80%	4.30%
Perpetuity Growth Rate	1.00%	\$ 23.92	\$ 27.05	\$ 30.91	\$ 35.80	\$ 42.18
	1.50%	\$ 26.46	\$ 30.24	\$ 35.03	\$ 41.28	\$ 49.77
	2.00%	\$ 29.59	\$ 34.28	\$ 40.40	\$ 48.71	\$ 60.65
	2.50%	\$ 33.55	\$ 39.54	\$ 47.68	\$ 59.38	\$ 77.58
	3.00%	\$ 38.70	\$ 46.68	\$ 58.13	\$ 75.97	\$ 107.53
Terminal EV/EBITDA Multiple	20.5 x	\$ 31.32	\$ 32.22	\$ 33.15	\$ 34.10	\$ 35.08
	21.5 x	\$ 33.07	\$ 34.01	\$ 34.98	\$ 35.98	\$ 37.01
	22.5 x	\$ 34.82	\$ 35.80	\$ 36.82	\$ 37.87	\$ 38.94
	23.5 x	\$ 36.57	\$ 37.60	\$ 38.66	\$ 39.75	\$ 40.88
	24.5 x	\$ 38.32	\$ 39.39	\$ 40.49	\$ 41.63	\$ 42.81

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