

Action Summary – 27 November 2023

Analyst Theodore R. O'Neill Updating estimates following transformational acquisition – reiterate Buy rating and \$5 PT

- **Game changing transactions.** Beginning in early November, the Company entered a transformative series of transactions that:
 - Put the company in charge of one of the largest online liquor distributors in the U.S. launching the company into the forefront of the industry
 - Solidified its balance sheet with the addition of >\$10MM of new cash.
 - Resolved a NASDAQ listing requirement.
- **We view these transactions as positive.** The company was already on the path to acquire a distributor, which it has now done and this will change the business model from the one we wrote about in our initiation last month. While it may take a quarter or two for the results to become clear, we consider the transactions taken by the company this month are remarkable for their speed and execution.
- **Revision to estimates.** It's far too early to predict with a great deal of certainty how revenue and earnings are going to look next year, but we gave it our best guess. Knowing these estimates will likely change as the company ramps its new business model, we are looking at revenue and EPS next year of 7.25MM and an EPS loss of \$1.07 and reaching breakeven in 1H25.
- **Attractive Valuation.** The average of peers 2024 market cap/sales is ~2.85x and the range is 0.77x to 7.12x. The shares are selling at a discount to peer averages. This, and our discounted future earnings model confirm our view that the shares are undervalued.

11/24 Closing price: \$0.03 USD	Market cap: \$6 million	Multiple of book: 1.3x	EV/2024 Sales: 0.83x
Diluted shares outstanding: 165 million	Insider ownership: ~10%	3-mo avg. daily trading volume: 2MM	Dividend 2023 /Yield: Special Non-monetary

(Revenue in USD thousands and EPS in dollars)

Period	EPS	Revenue	Net Income Margin
1Q23A	(\$0.04)	\$150.6	
2Q23A	(\$0.37)	\$191.0	
3Q23A	(\$0.47)	\$275.0	
4Q23E	<u>(\$0.04)</u>	<u>\$400.0</u>	
FY23E	<u>(\$0.52)</u>	<u>\$1,016.6</u>	<u>(NMF)</u>
1Q24E	(\$0.48)	\$900.0	
2Q24E	(\$0.34)	\$1,500.0	
3Q24E	(\$0.20)	\$2,050.0	
4Q24E	<u>(\$0.05)</u>	<u>\$2,800.0</u>	
FY24E	<u>(\$1.07)</u>	<u>\$7,250.0</u>	<u>(51.5%)</u>

Note: Numbers may not be added due to rounding or change in share count. See our full model at the back of this report.

Cash balance (in USD thousands)

• 2021A	• \$1,116
• 2022A	• \$8
• 2023E	• \$10,558
• 2024E	• \$11,711

LT Borrowings (in USD thousands)

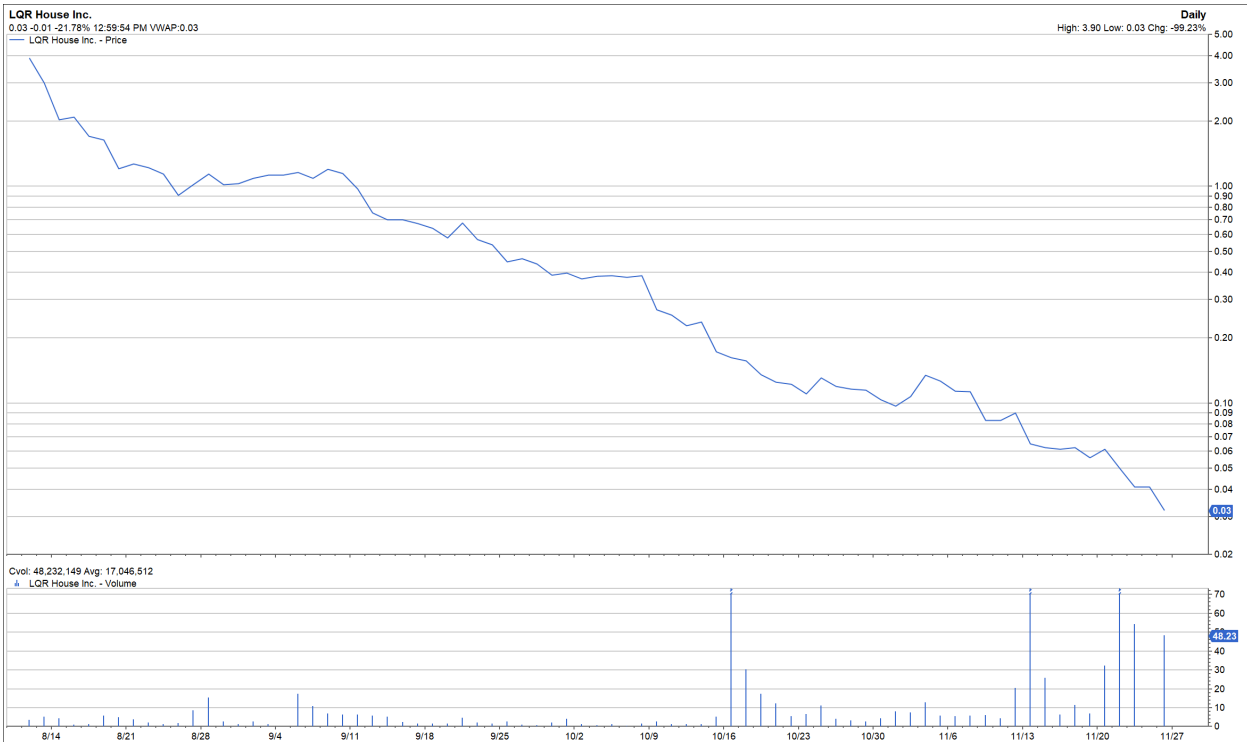
• 2021A	• \$0.0
• 2022A	• \$0.0
• 2023E	• \$0.0
• 2024E	• \$0.0

Risks/Valuation

- Risks: competitive marketplace, highly regulated business, dependence on marketing partners
- Our \$5 price target is derived from our discounted future earnings model.

Company description: LQR House is a dynamic and forward-thinking e-commerce marketing company that intends to become the full-service digital marketing and brand development face of the alcoholic beverage space. Currently, LQR House controls Country Wine & Spirits Inc. ("CWS"), a large alcohol ecommerce platform. Composed of a team of seasoned professionals, LQR House focuses on crafting marketing solutions tailored to each client's unique needs.

Figure 1 – LQR House, Inc. – Trading snapshot since IPO in August 2023



Source: FactSet

Investment Thesis

Game changing transactions. Beginning in early November, the Company entered a transformative series of transactions that:

- Put the company in charge of one of the largest online liquor distributors in the U.S. and launched it as a powerhouse of the industry
- Solidified its balance sheet with the addition of >\$10MM of new cash.
- Resolved a NASDAQ listing requirement.

It is hard to overstate the significance of these events and we believe it is a testament to management that it was able to effect all these transformative transactions in a single month.

On November 1, LQR effectively acquired Country Wine and Spirits (CWS), one of the largest online liquor retailers where it had previously only managed marketing for others and sold its own brands. The acquisition leaves in place the existing CWS management team, which is paid a fee to continue and incentives to grow the business.

On November 13, it closed on a financing round that would add more than \$10MM in cash to its balance sheet and put it in a strong position to complete other acquisitions of alcoholic beverage brands, to invest in marketing of existing brands, including SWOL, which it already owns, and for general working capital purposes.

On November 20, it repurchased nearly 1.5MM of its shares at an average cost of \$0.061/share believing, as we do, that the shares were undervalued.

On November 21, it announced the Board had approved a reverse 60 for 1 stock split that awaits NASDAQ approval and is likely to satisfy its listing requirements.

In addition, the company reported earnings on November 16, but given the nature of the transactions just completed, a comparison to our estimates would have no meaning.

Valuation and Price Target

Valuation Methodology

We believe LQR is undervalued, and we support that belief with two valuation techniques. To determine our price target, we use a discounted future earnings model, and we support that with a comparable valuation to peers.

Discounted Future Earnings – Basis for Price Target – And highly likely to change in a positive direction

It is highly likely that our \$5 price target will change, and we will have a better handle on it as the company exercises its new financial model. Our 12-month price target of \$5 was based on a discounted earnings model. For valuation purposes, we sum up all future earnings on a GAAP basis and discount them at 7.5%. We assume the company becomes GAAP EPS profitable in 2026 and earnings growth ramps up for another 8 years until growth eventually slows to GDP. On a preliminary basis, after the effect of the reverse split, the target is likely to significantly increase.

Valuation Relative to Peers

Figure 2 is a summary of our LQR peer comparison. We have updated the market cap to reflect the newly issued shares. The peer average of 2024 market cap/sales is 2.85x and the range is 0.77x to 7.12x. Our current assumption of LQR sales in 2024 is \$7.25MM and at the average Market Cap to sales, would imply a market cap 3x larger than where it is today. This and our discounted future earnings model confirm our view that the shares are undervalued. Because the company has more cash than its market cap, technically it EV is negative.

Figure 2 – LQR House, Inc. – Valuation of Peers

		2024					
Ticker	Company Name	Latest price	Market Cap USD\$ Millions	Enterprise Value USD\$ Millions	Market Cap/Sales	EV/Sales	EV/EBITDA
CXM-US	Sprinklr, Inc. Class A	\$15.19	4,103.1	3,907.1	4.92	4.23	33.15
SPT-US	Sprout Social, Inc. Class A	\$54.17	3,004.1	3,169.6	7.12	6.99	151.17
3632-JP	GREE, Inc.	\$3.69	618.3	133.3	1.53	0.26	2.50
5027-JP	AnyMind Group Inc.	\$5.65	325.1	312.3			
3660-JP	istyle Inc.	\$3.34	267.6	313.7	0.77	0.95	
3688-JP	Carta Holdings, Inc.	\$8.47	213.3	109.6			
3675-JP	Cross Marketing Group, Inc.	\$3.84	72.9	66.3			
6533-JP	Orchestra Holdings Inc.	\$7.06	72.2	75.1			
6069-JP	Trender, Inc.	\$8.22	60.9	49.0	1.50	1.06	
BUSER-SE	Bambuser AB	\$0.11	23.0	(2.9)	1.24		
ILST-US	International Star, Inc.	\$0.00	1.0	2.2			
DGTL-CA	DGTL Holdings, Inc.	\$0.00	0.2	3.1			
	Average				<u>2.85</u>	<u>2.70</u>	<u>62.27</u>
LQR-US	LQR House Inc.	\$0.03	6.0	6.0	0.83	0.83	
	LQR Discount to peers				-71%	-69%	

Source: Litchfield Hills Research LLC and FactSet

Financial Projections and Guidance

Our projections assume LQR makes steady progress toward profitability and becomes profitable at the operating income line sometime in fiscal 1H 2025. There are three or more possible routes to achieving profitability and our forecast assumes it will come with increased revenue, but it also could be achieved through higher gross profit margins or improved operational efficiency or a combination of all three. Our model assumes a significant rise on operating expenses consistent with a large growth in sales. We expect to improve our model as the company reports results.

Figure 6 – LQR House, Inc. – Income Statement (in dollars)

December ending year	2023E				2023E Year	2024E				2024E Year
	Q1A	Q2A	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$150,563	\$191,022	\$170,511	\$400,000	\$912,096	\$900,000	\$1,500,000	\$2,050,000	\$2,800,000	\$7,250,000
<i>Growth</i>	106%	145%	129%	417%	52%	498%	685%	1102%	600%	695%
Cost of Goods	102,997	135,961	162,892	283,000	684,850	282,000	489,000	683,500	928,000	2,382,500
Gross Profit	47,566	55,061	7,619	117,000	227,246	618,000	1,011,000	1,366,500	1,872,000	4,867,500
Gross Margin	31.6%	28.8%	4.5%	29.3%	24.9%	68.7%	67.4%	66.7%	66.9%	67.1%
Sales and marketing	48,323	3,559,688	574,026	700,000	4,882,037	700,000	700,000	750,000	750,000	2,900,000
General and administrative	321,317	51,864	4,803,821	1,800,000	6,977,002	1,600,000	1,500,000	1,300,000	1,300,000	5,700,000
Total Operating Expenses	369,640	3,611,552	5,377,847	2,500,000	11,859,039	2,300,000	2,200,000	2,050,000	2,050,000	8,600,000
Operating expense margins	246%	1891%	3154%	625%	1300%	256%	147%	100%	73%	119%
Operating Income	(322,074)	(3,556,491)	(5,370,228)	(2,383,000)	(11,631,793)	(1,682,000)	(1,189,000)	(683,500)	(178,000)	(3,732,500)
Operating Margin	NMF	NMF	NMF	NMF	NMF	-186.9%	-79.3%	-33.3%	-6.4%	-51.5%
Total Other Items	0	0	(171,000)	0	(171,000)	0	0	0	0	0
Pre-Tax Income	(322,074)	(3,556,491)	(5,541,228)	(2,383,000)	(11,802,793)	(1,682,000)	(1,189,000)	(683,500)	(178,000)	(3,732,500)
Taxes (benefit)	0	0	0	0	0	0	0	0	0	0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (loss)	(322,074)	(3,556,491)	(5,541,228)	(2,383,000)	(11,802,793)	(1,682,000)	(1,189,000)	(683,500)	(178,000)	(3,732,500)
Net Margin	-213.9%	-1861.8%	-3249.8%	-595.8%	-1294.0%	-186.9%	-79.3%	-33.3%	-6.4%	-51.5%
EPS	(\$0.04)	(\$0.37)	(\$0.47)	(\$0.04)	(\$0.52)	(\$0.48)	(\$0.34)	(\$0.20)	(\$0.05)	(\$1.07)
Share count	9,200,406	9,492,045	11,692,728	60,000,000	22,596,295	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – LQR House, Inc. – Balance Sheet (in dollars)

December ending year	2024E	2023E	2022A	2021A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$11,710,921	\$10,558,406	\$7,565	\$1,116,101
Accounts receivable	350,000	200,000	224,692	93,920
Advances to related parties	500,000	200,000	0	0
Inventories	0	0	0	0
Prepaid and other	<u>200,000</u>	<u>1,000,000</u>	<u>314,766</u>	<u>124,427</u>
Total Current Assets	12,760,921	11,958,406	547,023	1,334,448
Intangible assets, net	1,800,000	1,900,000	2,083,333	2,333,333
Other non-current	<u>500,000</u>	<u>500,000</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$15,060,921</u>	<u>\$14,358,406</u>	<u>\$2,630,356</u>	<u>\$3,667,781</u>
Current Liabilities				
Accounts payable	\$750,000	\$650,000	\$391,459	\$103,840
Accrued expenses	650,000	300,000	199,256	0
Other current liabilities	<u>15,000</u>	<u>10,000</u>	<u>0</u>	<u>0</u>
Total current liabilities	1,415,000	960,000	590,715	103,840
Right-of-use liability	5,000	5,000	0	0
Other non-current	<u>1,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	1,421,000	965,000	590,715	103,840
Stockholders' Equity				
Preferred stock				
Total stockholders equity	<u>13,639,921</u>	<u>13,393,406</u>	<u>2,039,641</u>	<u>3,563,941</u>
Total Liabilities and equity	<u>\$15,060,921</u>	<u>\$14,358,406</u>	<u>\$2,630,356</u>	<u>\$3,667,781</u>

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – LQR House, Inc. – Cash Flow (in dollars)

	2024E	2023E	2022A
Net Income	(\$3,732,500)	(\$11,802,793)	(\$1,842,175)
Accounts receivable	(150,000)	24,692	(130,772)
Advances to related parties	(300,000)	(200,000)	0
Inventories	0	0	0
Prepaid and other	800,000	(685,234)	(190,339)
Intangible assets, net	100,000	183,333	250,000
Other non-current	0	(500,000)	0
Accounts payable	100,000	258,541	287,619
Accrued expenses	200,000	744	199,256
Subscription liability	150,000	100,000	0
Other current liabilities	5,000	10,000	0
Right-of-use liability	0	5,000	0
Other non-current	1,000	0	0
Preferred stock	0	0	0
Commons stock	(985)	180	26
Additional paid in capital	4,000,000	23,156,378	317,849
Accumulated other comp. loss and other	(20,000)	0	0
Dividend and/or tax adj.			
Total Cash Flow	<u>\$1,152,515</u>	<u>\$10,550,841</u>	<u>(\$1,108,536)</u>

Source: Litchfield Hills Research LLC

Disclosures:

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