

Healthcare Company Pre-IPO Discounted Cash Flow Valuation

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Executive Summary

Valuation

- 3 Management scenarios were prepared (Conservative, Baseline, Aggressive)
- All charts and figures reflect the baseline case unless otherwise noted
- The key valuation drivers are based on the cost per acquisition and marketing forecasts
- Total valuation range of \$3.2 - \$4.9 B (All scenarios)

Financial Projections

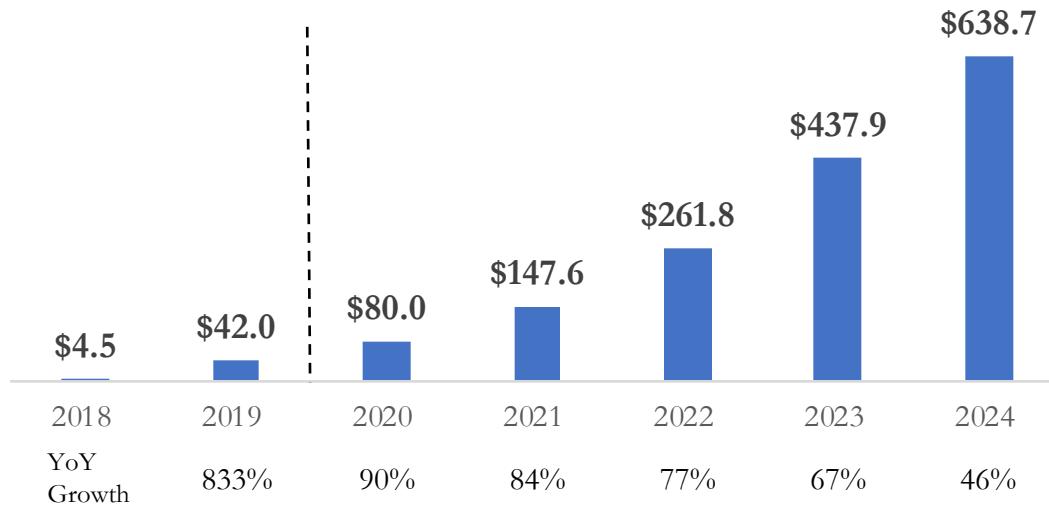
- Topline growth of 10x from 2018 – 2019, 2x from 2019 – 2020.
- ARR of \$94 M by end of 2020 and \$667 M by 2024
- Projecting 356 K new subscriptions growing to 1,584 K by 2024

Discounted Cash Flow Analysis

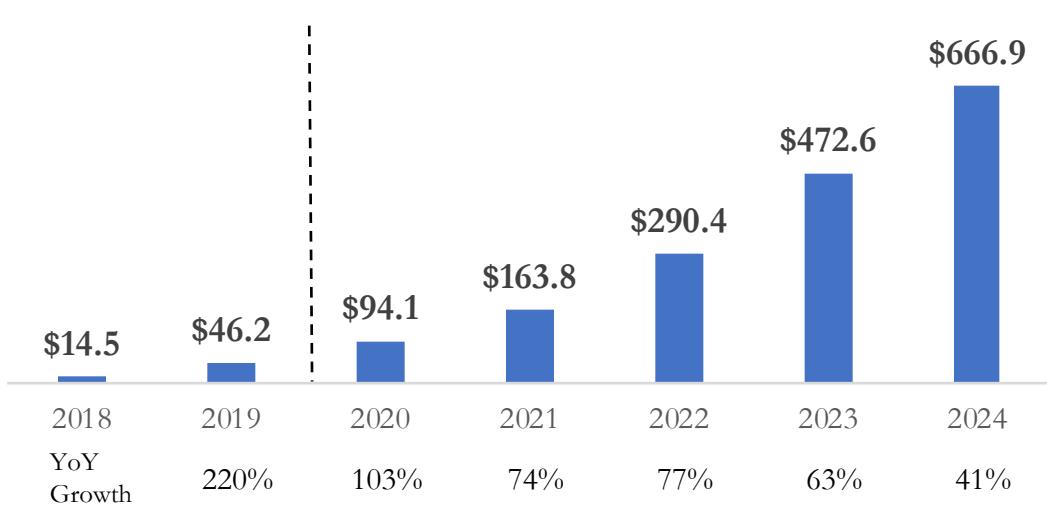
- Overall valuation of \$3.6 - \$4.2B based on Baseline management scenario
- Forecasting \$639 M of Revenue and EBITDA of \$285 M by 2024
- \$213 M of Free Cash Flow in terminal year

A rapid growth trajectory

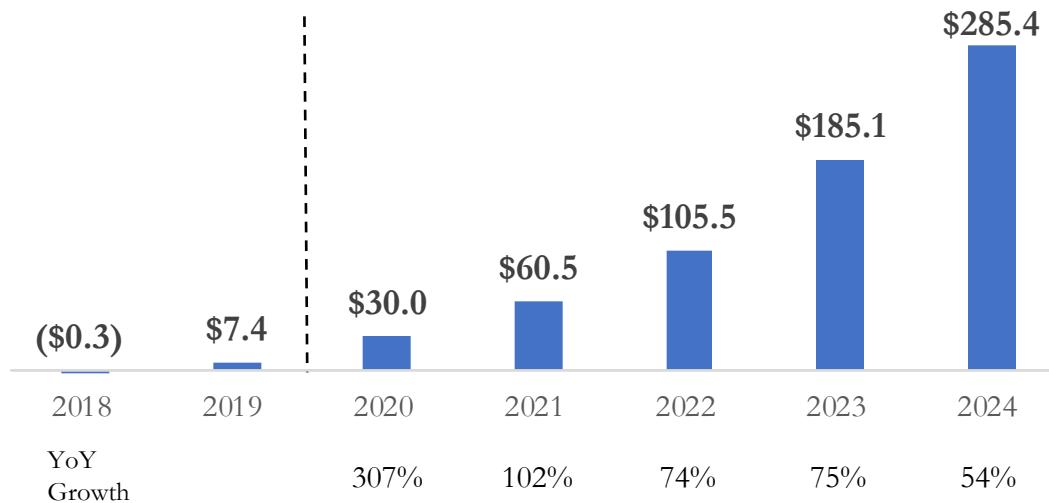
Revenue (\$M)



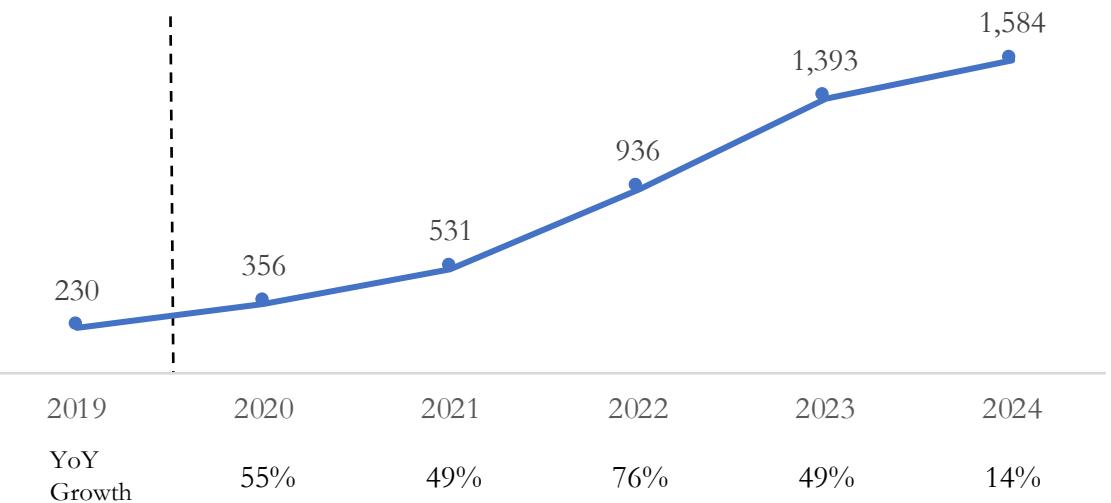
ARR (\$M)



EBITDA (\$M)



New Subscribers (000's)

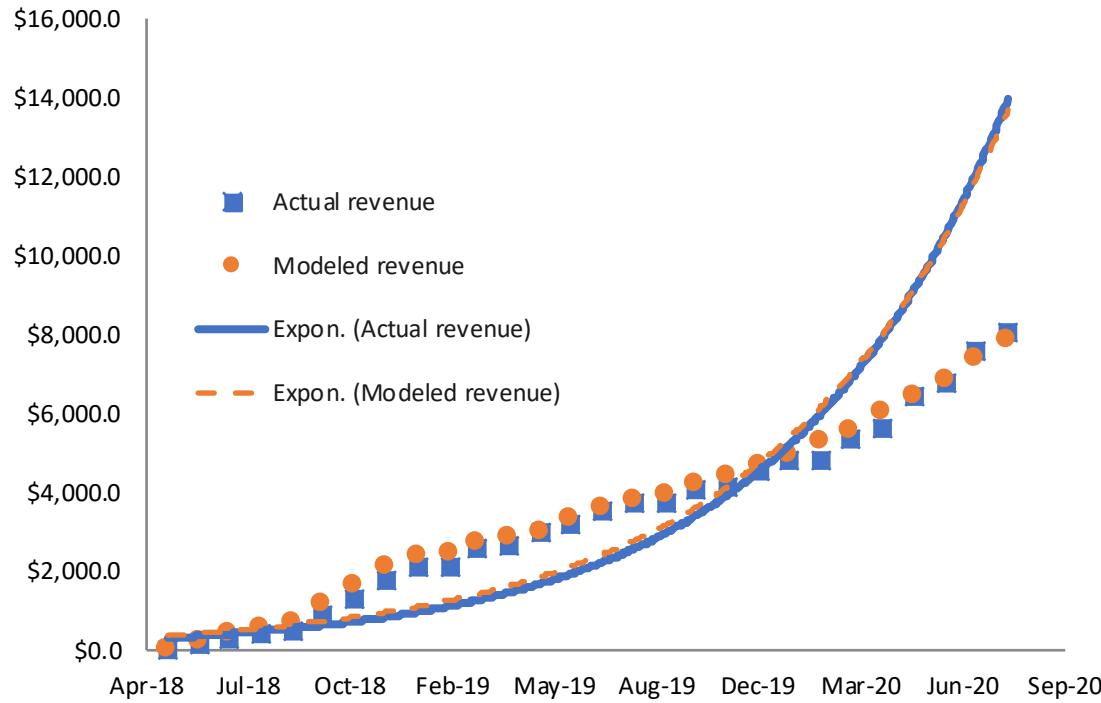


with a unique recurring revenue model...

- The business has unique characteristics that differ from a traditional recurring revenue model
 - Similar to other recurring revenue models there are monthly recurring revenue from subscriptions
 - But with significant portion of “churned” customers that will also reorder
- A cohort and customer analysis with two important parameters were established to analyze revenue
 - *Retention rate* - the likelihood of a new order generated from a customer with an existing previous order
 - *Returning rate* - the likelihood of a new order generated from a customer with a missing previous order
- 4 types of customer's emerged with the following characteristics:

Customer Type	Retention Rate	Returning Rate	% of Customers
Loyal			
Mainstream			
Casual			
Bargain		Redacted	

that is highly predictive



Revenue decay model	$R = \Sigma [\text{group percentage} * \text{average order size} * (a + b \cdot \text{rate}^t)]$			
Groups	"Loyal"	"Mainstream"	"Casual"	"Bargain"
Group percentage				
a				
b		Redacted		
rate				
Average order size				

- A mathematical formula was adapted to model revenue based on those customer characteristics and historical revenue
- Back testing the modeled value provides an accurate representation of actual revenue
- Revenue was forecasted using the formula and projecting new subscribers based on CPA and marketing spend.

Already profitable and able to generate cash...

Cash Flow Analysis

Discounted Cash Flow Analysis for Company - CURRENT

Dollars in thousands (USD)

	Historical Year Ending Dec. 31		Projected Year Ending Dec. 31				
	2018	2019	2020	2021	2022	2023	2024
Revenue	\$4,500.0	\$42,000.0	\$80,000.0	\$147,558.4	\$261,814.8	\$437,899.4	\$638,700.9
EBITDA	(\$306.1)	\$7,364.9	\$30,000.0	\$60,557.8	\$105,521.9	\$185,059.0	\$285,387.1
Depreciation	(\$300.2)	(\$772.8)	(\$308.6)	(\$877.7)	(\$1,887.6)	(\$3,576.6)	(\$6,040.2)
Amortization	(\$12.3)	(\$21.0)	(\$21.0)	(\$21.0)	(\$21.0)	(\$21.0)	(\$21.0)
EBIT	(\$618.6)	\$6,571.1	\$29,670.4	\$59,639.1	\$103,613.4	\$181,461.4	\$279,325.9
Less: Taxes	22.0%	\$ -	\$6,527.5	\$13,120.6	\$22,794.9	\$39,921.5	\$61,451.7
Tax-effected EBIT	(\$618.6)	\$6,571.1	\$23,142.9	\$46,518.5	\$80,818.4	\$141,539.9	\$217,874.2
Plus: Depreciation			\$308.6	\$877.7	\$1,887.6	\$3,576.6	\$6,040.2
Plus: Amortization			\$21.0	\$21.0	\$21.0	\$21.0	\$21.0
Plus: Interest Income			\$ -	\$232.1	\$537.5	\$1,074.1	\$1,948.3
Less: Capital Expenditures			(\$1,542.9)	(\$2,845.8)	(\$5,049.3)	(\$8,445.2)	(\$12,317.8)
Less: Changes in Working Capital and Other Assets/Liabilities			(\$236.9)	(\$345.4)	(\$547.1)	(\$794.5)	(\$827.4)
Unlevered Free Cash Flow			\$21,692.8	\$44,458.2	\$77,668.1	\$136,971.8	\$212,738.5
Unlevered Free Cash Flow Growth Rate			105%	75%	76%	55%	77%

2020-2024
CAGR
68%
76%
110%
0%
75%
75%
75%
110%
0%
N/A
68%
37%
77%

Unlevered Free Cash Flow
Unlevered Free Cash Flow Growth Rate

Discount Rate	A	+	B	=	C
	Discounted (b) Cash Flows (2020 - 2024)	PV of Terminal Value as a Multiple of EBITDA (c)	16.0x	16.5x	17.0x
6.7%	\$408,811.9	\$3,527,033.4	\$3,637,253.2	\$3,747,473.0	
7.2%	\$403,364.4	\$3,461,670.4	\$3,569,847.6	\$3,678,024.8	
7.7%	\$398,027.0	\$3,397,814.6	\$3,503,996.3	\$3,610,178.0	
8.2%	\$392,796.6	\$3,335,424.4	\$3,439,656.4	\$3,543,888.4	
8.7%	\$387,670.7	\$3,274,459.6	\$3,376,786.5	\$3,479,113.3	
 Discount Rate					
6.7%					
7.2%					
7.7%					
8.2%					
8.7%					
 Terminal Value as a % of Enterprise Value					
	16.0x	16.5x	17.0x		
	89.6%	89.9%	90.2%		
	89.6%	89.8%	90.1%		
	89.5%	89.8%	90.1%		
	89.5%	89.8%	90.0%		
	89.4%	89.7%	90.0%		

Enterprise Value		
16.0x	16.5x	17.0x
\$3,935,845.3	\$4,046,065.1	\$4,156,284.9
\$3,865,034.9	\$3,973,212.1	\$4,081,389.3
\$3,795,841.6	\$3,902,023.3	\$4,008,205.0
\$3,728,221.0	\$3,832,453.0	\$3,936,685.0
\$3,662,130.3	\$3,764,457.2	\$3,866,784.0
Implied Perpetuity Growth Rate		
16.0x	16.5x	17.0x
1.0%	2.1%	2.2%
2.4%	2.5%	2.7%
2.9%	3.0%	3.1%
3.4%	3.5%	3.6%
3.8%	4.0%	4.1%

(a) Projections based on estimates and historicals provided by Company. Assumptions and detailed financials can be found in the appendix

(b) Present values calculated as of 12/31/2020

(c) Discounted 4 years; based on 2024 EBITDA of \$285,387,104.9

(d) Risk Free Rate based on historical 10-year Treasury from '10. Assumed a historical market return of 6.9%. Beta is based on unlevered Beta for Healthcare Products Industry

WACC Calculation

PV date:	12/31/20	Risk-free Rate	2.27%	Debt	\$0
Date of shares:	07/31/2020	Market Return Rate	6.90%	Equity	\$150,254
Discount rate change:	0.5%	Market Risk Premium	4.63%	Debt/Value	0.0%
Exit Mult. change:	0.5x	Unlevered Beta	0.95	Equity/Value	100.0%
		Cost of Equity	6.7%		
		Debt %	10.0%		
		Tax Rate	22.0%	WACC	6.7%

Summary

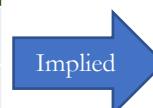
Overall Baseline Valuation of \$3.6 - \$4.2 B

- Company went from loss-making in 2018 to quickly turning a profit in 2019
- Revenue projected to reach \$638.7 M by 2024 with terminal EBITDA of \$285.4 M
- Revenue growth of ~2x from 2019 to 2020, and grew from \$4.5 M to \$42 M in just a year
- Projected EBITDA growth of over 4x from \$6.6 M in 2019 to \$30.0 M in 2020
- Unlevered Free Cash Flow projected to be at \$21.7 M in 2020 to \$212.7 M by 2024
- Over 85% of Valuation based on terminal value.
 - Multiples range were determined by using implied perpetuity growth rate and industry multiples
 - Pharmaceuticals 14x, Online Services 19x, Healthcare Products 16x
 - Historical US GDP growth rate 2 – 3%

... with the potential to unlock even more value

	Yearly increase in CPA				
	2020	2021	2022	2023	2024
Conservative	-5%	15%	15%	25%	25%
Baseline	-5%	10%	10%	20%	20%
Aggressive	-5%	5%	5%	15%	15%

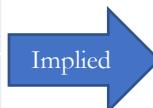
Implied



	CPA by Year					CAGR '20 – '24
	2020	2021	2022	2023	2024	
Conservative	\$47	\$53	\$61	\$73	\$91	18.2%
Baseline	\$47	\$52	\$57	\$66	\$79	13.8%
Aggressive	\$47	\$50	\$53	\$59	\$67	9.4%

	Yearly increase in Marketing				
	2020	2021	2022	2023	2024
Conservative	100%	100%	80%	50%	20%
Baseline	100%	100%	90%	60%	20%
Aggressive	100%	100%	100%	70%	20%

Implied



	Marketing Spend per Year (000's)					CAGR '20 – '24
	2020	2021	2022	2023	2024	
Conservative	\$17,000.0	\$27,259.4	\$51,209.7	\$82,888.6	\$109,582.2	59.3%
Baseline	\$17,000.0	\$27,259.4	\$52,876.0	\$90,817.7	\$123,381.5	64.1%
Aggressive	\$17,000.0	\$27,259.4	\$54,518.8	\$99,036.1	\$137,992.5	68.8%

Enterprise Value	Exit Multiple (Discount Rate 7.7%)		
	16.0x	16.5x	17.0x
Conservative	\$3,210,156.2	\$3,299,302.2	\$3,388,448.3
Baseline	\$3,795,841.6	\$3,902,023.3	\$4,008,205.0
Aggressive	\$4,564,271.6	\$4,692,840.3	\$4,821,408.9

Enterprise Value	Discount Rate (Exit Multiple 16.5x)		
	6.7%	7.7%	8.7%
Conservative	\$3,420,611.3	\$3,299,302.2	\$3,183,441.4
Baseline	\$4,046,065.1	\$3,902,023.3	\$3,764,457.2
Aggressive	\$4,866,728.5	\$4,692,840.3	\$4,526,777.1

Enterprise Value based on midpoint of 7.7% discount rate and 16.5x terminal value multiple unless otherwise noted

Enterprise Value represented in thousands (USD)

2020 reflect pro rata increases from Aug – Dec.

Methodology/Disclaimer

VALUATION METHODOLOGY: The Income Approach serves to estimate value by considering the income (benefits) generated by the asset over a period of time. This approach is based on the fundamental valuation principle that the value of a business is equal to the present worth of the future benefits of ownership. The term "income" does not necessarily refer to income in the accounting sense but to future benefits accruing to the owner. The most common methods under this approach are Capitalization of Earnings and Discounted Future Earnings. Under the Capitalization of Earnings method, normalized historic earnings are capitalized at a rate that reflects the risk inherent in the expected future growth in those earnings. The Discounted Future Earnings method discounts projected future earnings back to present value at a rate that reflects the risk inherent in the projected earnings. The Terminal Value is based on a EBIDTA multiples methodology with the multiples range determined by the implied perpetuity growth rate. US GDP growth rate of 2-3% from was used as the upper bound guideline for the implied perpetuity growth rate and terminal value multiples range.

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Appendix

Comparable Company Valuations Notes

Company X

Valued at \$ X B in 2020

Released S1 prospectus on 2020 and planning to launch IPO

2017 EBITDA of \$ XX M; Implied EV/EBITDA Multiple of 47.5x

Company Y

Raised \$ YYY M in 2019; Valuation of \$ Y B

\$ YYY M of ARR reported in 2019

Reported \$ YYY M ARR by end of 2020

Company Z

Raised \$ ZZZ M J in 2020; Valuation of \$Z.Z B

Not profitable

\$ZZZ M of annual revenue reported; Implied EV/Revenue Multiple of 6x

Source: <https://www.cnbc.com>

Source: <https://www.cnbc.com>

Source: <https://www.cnbc.com>

Other Assumptions/Inputs

Description	Value	Comments
Cost per Acquisition	\$50.00	Based on YTD 2020 first orders and marketing expenses July 2020 YTD
Baseline Marketing Spend/month	\$1,500,000	Assumption based on July marketing spend
Terminal Value Multiple	16 x	Based on industry multiples; healthcare products 16x, online services 19x, & pharmaceutical of 14x.
Risk Free Rate	2.27%	Historical 10-year Treasury rate average since 2010
Unlevered Beta	0.95	Healthcare products industry Beta
Historical Financials		Financials obtained by management and are assumed to be accurate and updated. No further consideration made for tax liabilities, other liabilities, or other potential accounting changes.
Tax Rate	22%	Based on US tax rate of 21% + 1% estimate for any pro-rata state income tax
Cost per Acquisition		Assumption that CPA increases as market becomes increasing saturated ~30 - 50 M customers available. Compared to other recurring revenue businesses
Other Expenses		Assumption based on historicals as a base and decreasing over time. Compared to other comparable companies
COGS		Assumption based on historicals as a base and decreasing over time due to volume discounts and decreasing costs of materials
Interest Rate	0.5%	Current 1-year LIBOR rate of .43%

Pro forma Income Statement

Pro forma Financial Statements <i>Dollars in thousands (USD)</i>	Historical Year Ending Dec. 31		Projected Year Ending Dec. 31				
	2018	2019	2020	2021	2022	2023	2024
Income Statement							
Revenue	\$4,500.0	\$42,000.0	\$80,000.0	\$147,558.4	\$261,814.8	\$437,899.4	\$638,700.9
Cost of Goods Sold	\$1,800.0	\$9,635.1	\$19,000.0	\$33,938.4	\$57,599.3	\$91,958.9	\$127,740.2
Gross Profit	\$2,700.0	\$32,364.9	\$61,000.0	\$113,619.9	\$204,215.6	\$345,940.6	\$510,960.7
Marketing	\$2,500.0	\$14,000.0	\$17,000.0	\$27,259.4	\$52,876.0	\$90,817.7	\$123,381.5
Other Expense/(Income)	\$506.1	\$11,000.0	\$14,000.0	\$25,822.7	\$45,817.6	\$70,063.9	\$102,192.1
EBITDA	(\$306.1)	\$7,364.9	\$30,000.0	\$60,537.8	\$105,521.9	\$185,059.0	\$285,387.1
Depreciation	\$300.2	\$772.8	\$308.6	\$877.7	\$1,887.6	\$3,576.6	\$6,040.2
Amoritization	\$12.3	\$21.0	\$21.0	\$21.0	\$21.0	\$21.0	\$21.0
EBIT	(\$618.6)	\$6,571.1	\$29,670.4	\$59,639.1	\$103,613.4	\$181,461.4	\$279,325.9
Interest income	\$ -	\$ -	\$ -	\$232.1	\$537.5	\$1,074.1	\$1,948.3
Interest (expense)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pretax Income	(\$618.6)	\$6,571.1	\$29,670.4	\$59,871.2	\$104,150.8	\$182,535.4	\$281,274.2
Income Taxes	\$ -	\$ -	\$6,527.5	\$13,120.6	\$22,794.9	\$39,921.5	\$61,451.7
Net Income	(\$618.6)	\$6,571.1	\$23,142.9	\$46,750.6	\$81,355.9	\$142,613.9	\$219,822.5
Income Statement Analysis							
Margins							
Gross Margin	60%	77%	76%	77%	78%	79%	80%
Marketing as % of Total Revenue	56%	33%	21%	18%	20%	21%	19%
Other Expense as % of Total Revenue	11%	26%	18%	18%	18%	16%	16%
EBITDA Margin	-7%	18%	38%	41%	40%	42%	45%
EBIT Margin	-14%	16%	37%	40%	40%	41%	44%
Growth Rate Analysis							
Net Revenue Growth Rate		833%	90%	84%	77%	67%	46%
EBITDA Growth Rate		N/A	307%	102%	74%	75%	54%
EBIT Growth Rate		N/A	352%	101%	74%	75%	54%
Assumptions							
COGS as a % of Sales	40%	23%	23.8%	23.0%	22.0%	21.0%	20.0%
Other Expense as a % of sales	11%	26%	17.5%	17.5%	17.5%	16.0%	16.0%
Tax rate	0%	0%	22.0%	22.0%	22.0%	22.0%	22.0%

Pro forma Balance Sheet

Pro forma Financial Statements <i>Dollars in thousands (USD)</i>	Historical Year Ending Dec. 31		Projected Year Ending Dec. 31				
	2018	2019	2020	2021	2022	2023	2024
Balance Sheet							
Cash & Cash Equivalents	\$1,000.0	\$2,507.2	\$24,200.0	\$68,658.1	\$146,326.2	\$283,298.0	\$496,036.5
Inventory	\$200.0	\$600.0	\$1,183.2	\$2,113.4	\$3,586.8	\$5,726.5	\$7,954.7
Current Assets	\$1,200.0	\$3,107.2	\$25,383.1	\$70,771.5	\$149,913.0	\$289,024.5	\$503,991.2
PP&E (Net)	\$43.1	\$99.2	\$1,333.5	\$3,301.5	\$6,463.3	\$11,331.8	\$17,609.5
Other Long-term Assets	\$303.0	\$293.4	\$272.4	\$251.4	\$230.4	\$209.3	\$188.3
Long-term Assets	\$346.1	\$392.6	\$1,605.9	\$3,552.9	\$6,693.6	\$11,541.2	\$17,797.8
Total Assets	\$1,546.1	\$3,499.8	\$26,989.0	\$74,324.5	\$156,606.6	\$300,565.7	\$521,789.0
Accounts Payable	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Liabilities	\$122.8	\$97.0	\$743.8	\$1,328.6	\$2,254.9	\$3,600.1	\$5,000.8
Long-term Liabilities	\$2,000.0	\$300.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Equity	(\$576.8)	\$3,102.3	\$26,245.2	\$72,995.8	\$154,351.7	\$296,965.6	\$516,788.2
Total Liabilities & Equity	\$1,546.1	\$3,499.8	\$26,989.0	\$74,324.5	\$156,606.6	\$300,565.7	\$521,789.0
<i>Parity Check (A = L + E)</i>	<i>\$0.0</i>	<i>(\$0.0)</i>	<i>(\$0.0)</i>	<i>(\$0.0)</i>	<i>(\$0.0)</i>	<i>(\$0.0)</i>	<i>(\$0.0)</i>
Assumptions							
Capex as % of Revenue		1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Capital Expenditures PPE (amount)		\$810.0	\$1,542.9	\$2,845.8	\$5,049.3	\$8,445.2	\$12,317.8
Depreciation as % of CapEx	6.7%	1.8%	20%	20%	20%	20%	20%
Depreciation (amount)		\$772.8	\$308.6	\$877.7	\$1,887.6	\$3,576.6	\$6,040.2
Capital Expenditure Intangibles (amount)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Amorizaton as % of Long-term Assets		7.2%	7.7%	8.4%	9.1%	10.0%	11.2%
Amoritzation (amount)		\$21.0	\$21.0	\$21.0	\$21.0	\$21.0	\$21.0
Inventory as % of COGS	11.1%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
Long-Term Assets (amount)	\$303.0	\$293.4	\$272.4	\$251.4	\$230.4	\$209.3	\$188.3
Accounts Payable as % of COGS	0%	0%	0%	0%	0%	0%	0%
Other Liabilities as % of COGS	7%	1%	4%	4%	4%	4%	4%

Pro forma Cash Flow Statement

Working Capital Performance Ratios

Dermacare Activity and Performance Ratios

	Historical Year Ending Dec. 31		Projected Year Ending Dec. 31				
	2018	2019	2020	2021	2022	2023	2024
Revenue	\$4,500,000.0	\$42,000,000.0	\$80,000,000.0	\$147,558,372.0	\$261,814,815.0	\$437,899,443.4	\$638,700,928.3
Cost of Goods Sold	1,800,000.0	9,635,100.0	19,000,000.0	33,938,425.6	57,599,259.3	91,958,883.1	127,740,185.7
Working Capital Balances							
Accounts Receivable, net							
Inventories	200,000.0	600,000.0	1,183,174.0	2,113,424.4	3,586,839.3	5,726,492.7	7,954,677.3
Other Current Assets							
Total Non-Cash Current Assets:	\$200,000.0	\$600,000.0	\$1,183,174.0	\$2,113,424.4	\$3,586,839.3	\$5,726,492.7	\$7,954,677.3
Accounts Payable	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Accrued Liabilities	122,813.8	96,998.0	743,822.0	1,328,639.4	2,254,926.2	3,600,054.9	5,000,840.2
Total Non-Debt Current Liabilities:	\$122,813.8	\$96,998.0	\$743,822.0	\$1,328,639.4	\$2,254,926.2	\$3,600,054.9	\$5,000,840.2
NET WORKING CAPITAL / (DEFICIT)	77,186.2	503,002.0	439,352.0	784,785.0	1,331,913.1	2,126,437.8	2,953,837.1
(Increase)/Decrease in Working Capital		(425,815.8)	63,650.0	(345,433.0)	(547,128.1)	(794,524.7)	(827,399.3)
(Increase)/Decrease in Other Assets/Liabilities			(300,508.0)	0.0	0.0	0.0	0.0
Increase/ (Decrease) in Assets/Liabilities			(\$236,858)	(\$345,433)	(\$547,128)	(\$794,525)	(\$827,399)
Working Capital Ratios and Assumptions							
Numbers of days in the period	365						
Accounts Receivable (Collection period in days)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventories (Days outstanding)	40.6	22.7	22.7	22.7	22.7	22.7	22.7
Other Current Assets as % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts Payable (Days outstanding)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accrued Liabilities as % of Cost of Sales	6.8%	1.0%	3.9%	3.9%	3.9%	3.9%	3.9%

	Historical Year Ending Dec. 31		Projected Year Ending Dec. 31				
	2018	2019	2020	2021	2022	2023	2024
Depreciation and Capital Expenditures							
Capital Expenditures	\$0.0	\$810,000.0	\$1,542,857.1	\$2,845,768.6	\$5,049,285.7	\$8,445,203.6	\$12,317,803.6
Capital Expenditures as % of Sales	0.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Depreciation							
Depreciation as % of Capital Expenditures		0%	0%	0%	0%	0%	0%