



Tyler Laundon, Chief Analyst  
tyler@cabotwealth.com  
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## The Big Idea

Evolving consumer preferences towards fresh, ready-to-eat options are reshaping the grocery landscape.

Perimeter store shopping – where all the fresh food is – is gaining momentum and growing 8% to 10% a year as people focus more on fruits, proteins and healthy foods.

Meanwhile, the center aisles are in decline, shrinking by 1% to 2% per year.

Grocers are making adjustments, seeking to differentiate themselves with diverse and innovative prepared food selections that appeal to increasingly busy and cost-conscious consumers.

The \$45 billion deli department, in particular, is experiencing a renaissance. It is morphing into a hub of culinary innovation that's challenging quick-serve restaurants.

Prepared Deli Foods, the largest category in Deli, now represents a \$25 billion market, growing well ahead of total Deli and ahead of the total food and beverage industry.

As grocers continue to adapt, the integration of restaurant-style offerings within the retail space is redefining the grocery shopping experience.

The key to success in this evolving market is for grocers to have diverse offerings of high-quality, fresh foods that are convenient and visually enticing, while also managing scant labor shortages and maintaining slim profit margins.

Today's portfolio addition is a rising micro-cap star in the prepared food category that's helping grocers adapt. It has a rich history and is growing its store base across the country.

## The Company

**Mama's Creations (MAMA)** is a micro-cap (\$250 million market cap), pure-play deli prepared food vendor with roots dating back to 1921. That's when founder Dan Dougherty's grandmother Anna "Mama" Mancini emigrated from Bari, Italy to Brooklyn, NY.

Dougherty developed a number of products using her Italian recipes and began selling them as prepared, refrigerated foods to retailers.

## Who We Are



We make our food the same way Dan Mancini's grandmother taught him: with real ingredients, full flavor, and prepared with love. We've made millions of meatballs but still follow the same recipe that she brought over from Italy: just 7 ingredients in a slow-cooked sauce. Give someone you love a meal cooked with Grandma's love.

Today, this small but growing company sits right at the intersection of two big-picture trends; consumers that are time and budget constrained and grocery deli departments adapting to meet a tidal wave of demand for high-quality, grab-and-go prepared meals.

Mama's main products include beef and turkey meatballs, meatloaf, chicken and sausage-related products and pasta entrees, though there is a lot more (salads, olives, etc.) sold mainly at the deli section of the supermarket.

You've likely noticed that the deli section is growing quickly wherever you shop, now including hot bars, salad bars, prepared foods and meals, sandwiches, fresh meats, breakfast offerings, sushi, soups and all sorts of other foods-to-go.

Mama's Creations is one of the reasons. The company's deli prepared foods are found in over 8,400 grocery, mass-market retailers, club, convenience and independent grocers across the country.



Management’s vision is to become a one-stop-shop deli solutions platform, offering restaurant-quality fresh food at a fair price that meets the needs of both busy consumers and resource-constrained grocers.

While Mama’s has been public since 2013, the company has really taken off since operations-focused CEO Adam Michaels (Columbia MBA, came from Mondelez) joined in September 2022 with a goal of making Mama’s a one-stop-shop national player.

Over the last couple of years, Mama’s has grown from a mostly East Coast story to a country-wide story. It now generates 45% of sales west of the Mississippi. Growth on the West Coast was 60% last quarter.

Part of this success is due to intense focus on a “4C Strategy” (typical MBA stuff!) to improve Cost, Controls, Culture and Catapult (i.e., growth).

On Cost, gross margins of 12% in mid-2022 have increased to 25% in the most recent quarter, on track to get to management’s targeted high 20% - low 30% gross margin profile.

Regarding Controls, a new NetSuite ERP system is helping Mama’s better understand and manage pricing, margin, inventory, accounts receivable and many other aspects of the business. Closer contract review is helping Mama’s get more favorable terms.

On Culture, Mama’s has initiatives to try and make sure they’re doing right by both customers and employees, driving higher production efficiency (which helps on Costs) and employee retention. Happy customers help to grease the wheels for cross-selling.

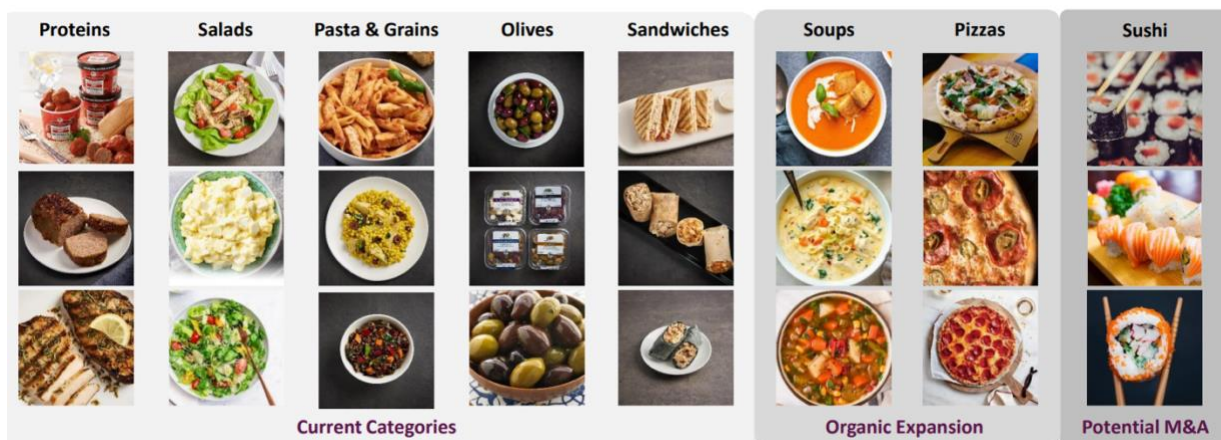
Lastly is Catapult. This growth-focused strategy aims to increase the average number of items customers carry. To me, it signals that the foundation of the company has been improved sufficiently to go after market share and shelf space.

Catapult means investing in sales (Mama’s now has five dedicated employees), trade promotion (helps offset increasing commodities cost) and marketing (radio features, in-store advertising, promotions like National Meatball Day, social media, etc.).

In 2021 Mama’s generated sales of almost \$41 million. This calendar year, sales should be close to \$120 million. The strategy appears to be working.

## Brands & Products

Management describes Mama’s Creations as a platform company that’s striving to become a one-stop-shop deli solution for grocery, mass, club and convenience store owners seeking high-quality, fresh prepared foods.



Here's a quick look at its consumer-facing brands.

## MamaMancini's

This is the brand the company was built around when founder Dan Mancini began selling meatballs using the same recipe his grandmother brought from Italy. It is still focused on making and selling prepared home-style, old-world Italian foods like beef and turkey meatballs with sauce and roasted and breaded chicken. But there are also a lot of new products, including grilled chicken breasts and Paninis, as well as package innovations such as In-A-Cup.



## Mama's Creations

The Mama's Creations brand was launched at International Dairy Deli Bakery Association (IDDBA) in June 2023 and is the brand of choice for many new protein products with an international flair, including Heat & Eat Breakfast Wraps, General Tso's Chicken, vegetarian Chana Masala, Beef Fajitas and Korean-Inspired Meatballs. The brand has over 50 products in both retail and bulk packages, including some retail sleeves with both Mama's Creations and MamaMancini's.

## Olive Branch

Olive Branch was acquired in 2021 and sells over 50 olive, olive mix and savory products, mainly in pre-packaged containers. The olives come from over 30 different family-owned olive farms operating in two different regions in Greece.

## Creative Salads

Creative Salads was acquired in 2021 as part of the T&L acquisition, helping Mama's bust into the packaged salad scene as well as strengthen its position in proteins, especially chicken. It now has over 200 chicken and salad products. The T&L acquisition also included a production facility.

## Growth Initiatives

**Land Big 6 Clients:** Mama's is in talks with major retailers that it's not yet in, including **Walmart (WMT)**, **Target (TGT)**, **Harris Teeters (KR)**, Meijer and H-E-B. They've all tried the company's products, and management expects to get into some of these stores ahead of the back-to-school season. Look for news in the July to August time frame.

**Product/Brand/Packaging Innovation:** The company continues to expand SKUs across all areas of the deli counter (proteins, salads, grains) while packaging innovations like In-A-Cup (product launch sold out on QVC), Meals for One (grocery stores) and club store packs, are all helping to move the needle.

**Category Expansion:** Mama's is branching out into new categories, including breakfast, a category expansion that originated out of a consumer request.

**Gross Margin Expansion:** Capital expenditure efficiencies and pricing adjustments should drive another wave of margin expansion in the second half of the current fiscal year (fiscal 2025).

**Multi-Channel Distribution:** Mama's is adding incremental sales volume and brand awareness by introducing its own direct-to-consumer website, launching new items on Amazon.com (AMZN), and selling through QVC.

**M&A:** Mama's is actively looking for tuck-in acquisition opportunities given the fragmented nature of the market, especially in areas like sushi.

## The Business Model

Mama's Creations is a vertically integrated, deli prepared company that develops, market tests, manufactures and launches new products at supermarkets, mass-market retailers and independent grocers across the U.S. The company has a 30,000-square-foot manufacturing and testing facility in New Jersey as well as a 22,000-square-foot manufacturing facility in New York. It does not raise or grow any animals or vegetables/fruits. The company is growing organically, as well as through acquisitions.

## The Bottom Line

In fiscal 2024 (ended in January) revenue grew by 10.8% to \$103.3 million. Adjusted EPS grew by 183% to \$0.17.

In the current fiscal year (2025), Mama's only has one quarter under its belt, and growth was phenomenal as revenue rose 29.8% on the back of some very successful promotions. EPS was \$0.01 due to some one-time charges. On the conference call, management indicated that Q1 was exceptionally good and could be a bit of an outlier.

It's fair to look for around 13% growth in each of the next three quarters, which implies roughly 16.5% growth for the year. That said, it's easily possible growth could be closer to 20% when all is said and done. Investments will likely keep a lid on EPS, which should be about flat with the \$0.17 from last year.

Cash and cash equivalents currently stand at \$13 million (up \$2 million over the last 12 months) and total debt is \$8.3 million.

## Risk

- USDA, quality control and/or manufacturing facility issues could lead to product recalls and reputational harm
- Rising competition for deli space
- Raw materials costs/inflation
- Customer concentration: 47% of 2023 sales came from three customers
- Micro-cap company/stock, not well known

## Competition

Quaker Maid, Hormel (HRL), Rosina Company, Casa Di Bertacchi, Farm Rich, Inc., Mama Lucia, Buona Vita, Taylor Farms, Kings Command, DeLallo Foods and Gourmet Boutique.

## The Stock

**Trading Volume:** MAMA trades an average of 430,000 shares daily, or \$2.86 million worth. We could impact share volume.

**Historical Price:** MAMA began trading on August 1, 2023, after the company changed its name from MamaMancini's, which had traded under the ticker symbol MMB since 2013. Shares have been on a sustained uptrend – with some normal pullbacks and consolidation phases – since they bottomed near 1.0 at the end of 2022. On the daily chart, most of the drawdowns have been halted near the 25 and 50-day moving average (DMA) lines, with the notable exception of a roughly two-month stretch last October and November, when MAMA was slightly below its 50-DMA. The most recent rally, from about 5 to 6.8, came in the days after the Q4 fiscal 2023 earnings report on April 24. Fast forward a little and the stock walked slightly higher, then spiked into the mid-7s after the Q1 report on June 11. It has since pulled back into the mid-6s where it trades near the intersection of its 25 and 50-DMAs. This looks like a good entry point.

**Valuation:** MAMA trades with an EV/Revenue multiple of 2.1 using current-year expected revenue. For a company with this growth profile that's entirely reasonable.

**Short-Term Buy Range:** Expect to buy in the 6.1 to 7.1 range in the next week or two.

**The Next Event:** Expected Q2 fiscal 2025 earnings date around September 11.

EPS					Sales				
	Jan '23	Jan '24	Jan '25E	Jan '26E		Jan '23	Jan '24	Jan '25E	Jan '26E
FY Ending					FY Ending				
Q1 (Apr)	0.00	0.04	0.01	0.05	Q1 (Apr)	21.8	23.1	29.8	32.1
Q2 (Jul)	-0.02	0.05	0.03	0.05	Q2 (Jul)	22.8	24.8	28.1	31.4
Q3 (Oct)	0.03	0.05	0.06	0.07	Q3 (Oct)	25.7	28.7	32.4	36.4
Q4 (Jan)	0.06	0.04	0.06	0.06	Q4 (Jan)	22.8	26.7	29.9	33.0
<b>Fiscal Year</b>	<b>0.06</b>	<b>0.17</b>	<b>0.15</b>	<b>0.24</b>	<b>Fiscal Year</b>	<b>93.2</b>	<b>103.3</b>	<b>120.3</b>	<b>134.5</b>
P/E (x)	33.3	25.4	43.9	27.3	EV/Sales (x)	0.9	1.6	2.0	1.8
CY Ending	Dec '22	Dec '23	Dec '24E	Dec '25E	CY Ending	Dec '22	Dec '23	Dec '24E	Dec '25E
<b>Cal. Year</b>	<b>0.05</b>	<b>0.16</b>	<b>0.15</b>	<b>0.23</b>	<b>Cal. Year</b>	<b>89.3</b>	<b>102.4</b>	<b>118.9</b>	<b>133.3</b>
P/E (x)	33.2	30.6	43.4	28.2	EV/Sales (x)	0.8	1.9	2.1	1.8



## CURRENT RECOMMENDATIONS

Ticker	Stock Name	Date Bought	Price Bought	7/2/24	Profit	Rating
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Please email me at [tyler@cabotwealth.com](mailto:tyler@cabotwealth.com) with any questions or comments about any of our stocks, or anything else on your mind.

## Glossary

**Buy** means accumulate shares at or around the current price.

**Hold** means just that; hold what you have. Don't buy, or sell, shares.

**Sell** means the original reasons for buying the stock no longer apply, and I recommend exiting the position.

**Sell a Half** means it's time to take partial profits. Sell half (or whatever portion feels right to you) to lock in a gain, and hold on to the rest until another ratings change is issued.

Disclosure: Tyler Laundon owns shares in one or more of the stocks mentioned. He will only buy shares after he has shared his recommendation with *Cabot Small-Cap Confidential* members and will follow his rating guidelines.

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**The next *Cabot Small-Cap Confidential* issue is scheduled for August 1, 2024.**

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President & Publisher: Ed Coburn  
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 Cabot Heritage Corporation, doing business as Cabot Wealth Network  
 2 Margin St. #2049, Salem, MA 01970 USA  
 800-326-8826 | support@cabotwealth.com | CabotWealth.com

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