

Action Summary – 18 December 2023

Analyst Theodore R. O'Neill Updating price target – reiterate Buy rating on new \$26PT up from \$5

- **Returns to compliance with Nasdaq minimum bid.** In 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.; solidified its balance sheet and acted to resolve a NASDAQ listing requirement. On December 15, it was informed by Nasdaq that is now in compliance with all applicable listing standards.
- **New price target.** Now that the company has completed its reverse stock split and now has ~3.4 million shares outstanding, we are updating our price target to \$26 from \$5. 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.
- **Attractive Valuation.** The average of peers 2024 market cap/sales is ~2.80x and the range is 0.66x to 7.90x. The comparable metric for LQR is 1.21x, which is less than half the average of its peers. This, and our discounted future earnings model confirm our view that the shares are undervalued. Were the shares to trade to our price target, its market cap to sales metric would define the high end of its peers but it would be fewer than two standard deviations away.

12/15 Closing price: \$2.57 USD	Market cap: \$9 million	Multiple of book: 1.85x	EV/2024 Sales: 1.21x
Diluted shares outstanding: 3.4 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)	\$170.5	
4Q23E	<u>(\$0.04)</u>	<u>\$400.0</u>	
FY23E	<u>(\$0.52)</u>	<u>\$912.0</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)

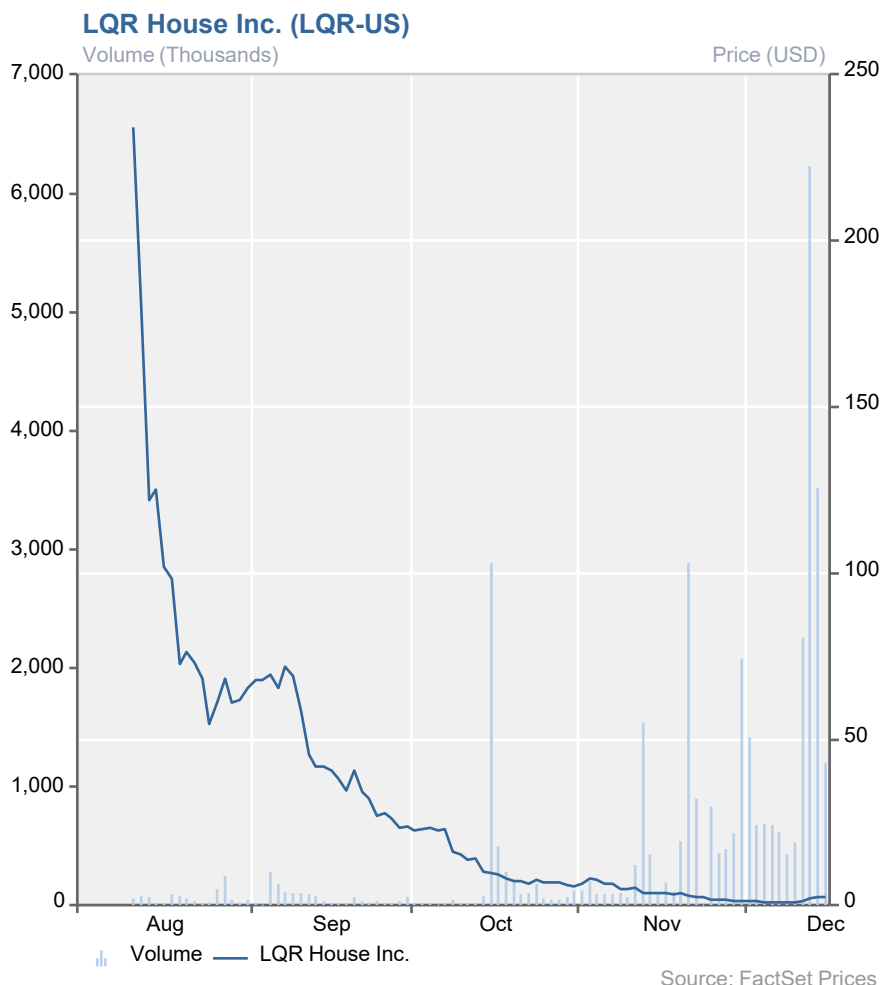
• 2021A	• \$0.0
• 2022A	• \$0.0
• 2023E	• \$0.0
• 2024E	• \$0.0

Risks/Valuation

- Risks: competitive marketplace, highly regulated business, dependence on marketing partners
- Our \$26 price target is derived from our discounted future earnings model.

Company description: LQR House intends to become a prominent force in the wine and spirits e-commerce sector, epitomized by its flagship alcohol marketplace, cwspirits.com. This platform seamlessly delivers a diverse range of emerging, premium, and luxury spirits, wines, and champagnes from esteemed retail partners like Country Wine & Spirits. Functioning as a technology-driven hub, LQR House utilizes software, data analytics, and artificial intelligence to elevate the consumer experience. CWSpirts.com stands out as the go-to destination for modern, convenience-oriented shoppers, providing a curated selection of alcohol products delivered to homes across the United States.

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



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

Our 12-month price target of \$26 is 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 reaches breakeven in 2025 and is profitable from year 2026 on. We assume earnings growth ramps up for another 8 years until growth eventually slows to GDP. As we show in Figure 2, the sum of all discounted future earnings is worth \$26/share. Note, this model understates future new

services and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year.

Figure 2 – LQR House, Inc. – Price Target Calculation

Implied Value of Future Discounted Earnings: \$26.00		
Year 0 is 2024	Forecast GAAP EPS	Discounted EPS
0	(\$1.07)	(\$1.07)
1	\$0.00	\$0.00
2	\$0.20	\$0.17
3	\$0.50	\$0.40
4	\$0.90	\$0.67
5	\$1.30	\$0.91
Terminal Value		\$24.91

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Figure 3 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 2.80x and the range is 0.66x to 7.90x. Our current assumption of LQR sales in 2024 is \$7.25MM and at the average Market Cap to sales, would imply a market cap more than 2x larger than where it is today. We believe the company shares should trade at a premium to its peers due to its rapid growth and decisive management team. This and our discounted future earnings model confirm our view that the shares are undervalued. On a technical note, the company has more cash than its market cap which would give it a negative EV. Because we thought there would be some confusion if we showed it as a negative number with an implied EV/Sales of -0.24x we chose to ignore the cash.

Figure 3 – 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	\$11.22	3,073.1	2,659.1	3.83	3.06	21.96
SPT-US	Sprout Social, Inc. Class A	\$59.95	3,356.8	3,546.6	7.90	7.76	167.41
3632-JP	GREE, Inc.	\$3.92	668.6	156.9	1.54	0.27	2.76
5027-JP	AnyMind Group Inc.	\$6.00	347.4	334.2			
3660-JP	istyle Inc.	\$3.05	234.3	268.5	0.66	0.82	
3688-JP	Carta Holdings, Inc.	\$9.28	233.4	123.9			
3675-JP	Cross Marketing Group, Inc.	\$3.79	72.4	65.2			
6533-JP	Orchestra Holdings Inc.	\$7.22	70.9	73.7			
6069-JP	Trender, Inc.	\$7.87	57.8	44.5	1.36	0.93	
BUSER-SE	Bambuser AB	\$0.14	29.4	3.4	1.52		
ILST-US	International Star, Inc.	\$0.00	0.7	5.8			
DGTL-CA	DGTL Holdings, Inc.	\$0.00	0.2	2.8			
	Average				<u>2.80</u>	<u>2.57</u>	<u>64.05</u>
LQR-US	LQR House Inc.	\$2.57	8.7	8.7	1.21	1.21	
	LQR Discount to peers				-57%	-53%	

Source: Litchfield Hills Research LLC and FactSet

Financial Projections and Guidance

Our projections assume LQR makes steady progress toward profitability and become 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 in operating expenses consistent with a large growth in sales. We expect to improve our model as we see results from its acquisition.

Figure 4 – LQR House, Inc. – Income Statement (in dollars)

December ending year	2023E				2023E Year	2024E				2024E Year
	Q1A	Q2A	Q3A	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 5 – 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 6 – 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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