

Natural Grocers by Vitamin Cottage, Inc.(BA) – Long PT: \$23.89



Today's Price: \$17.50
 Dividend Yield: 2.29%
 Market Cap: \$396.49M
 Industry: Consumer Staples
 Headquarters: Lakewood, CO

A company that operates in flyover states and is often looked over as a result

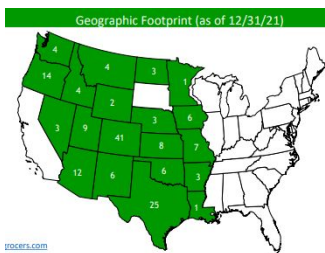
Business Overview

Natural Grocers is a specialty retailer of natural/organic groceries and dietary supplements, with a high emphasis on affordable prices, quality customer service, nutritional education, and transparency towards consumers.

Revenue Segmentation: 69% groceries, 21% dietary supplements, 10% other.

Thesis Points

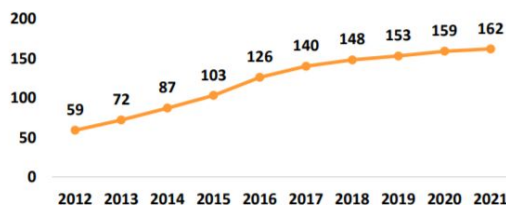
- 1. NGVC is ready to grow.** This company has a target customer that lives all over the United States, but it only operates in flyover states. Moreover, it has very few stores per state, and only 162 total. It's time for NGVC to expand into new markets. The good news: management is hyper-focused on building new stores and increasing revenue.
- 2. Macro trends are in NGVC's favor.** People are increasingly concerned about organic, sustainable, and locally-sourced foods. NGVC is more than suited to capitalize here. They sell only organic foods (at lower prices than competitors) and are the definition of local. They run seminars, workshops, classes, and more in their local communities.
- 3. NGVC's own product line will increase margins.** The company is selling increased amounts of its own-branded products, which are less costly to acquire than the larger brand names. This brand will be created efficiently within NGVC's business model; for example, NHC's and Crew members can recommend Natural Grocers brand.



Industry Overview

NGVC is a player in the food retail industry, first and foremost. A few trends in the industry are the rise of e-commerce (which has been accelerated due to COVID-19), an increased importance of grocery stores (again attributable to COVID-19), and the rise of organic food sales. Studies have shown that millennials prefer healthier foods, and they also prefer smaller-concept stores. Additionally, 30% of all consumers specifically seek out organic or natural foods when shopping for groceries. Finally, the USDA has reported a rise in consumers that prioritize health, environmental, and animal welfare concerns.

Store Count (FYE)



Additional Commentary – Valuation/Risks/News

Low WACC: This WACC may seem low, but it is for a reason. First, the grocery industry has a low beta in itself, and NGVC follows this pattern. Furthermore, NGVC has very little debt, so relevering our beta does not change it much.

Revenue: Our assumptions here are very much based on management's guidelines. They predict 0-2% same store growth and 1-3% new store growth. We project this to be true for the next few years, then taper off.

Exit multiple: We believe our comp set is not accurate enough to take the mean exit multiple, and therefore we are predicting no expansion or contraction

