

Health & Wellness

EDBL – NASDAQ	November 14, 2024
Closing Price 11/13/24	\$0.15
Rating:	Buy
12-Month Target Price:	(Prior: \$12.00) \$0.50
52-Week Range:	\$0.12 - \$13.00
Market Cap (M):	\$2.9
Shares O/S (M):	18.9
Float:	91.9%
Avg. Daily Volume (000):	4,424.9
Debt (M):	\$2.0
Dividend:	\$0.00
Dividend Yield:	0.0%
Risk Profile:	Speculative
Fiscal Year End:	December

Revenue ('000)

	2024E	2025E	2026E
1Q	3,132A	3,892	—
2Q	4,268A	5,442	—
3Q	2,584A	4,641	—
4Q	4,125	6,118	—
CY	14,109	20,093	24,112
Prior	15,727	—	—

GAAP EPS

	2024E	2025E	2026E
1Q	(13.65)A	(0.19)	—
2Q	(1.21)A	(0.10)	—
3Q	(0.65)A	(0.10)	—
4Q	(0.36)	(0.06)	—
CY	(15.87)	(0.45)	(0.16)
Prior	(15.44)	(0.52)	—



Company description: EDBL is a controlled environment agriculture company that primarily grows herbs and lettuce in vertical farming greenhouse facilities that utilize closed-loop hydroponic systems. The company sells its products to supermarket retailers, which then sells them to consumers.

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Edible Garden AG Incorporated

Buy

3Q24 Challenging; Culling Low Gross Margin Products and Lowering PT to \$0.50 – Maintain Buy on Shift to Higher-Margin Products

Summary

- Yesterday, pre-Market open, EDBL reported 3Q24 results with revenue below our estimate, and a wider GAAP loss per share. Note that we are the only sell-side firm covering the stock, per LSEG.
- On September 30, 2024, EDBL announced the closing of a public offering, raising net proceeds of approximately \$4.9M. The company used proceeds from the offering to pay down \$3.1M in debt.
- As of September 30, 2024, EDBL had cash and cash equivalents of \$2.2M, and debt of \$2.0M. We expect the company to burn an average of \$1.2M per quarter through 2025, and believe it needs to raise additional capital before the end of 1Q25.
- Based on 3Q24 results and our expectations, we are lowering our 2024 revenue estimate, while maintaining our 2025 revenue estimate. We are also widening our 2024 GAAP loss per share estimate, but narrowing our 2025 estimate due mostly to a higher expected share count. In addition, we are introducing 2026 annual estimates.
- Primarily based on significant dilution from the recent raise, we are lowering our 12-month price target to \$0.50, from \$12.00.

Details

Bottom line. We believe EDBL's 3Q24 miss partially reflects the impact of shifting away from its lower-margin floral and lettuce lines and delayed shipment of nutraceuticals related to a hurricane in the Gulf of Mexico. We view this shift as prudent as reallocating production capacity toward higher-margin products should increase throughput and reduce reliance on contract growers, enhancing the company's path to profitability. We also believe this pivot positions EDBL to better serve key partners like Walmart (WMT - NR) and Meijer (private) with timely, quality supply, especially for 4Q24, which has been a historically strong sales period. Moreover, EDBL's nutraceutical products remain a promising high-margin growth segment, and we expect this segment to be a key growth driver in 2025. While we support EDBL's debt reduction and deleveraging efforts for its positive impact on interest expenses and capital flexibility, we factor into our forecast the impact of shareholder dilution from the recent capital raise. Due mostly to the significant dilution, we are lowering our price target to \$0.50, from \$12.00. However, we reiterate our Buy rating based on EDBL's prudent operational shifts, improving product mix, and robust retailer relationships.

Revising estimates. Based on 3Q24 results and our expectations, we are lowering our 2024 revenue estimate to \$14.1M, down from \$15.7M, and leaving our 2025 estimate unchanged at \$20.1M. We are also lowering our 2024 and 2025 gross margin estimates to 25.6% and 30.4%, from 27.2% and 33.3%, respectively. In addition, we are widening our 2024 GAAP loss per share to (\$15.87), from (\$15.44) and narrowing our 2025 GAAP loss per share estimate to (\$0.45), from (\$0.52), mostly due to higher expected share count.

Compelling valuation. Our new 12-month price target of \$0.50 (prior \$12.00) is based on a 10-year DCF analysis with a 17% discount rate and a 3% perpetual growth rate. Based on our estimates, EDBL trades at an EV/revenue multiple of 0.01x our 2025 revenue estimate vs. the peer average of 0.6x, excluding EDBL. Our price target equates to shares trading at an EV/revenue multiple of 0.07x our 2025 revenue forecast, a discount to peers. We believe our price target is justified due to EDBL's controlled environment agriculture (CEA) technology, prominent customer base, and shift to higher-margin products.

3Q24 results summary / 10-Q filed. Yesterday, pre-Market open, EDBL reported 3Q24 results with revenue of \$2.6M, down 21.4% y/y, well below our estimate of \$3.7M. The significant miss was driven primarily by lost revenue from a shift away from its lower-margin floral and lettuce businesses, as well as a delayed shipment related to the Florida hurricanes. Note that we are the only sell-side firm covering the stock, per LSEG. Gross margin of 27.1%, up 2,680bps y/y, was below our estimate of 30.0%. GAAP loss per share of (\$0.65) was wider than our estimate of (\$0.43), primarily driven by lower revenue and a total of \$0.6M in interest expense and losses on debt extinguishment related to the paying down of EDBL's debt obligations.

Debt overview. As of September 30, 2024, EDBL had \$2.0M in gross debt on its balance sheet with \$1.3M classified as short-term debt. The debt includes:

- Future receivables financing agreement with Cedar Advance, LLC of \$0.9M.
- NJD Investments, LLC promissory note with a total outstanding balance of \$0.6M of which ~\$0.3M is considered short-term debt and ~\$0.3M is considered long-term debt.
- Additionally, there are \$0.3M in vehicle loans and a \$150K US Small Business Administration loan.

September secondary offering. On September 30, 2024, EDBL announced the closing of a public offering that included 15.7M shares of common stock (or pre-funded warrants), Class A warrants, and Class B warrants. Priced at \$0.36 per share (or \$0.35 per pre-funded warrant), the offering's net proceeds totaled approximately \$4.9M. The warrants are exercisable at \$0.36 per share, with the Class A warrants expiring in five years and the Class B warrants expiring in 18 months from issuance.

New production line. On October 30, 2024, EDBL announced the completion of a new production line at its Heartland facility in Grand Rapids, Michigan. This expansion enhances the facility's capacity and adds advanced processing capabilities, supporting Edible Garden's range of produce and products in line with its focus on controlled environment agriculture and sustainable, locally grown produce.

Edible Garden AG, Inc.			
3Q24 Comparison	EDBL	Maxim	Difference
Total revenue	\$2.6M	\$3.7M	(\$1.1M)
Gross margin	27.1%	30.0%	(290bps)
GAAP EPS	(\$0.65)	(\$0.43)	(\$0.22)

Source: Company reports, LSEG, and Maxim Group estimates

Edible Garden AG, Inc.				
3Q24 Income Statement Comparison				
Actual vs. Estimates	3Q24E	3Q24A	\$ Diff	% Diff
Net revenue	3,712	2,584	(1,128)	(30.4%)
<i>y/y change</i>	12.9%	(21.4%)		
Cost of goods sold	2,598	1,885	(713)	(27.5%)
<i>y/y change</i>	(20.7%)	(42.5%)		
% of revenue	70.0%	72.9%		
Gross profit	1,114	699	(415)	(37%)
Gross margin	30.0%	27.1%		
Operating Expenses:				
Selling general and administrative	2,506	2,189	(317)	(12.6%)
<i>y/y change</i>	4.9%	(8.3%)		
% of revenue	67.5%	85%		
Total operating expenses	2,506	2,189	(317)	(12.6%)
<i>y/y change</i>	4.9%	(8.3%)		
% of revenue	67.5%	85%		
Income (Loss) from Operations	(1,392)	(1,490)	(98)	
Interest expense	(47)	(409)	(362)	
Loss on Debt Conversion	-	-	-	
Net Income (Loss)	(1,439)	(2,063)	(624)	
GAAP EPS	(\$0.43)	(\$0.65)	(\$0.22)	
Weighted Average Shares - basic	3,310	3,160		
Weighted Average Shares - diluted	8,976	52,429		

Source: Company reports, LSEG, and Maxim Group estimates

Edible Garden AG Incorporated

Maxim Group LLC

Income Statement

Anthony V. Vendetti, Executive Managing Director of Research

(in \$ thousands, except per share data)

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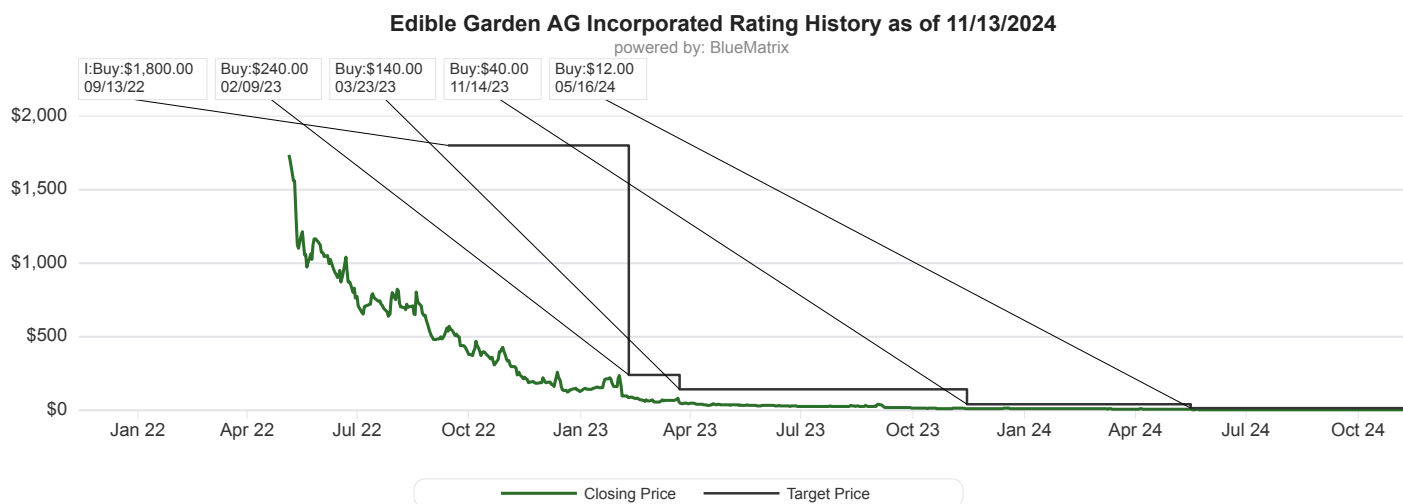
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Fiscal Year ends December 31	2022A	1Q23A	2Q23A	3Q23A	4Q23A	2023A	1Q24A	2Q24A	3Q24A	4Q24E	2024E	1Q25E	2Q25E	3Q25E	4Q25E	2025E	2026E	
Net revenue	11,552	2,455	4,221	3,289	4,084	14,049	3,132	4,268	2,584	4,125	14,109	3,892	5,442	4,641	6,118	20,093	24,112	
<i>y/y change</i>	9.9%	(10.3%)	41.4%	19.4%	32.8%	21.6%	27.6%	1.1%	(21.4%)	1.0%	0.4%	24.3%	27.5%	79.6%	48.3%	42.4%	20.0%	
Cost of goods sold	11,188	2,479	3,668	3,277	3,803	13,227	3,109	2,702	1,885	2,805	10,501	2,842	3,755	3,295	4,099	13,990	15,673	
<i>y/y change</i>	13.5%	(12.5%)	32.0%	27.4%	26.5%	18.2%	25.4%	(26.3%)	(42.5%)	(26.2%)	(20.6%)	(8.6%)	39.0%	74.8%	46.1%	33.2%	12.0%	
% of revenue	96.8%	101%	86.9%	99.7%	93.1%	94.1%	99.3%	63.3%	72.9%	68.0%	74.4%	73.0%	69.0%	71.0%	67.0%	69.6%	65.0%	
Gross profit	364	(24)	553	11	282	822	23	1,566	699	1,320	3,608	1,051	1,687	1,346	2,019	6,103	8,439	
<i>y/y change</i>	(43.8%)	(74.7%)	168%	(93.9%)	297%	126%	N/A	183%	N/A	368%	339%	N/A	7.7%	92.5%	52.9%	69.1%	38.3%	
Gross margin	3.2%	(1.0%)	13.1%	0.3%	6.9%	5.9%	0.7%	36.7%	27.1%	32.0%	25.6%	27.0%	31.0%	29.0%	33.0%	30.4%	35.0%	
Operating expenses:																		
Selling general and administrative	9,368	2,691	2,380	2,387	2,551	10,009	3,884	2,748	2,189	2,447	11,268	2,670	2,506	2,390	2,631	10,196	10,706	
<i>y/y change</i>	67.0%	34.1%	(12.9%)	23.8%	(5.5%)	6.8%	44.3%	15.5%	(8.3%)	(4.1%)	12.6%	(31.3%)	(8.8%)	9.2%	7.5%	(9.5%)	5.0%	
% of revenue	81.1%	110%	56.4%	72.6%	62.4%	71.2%	124%	64.4%	84.7%	59.3%	79.9%	68.6%	46.1%	51.5%	43.0%	50.7%	44.4%	
Impairment loss	-	-	-	-	686	686	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	9,368	2,691	2,380	2,387	3,237	10,695	3,884	2,748	2,189	2,447	11,268	2,670	2,506	2,390	2,631	10,196	10,706	
<i>y/y change</i>	67.0%	34.1%	(12.9%)	23.8%	19.9%	14.2%	44.3%	15.5%	(8.3%)	(24.4%)	5.4%	(31.3%)	(8.8%)	9.2%	7.5%	(9.5%)	5.0%	
% of revenue	81.1%	110%	56.4%	72.6%	79.2%	76.1%	124%	64.4%	84.7%	59.3%	79.9%	68.6%	46.1%	51.5%	43.0%	50.7%	44.4%	
Income (Loss) from Operations	(9,004)	(2,715)	(1,827)	(2,376)	(2,955)	(9,873)	(3,861)	(1,182)	(1,490)	(1,127)	(7,660)	(1,619)	(819)	(1,044)	(612)	(4,094)	(2,267)	
Other income (expense):																		
Interest expense	(2,033)	(234)	(44)	(57)	(55)	(390)	(117)	(419)	(409)	(13)	(958)	(13)	(13)	(13)	(13)	(52)	(52)	
Gain on extinguishment of debt	(826)	70	-	-	-	70	-	(335)	(164)	-	(499)	-	-	-	-	-	-	
Other income	(590)	-	1,233	1	(1,229)	5	1	4	-	-	5	-	-	-	-	-	-	
Total other income (expense)	(3,449)	(164)	1,189	(56)	(1,284)	(315)	(116)	(750)	(573)	(13)	(1,452)	(13)	(13)	(13)	(13)	(52)	(52)	
Net Income (Loss)	(12,453)	(2,879)	(638)	(2,432)	(4,239)	(10,188)	(3,977)	(1,932)	(2,063)	(1,140)	(9,112)	(1,632)	(832)	(1,057)	(625)	(4,146)	(2,319)	
GAAP EPS	(\$973.74)	(\$44.16)	(\$4.83)	(\$13.84)	(\$14.86)	(\$61.67)	(\$13.65)	(\$1.21)	(\$0.65)	(\$0.36)	(\$15.87)	(\$0.19)	(\$0.10)	(\$0.10)	(\$0.06)	(\$0.45)	(\$0.16)	
Weighted Average Shares - basic	13	65	132	176	285	165	291	1,590	3,160	3,160	2,051	8,494	8,644	10,098	10,248	9,371	14,371	
Weighted Average Shares - diluted	19	169	152	355	465	285	477	4,423	52,429	55,504	28,208	60,912	61,137	65,667	65,892	63,402	68,402	

Source: Company reports and Maxim Group LLC estimates.

Sources: Company reports and Maxim Group estimates

DISCLOSURES



Maxim Group LLC Ratings Distribution		As of: 11/13/24	
		% of Coverage Universe with Rating	% of Rating for which Firm Provided Banking Services in the Last 12 months
Buy	Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to outperform its relevant index over the next 12 months.	83%	51%
Hold	Fundamental metrics are currently at, or approaching, industry averages. Therefore, we expect this stock to neither outperform nor underperform its relevant index over the next 12 months.	17%	60%
Sell	Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to underperform its relevant index over the next 12 months.	0%	0%

**See valuation section for company specific relevant indices*

I, **Anthony Vendetti**, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

The research analyst(s) primarily responsible for the preparation of this research report have received compensation based upon various factors, including the firm's total revenues, a portion of which is generated by investment banking activities.

Maxim Group makes a market in Edible Garden AG Incorporated

Maxim Group managed/co-managed/acted as placement agent for an offering of the securities for Edible Garden AG Incorporated in the past 12 months.

Maxim Group received compensation for investment banking services from Edible Garden AG Incorporated in the past 12 months.

Maxim Group expects to receive or intends to seek compensation for investment banking services from Edible Garden AG Incorporated in the next 3 months.

EDBL: For Edible Garden AG Incorporated, we use the NASDAQ index as the relevant index.

Valuation Methods

EDBL: Our 12-month price target for Edible Garden AG Incorporated is derived using a 10-year DCF analysis.

Price Target and Investment Risks

EDBL: Aside from general market and other economic risks, risks particular to our Edible Garden AG Incorporated price target and rating include: the need and ability to raise capital, which could lead to shareholder dilution, or if unsuccessful could result in ceasing operations; history of operating losses; material weakness in internal controls over financial reporting; key personnel risk; highly competitive industry; ability to protect intellectual property; ability to comply with NASDAQ listing requirements; ability to comply with new or modified laws and regulations that currently apply or become applicable to our business; the effects of increased competition as well as innovations by new and existing competitors in the market; ability to retain our existing customers and to increase our customer base; ability to effectively manage or sustain our growth; ability to continue to access and operate the Belvidere, New Jersey facility, as the property is operated through an informal arrangement with the predecessor and the lessor instead of a lease; concentration of revenue among a few customers and the risks of losing one of those customers; and use of purchase orders with customers and suppliers rather than long-term purchase commitments.

RISK RATINGS

Risk ratings take into account both fundamental criteria and price volatility.

Speculative – Fundamental Criteria: This is a risk rating assigned to early-stage companies with minimal to no revenues, lack of earnings, balance sheet concerns, and/or a short operating history. Accordingly, fundamental risk is expected to be significantly above the industry. Price Volatility: Because of the inherent fundamental criteria of the companies falling within this risk category, the price volatility is expected to be significant with the possibility that the investment could eventually be worthless. Speculative stocks may not be suitable for a significant class of individual investors.

High – Fundamental Criteria: This is a risk rating assigned to companies having below-average revenue and earnings visibility, negative cash flow, and low market cap or public float. Accordingly, fundamental risk is expected to be above the industry. Price Volatility: The price volatility of companies falling within this category is expected to be above the industry. High-risk stocks may not be suitable for a significant class of individual investors.

Medium – Fundamental Criteria: This is a risk rating assigned to companies that may have average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to approximate the industry average.

Low – Fundamental Criteria: This is a risk rating assigned to companies that may have above-average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to be below the industry.

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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