

Initiation Report

BON NATURAL LIFE LIMITED



Bon Natural Life Limited — Rapidly Growing Business Targeting an Expanding Market

Bon Natural Life Limited (NASDAQ: BON)

Share Price: \$3.77

Valuation: \$14.64



Bon Natural Life

Key Statistics

52 Week Range	\$2.62 – \$17.60
Avg. Volume (3 months)	79.52K
Shares Outstanding	8.35M
Market Capitalization	\$125.92M
EV/Revenue	1.49x
Cash Balance*	\$1.90M
Analyst Coverage	1

*Cash balance as of September 2021

Revenue (in \$mm)

Sep - FY	2021A	2022E	2023E
H1	11.70	15.83	20.55
H2	13.79	16.01	28.75
FY	25.49	31.84	49.30

EPS (in \$)

Sep - FY	2021A	2022E	2023E
H1	0.40	0.29	0.34
H2	0.28	0.32	0.40
FY	0.68	0.61	0.74

Stock Price Chart (in \$)



Investment Highlights

- Increasing Focus on Developing Innovative Products** - Using its technical expertise, BON has undertaken the development of several new products. This includes the formulation of Glucoraphanin and Sulforaphane to increase their consumer product offerings. The company has adopted a strategy of continuous product expansion to capture a greater share of the growing health and personal care market. Bon is a pioneer in discovering and developing natural alternatives to existing synthetic ingredients. The company consistently explores new applications for its existing products, which helps maintain its competitiveness in the industry.
- Niche Market with Profound Expertise** - The natural health and personal care market is a niche market, and Bon plans to capitalize on its expertise in this sector. Bon has gained superior technological capabilities and invented proprietary processes with over sixteen years of research and development. This allows Bon to reduce costs, increase efficiency, and target higher product quality than its competitors. Bon, along with its subsidiaries, is an integrated supplier of natural ingredients. As a result, it can meet demand and absorb any disruptions in the supply chain network better than other companies in the segment. This combination of unique capabilities and expertise in a niche market uniquely positions Bon to achieve sustained growth rates above the industry average.
- Industry Demand to Remain Robust** - With an increasing global population and awareness about long-term healthy living, the health and wellbeing industry is poised to experience sustained growth. The boom in e-commerce, especially during and after the COVID-19 pandemic, acted as a catalyst in increasing demand for such products. Bon enjoys healthy margins and has a structure allowing it to pass on increases in input costs to consumers due to higher demand. Major markets include China and the rest of Asia, where both per capita income and healthcare awareness are increasing rapidly. As a result, demand for health and beauty products is expected to remain robust.
- Capacity Additions and Scaling of Existing Units** - Bon is looking to multiply its production capacity in the subsequent years. It is on track to start production at its Yumen plant by September 2022, its third production facility in China. This facility will increase the production capacity of fragrance compounds and bioactive ingredients by 200% and a potential increase in revenue by 150%. The second phase of expansion at this facility will be initiated to increase production capacity for consumer and functional health products. The Tongchuan site is also under expansion, with additional production lines being set up to increase capacity.
- Valuation** - We valued Bon Natural Life Limited using DCF as our preferred methodology. Using a discount rate of 11.28% and a terminal growth rate of 1.5%, we have valued the company at \$122.81 million or \$14.64 per share, contingent on successful execution by the company. The company is targeting continuing its growth momentum aided by industry tailwinds, capacity expansion, niche market expertise, and an experienced management team.

Company Description

Bon Natural Life Limited engages in the research and development, manufacture, and sale of functional active ingredients extracted from natural herb plants in the People's Republic of China and internationally. The company primarily deals in three product segments, fragrance compounds, health supplements, and bioactive food ingredients.

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Company Overview

Incorporated in the People's Republic of China in 2006, Bon Natural Life Limited (NASDAQ: BON) is engaged in the research and development, manufacture, and sale of naturally extracted functional ingredients globally. The company provides personal care ingredients such as plant extracted fragrance compounds for perfume and fragrance manufacturers; natural health supplements such as powdered drinks; and bioactive food ingredient products primarily used as food additives and nutritional supplements. Its products are principally used by manufacturer customers in the functional food, personal care, cosmetic, and pharmaceutical industries, including Tongrentang, Liangmianzhen, Jing Brand, Angel Yeast, International Flavors & Fragrances, Mars Wrigley, Fridal, Symrise, ACS International, and other big names in Asia, Europe, and the U.S. Bon Natural Life Limited is headquartered in Xi'an, China, with its two manufacturing facilities located within a 90-minute drive from its HQ and a third production site in Yumen, Gansu Province, which is under construction and expected to be in production in September 2022.

BON's main product categories include fragrance compounds, health supplements, and bioactive food ingredients



Exhibit 1: BON Product Categories. Source: Company SEC Filings

BON typically sources raw materials such as apples, stachys affinis, and clary sage from farms, then processes and breaks them down into natural chemicals that can be used commercially to produce fragrances, flavorings & sweeteners, powdered drinks, and bioactive ingredients by its customers. The company's main product categories include **fragrance compounds**, which contain a clary sage-based natural ingredient produced with the company's proprietary micro-fermentation process & molecular distillation technology and are used as fixatives in consumer fragrances, oral care, detergents, and tobacco flavoring; **health supplements** such as stachyose-based powdered drinks, prebiotics, and probiotics, which may contribute to the proliferation of beneficial intestinal bacterial; and **bioactive food ingredients** such as apple polyphenols that are widely used in high-end personal care products such as weight loss, blood lipid reduction, anti-aging beauty, whitening, and anti-wrinkle, as well as food preservatives with antioxidant and potential benefits.

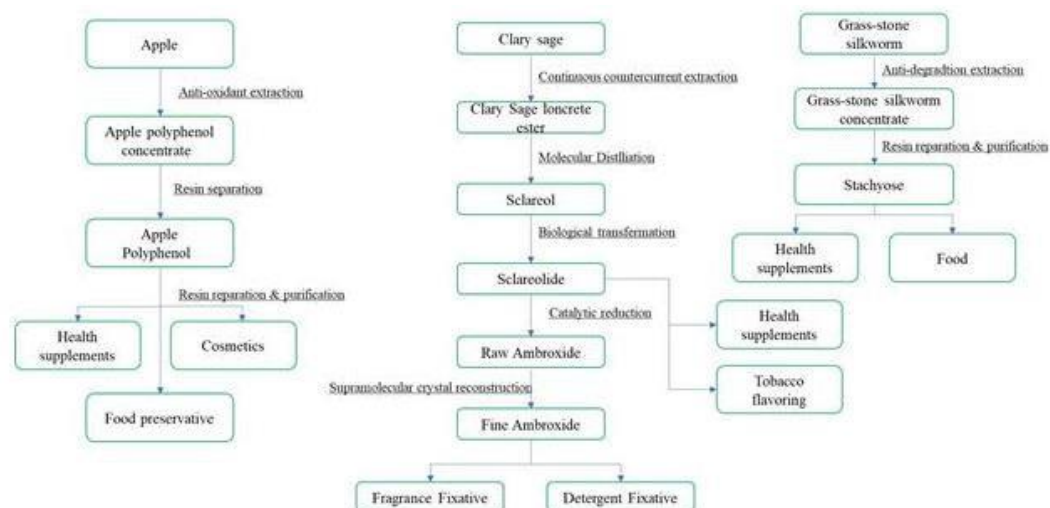


Exhibit 2: Manufacturing Process from Raw Materials Purchase to Finish Products. Source: Company SEC Filings

BON has been actively expanding with a profitable business model and developed a solid growth strategy since its IPO. The company has expanded its sales channels to multiple regions around the world, with its production capacity increasing significantly due to the extended capacity within the existing facility in Tongchuan and the expected capacity from the new production site, which may increase BON's production capacity of fragrance compounds and bioactive food ingredients by 200%, representing a 150% annualized growth potential in revenue. Leveraging its expertise and enhanced R&D capabilities in the natural and health ingredients industry, BON keeps developing new proprietary branded and white label products focused on human microbiome health, such as BON Natural Micro-Eco Hair Repair Shampoo that targets hair loss prevention and targets market launch within 6 months of new funding; Probiotics Powder made of stachyose and probiotics as a digestion health supplement; BON Prebiotics Powder made of stachyose which seeks to optimize beneficial bacteria to strengthen the immune system and anti-aging; BON Pueraria tablets that target increased alcohol metabolism, protecting the liver, and seeks to relieve headaches after drinking; Protein Fiber Probiotics as weight loss supplement; and BON Beauty and Youth using spermidine to combat aging.

BON has been actively expanding with a profitable business model and developed a solid growth strategy since its IPO



Exhibit 3: New Proprietary Products. Source: Company Website

Natural Ingredients Manufacturer for the Health and Beauty Industry

BON Natural Life Ltd. (BON) is engaged in the extraction and processing of natural ingredients for personal care, healthcare, and nutritional products. The company uses proprietary methods to extract compounds from natural herbs in the People's Republic of China (PRC). BON then uses patented processes in its manufacturing plants to make active ingredients from such compounds that are supplied to customers worldwide. These customers are mainly engaged in the well-being industry and use these ingredients to produce fragrances, perfumes, natural health supplements, and personal care products. The following chart comprehensively describes the value chain of natural ingredients and BON's positioning in the same.

BON uses a proprietary patented process to extract the natural ingredients, and process them into active ingredients

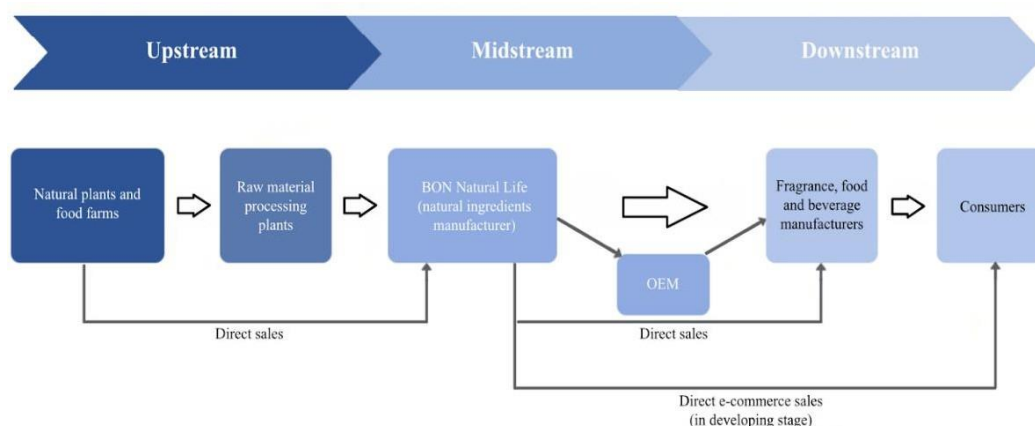


Exhibit 4: Natural Ingredients Value Chain. Source: [Company filings](#), Bon Natural Life Ltd.

BON is also planning to foray into consumer product development to create its own range of personal care products. The company has an integrated supply chain that ensures a stable supply of raw materials and fewer disruptions in production.

The company aims to reduce general dependence on pharmaceutical drugs and medical procedures by promoting healthy living aided by natural well-being products. Founded in 2006, the company has technological capabilities built over sixteen years of research and development. The company currently has four main technical platforms.

- Commercial-scale natural ingredient extraction and separation platform - This platform is used to extract and separate compounds from plants, such as Clary Sage concrete, Sclareol, Stachyose, and Apple polyphenol.
- Natural extraction safety improvement and assurance platform - This platform removes harmful elements from the products. Solvent residues, heavy metal ions, chemical pesticides used in the plants, and other such toxic substances are removed to ensure product safety and meet regulatory requirements. This process also improves product quality.
- Bioactive Ingredient of natural extract enhancement - Natural extracts are being used to improve general health as these are found to have antimicrobial and antioxidant

properties. This platform is mainly used to provide bioactive ingredients for such natural extract-based products as they increase the effectiveness by increasing the absorption of natural extracts in the human body.

- Natural extract formulation technology platform - This platform focuses on providing technology for the formulation of natural antioxidants and functional oligosaccharides. These are used to increase production- stability and increase the shelf life of the end product.

BON uses a combination of biotechnology in its production process and claims to have experienced lower production costs as a result. BON currently has twelve patents in PRC, with three additional pending approval. The company relies on its sales team that operates globally to drive sales. It plans to establish additional sales and marketing channels by opening a sales branch, R&D center, and consumer product manufacturing in the United States in FY2022.

BON currently has twelve patents in PRC, with three additional pending approval

The company is increasing its investment in the fragrance compounds and bioactive food ingredients segments. The company is seeking to open an additional plant in Yumen, China, by September 2022. This plant's first phase would triple the production capacity in these two categories and potentially increase revenues. The final phase will be focused on setting up the manufacturing of new consumer product lines for the company's natural prebiotic and functional personal care businesses. The company aims to become an innovative leader in the natural ingredient-based personal care segment. BON follows ESG-centric principles and is also developing alternatives to widely used additives that involve unsustainable practices.

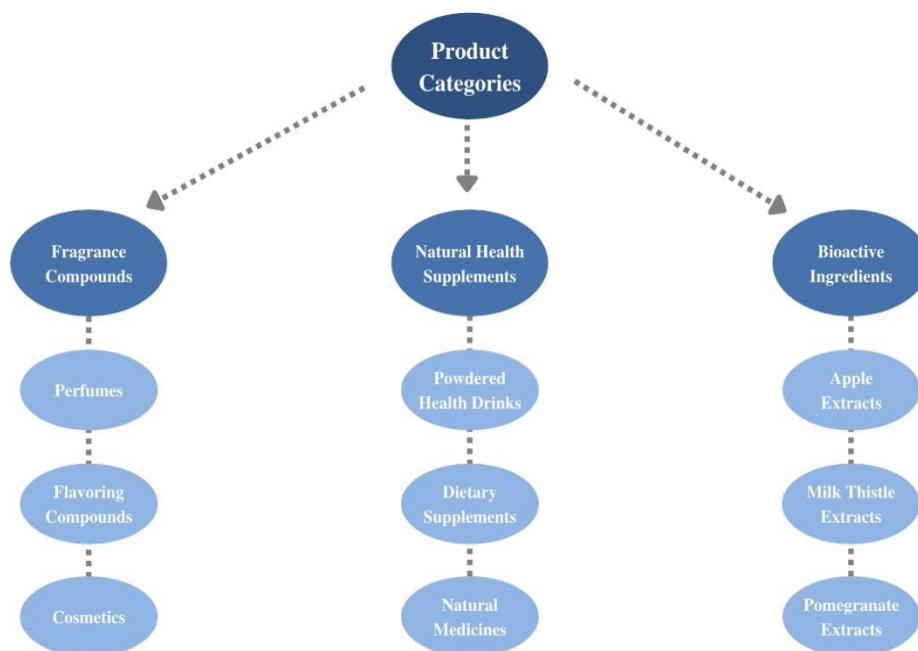


Exhibit 5: BON's Product Portfolio. Source: Company filings, Bon Natural Life Ltd.

Fragrance Compounds

Using the natural ingredient extraction and separation platform, BON extracts natural compounds from a plant known as Clary Sage. A number of them are used as fragrance fixatives in fragrance products. These include compounds such as Sclareol, Sclareolide, Clary Sage oil, and Clary Sage concrete. Sclareol is used to produce Ambroxide. Ambroxide is an alternative substitute for ambergris, a widely used compound in the perfume industry to enhance the notes of a fragrance and improve its longevity.

Naturally, Ambergris is produced in the intestines of sperm whales and is very rare. Using its molecular separation technology, BON discovered a suitable and sustainable replacement for such an ingredient. The company claims that it has saved more than 20,000 sperm whales by allowing customers to switch to a cruelty-free natural ingredient. BON also supplies lavender essential oil to its customers. The fragrance compounds are used in perfumes, cosmetics, fragrant detergents, and for the flavouring of health supplements.

A number of fixatives that have a significant market share are produced by BON. These include Sclareolide, Ambroxide, and other Clary Sage extracts. The Clary Sage plant is grown in Europe, Russia, and parts of China. The characteristics of the plant slightly differ in each country. Historically, China was the largest producer of Clary Sage oil, but production declined after 2010 due to falling prices.¹² However, there is renewed demand for this plant's extracts as numerous recent studies have pointed out various health benefits of Clary Sage, such as stress reduction and antibacterial properties. In addition, BON's patented extraction technology has a higher yield and provides output with greater purity. The fragrance fixatives segment is BON's largest segment in terms of revenue and accounted for around 50% of the annual revenue in the fiscal year ended September 30, 2021.

Natural Health Supplements

BON is an integrated supplier of natural additives to health supplements. It provides natural functional ingredients that are used in products such as powdered health drinks, nutrient supplements, and natural medicines. These are also used in personal-care products such as anti-aging, anti-acne, and moisturizing ointments. BON generates revenue from three types of sources in the natural health supplement segment.

- BON supplies these raw materials directly to customers who use them to develop their products using their own production processes.
- BON provides R&D and technological support services to customers. These services are focused on the formulation-development of new and early-stage natural health products for the customers.

¹ <https://pubmed.ncbi.nlm.nih.gov/23360656/>

² <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4360007/>

- Customers can also choose BON to provide ingredients with custom specifications for use in their end product. Here, BON acts as an OEM supplier to these companies.

BON has also started production of its new over-the-counter product lines by introducing products such as Bon Natural Micro-eco Hair Repair Shampoo and Tianmei Jinghao Nutrition Powder. It is further developing natural supplements that regulate the human micro-biome. The human microbiome refers to all the microbial organisms present inside and on the human body. Most of these are harmless, but some may not be healthy for the body, while some may even be beneficial for the body. These products, such as prebiotic drinks and antibiotics aim to maintain a healthy human microbiome system.

Bioactive Food Ingredients

Bioactive compounds are naturally occurring compounds in food that can have a biological effect on the human body, excluding those required for basic human nutritional needs such as carbohydrates, fats, proteins, etc. Research in this area suggests that such bioactive compounds positively affect the body and promote long-term health. Some common bioactive compounds are polyphenols, carotenoids, and peptides. Research published by Oxidative Medicine and Cellular Longevity shows that these compounds have positive effects on different diseases due to their antioxidant properties and even reduce the risk of future diseases.³ With increased awareness about healthy lifestyles and preventive care, the market for such products is witnessing major growth.

BON primarily deals in four types of bioactive natural ingredients:

- **Apple extracts:** These extracts include Apple polyphenol, Apple dietary fiber, Phloridzin, and Phloretin. Apple fiber is used in food and nutrient supplements as a low-calorie volume additive. It is rich in pectin, which is widely used in alternative medicine to improve gut health and digestive problems. Apple polyphenol is used in high-end personal care products with applications in weight loss, blood lipid reduction, anti-aging ointments, and much more.
- **Milk thistle extracts:** Milk thistle is a plant that is used to extract Flavonoids. Flavonoids are bioactive compounds that have been found to have various health benefits. Traditionally, Milk thistle has been used to treat liver and gall bladder diseases. It provides liver protection, is anti-inflammatory, and lowers blood pressure.
- **Stachyose:** Stachyose is a prebiotic that helps in the growth of healthy intestinal bacteria. It is used in dairy products, health drinks, alternative medicinal products, and also in cosmetic products. It also inhibits the growth of pathogens and improves glucose metabolism. It can be used with other supplements and has been proven to improve the effectiveness of some probiotics substantially. It occurs naturally in many plants.⁴

³ <https://www.hindawi.com/journals/omcl/si/512748/>

⁴ <https://www.frontiersin.org/articles/578943>

- Pomegranate extracts: Compounds such as ellagic acid, punicalagin, and urolithin are extracted from the Pomegranate fruit. Ellagic acid is a polyphenol that has antioxidant properties. It can help manage diabetes, reduce or prevent cancer cell growth, and protect against future neurological disorders.⁵ Urolithin is another natural compound that aids cell regeneration and enhances cellular health. It reduces inflammation and has anti-aging applications.⁶

While all the products and their health benefits discussed above are backed by varying degrees of research, these health benefits have not yet been backed by the USFDA as a replacement for pharmaceutical medicines or hospital treatments. However, there is a huge and fast-growing market for these products across several developed countries where people are substituting artificially manufactured nutritional products with natural, plant-based products.

Large Scale Manufacturing Capabilities

Bon Natural Life is a leading bio-ingredient manufacturer in the natural, health, and personal care industries and owns three manufacturing facilities. The company has two facilities out of Xi'an, China, and the third production site is under construction in the Yumen Material and Industrial Chemical Park. In 2021, the company focused on the capacity expansion of its Tongchuan facility and initiated the construction of its Yumen plant.

This plant is anticipated to be complete by June, and production is expected to start by September 2022, as per the company's guidance. Further, the new manufacturing site is expected to increase the production capacity of fragrance compounds and bioactive food ingredients by 200%, representing a 150% growth potential in revenue. The table below lists the production output in FY21 and the capacity utilization of different product lines manufactured by Bon Natural Life.

BON has two large manufacturing facilities out of Xi'an, and the third production site is under construction in the Yumen City

Segment	Production		Production Capacity		Utilization Rate (%)	Scheduled Capacity
	FY 20	FY 21	FY 20	FY 21	FY 21	FY 22
Fragrance Compounds	40.0 Tons	45.1 Tons	64.5 Tons	64.5 Tons	70%	196.5 Tons (+204.6%)
Health Supplements	186.8K Cases	283.3K Cases	436.8K Cases	436.8K Cases	65%	1.76M Cases (+302.9%)
Bioactive Food Ingredients	97.2 Tons	98.7 Tons	106.2 Tons	106.2 Tons	93%	323.5 Tons (+204.6%)

Exhibit 6: Combined Production Capacity. Source: Company Filings

⁵ <https://pubmed.ncbi.nlm.nih.gov/33287432/>

⁶ <https://www.sciencedirect.com/science/article/pii/S1471491421001180>

Production Site 1: Weinan Raw Materials & Ingredients Production Site

This site is located in Xuzhuang Industrial Park, Dali County, Weinan, which occupies a land area of approximately 5 acres and a building area of 118,403 square feet. The facility is equipped with a plant extract workshop, refining, drying, packing workshop, and spices refinement workshop. Weinan's raw materials and ingredients production site focuses on manufacturing products under the Clary Sage series, Apple Polyphenols series, and Stachyose products.

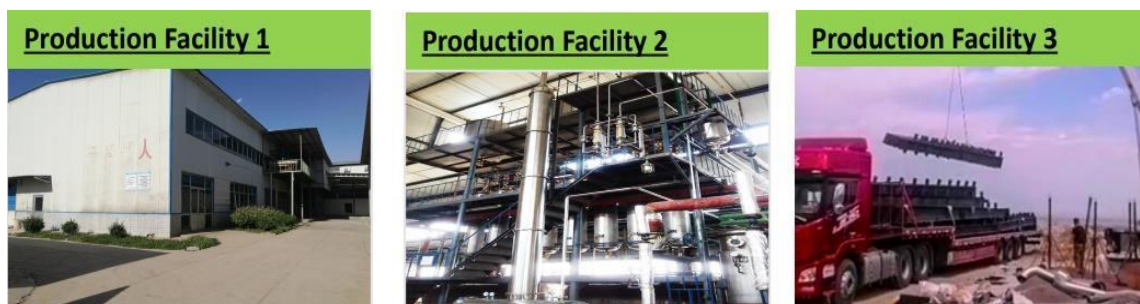


Exhibit 7: Production Facilities. Source: [Company Filings](#)

Production Site 2: Tongchuan Functional Health Business Production Site

This site is located in Southern Industrial Park, Shaanxi, which occupies approximately 4.1 acres of land and 145,313 square feet of the construction area. Currently, the plant is in the expansion phase and is expected to resume commercial production by December 2022. Further, the bulk of the required investment in the project has already been made, and the remaining will be partly paid through operational cash flows and bank borrowings.

The company has planned to establish the following production lines and centers with an expected total output value to reach \$150 million per year.

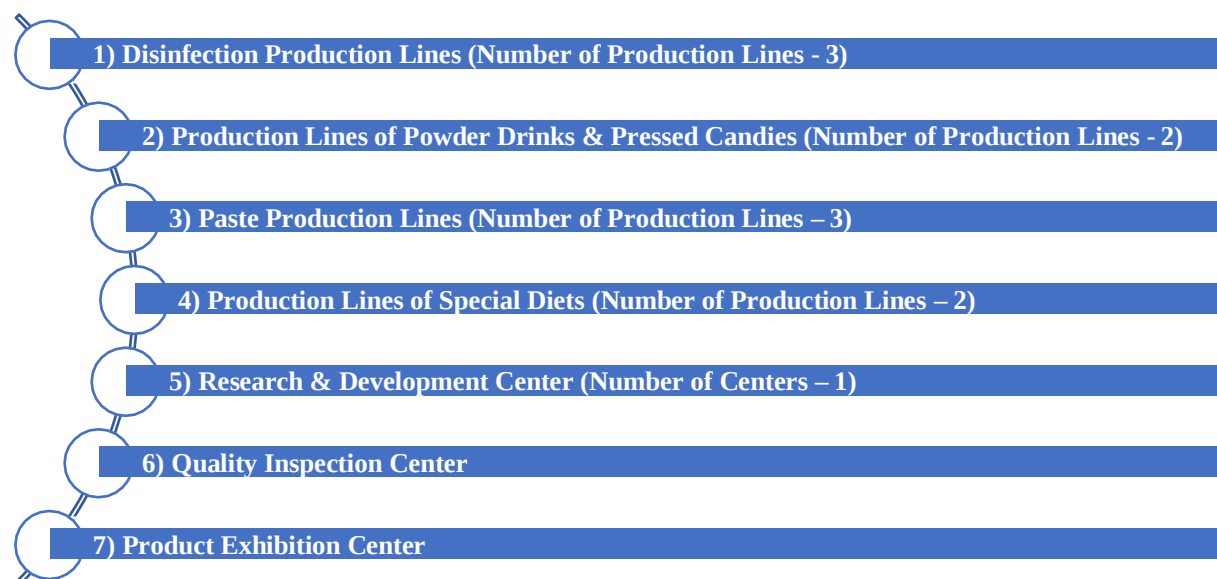


Exhibit 8: Tongchuan Site (Planned Production Lines & Centers). Source: [Company Filings](#)

Production Site 3: Yumen Plant

The company acquired a land use right of 8.2 acres through government-organized auction bidding in Yumen city.⁷ Bon Natural Life has started constructing this new facility to manufacture raw materials and ingredients. It aims to deliver near-term production of fragrance compounds and bioactive food ingredients.

The company anticipates huge potential output in the project's first phase from this new manufacturing site. To meet the existing customer and market demand, the company plans to increase the production capacity from approximately 170 tons to more than 520 tons. It represents a more than 200% increase in the production capacity of the above two product categories and an overall potential revenue growth of 150% annually. The second phase of the project focuses on expanding the company's new proprietary products, including natural prebiotics and functional personal care. Also, the Yumen City in China is well-known for its established fine chemical industry and is considered a gateway city for export to the European market. It is strategically important for the company as it aligns with BON's global expansion plans.

Large Multi-national Customers

BON's customers consist of large companies involved in the fragrance, personal care, and natural health and wellness industries. Revenues from PRC account for over 90% of the total revenue (as the company's current sales channels are concentrated in PRC itself). The top two customers accounted for around 61.6% of the company's total revenue in 2021.⁷ BON has strong relationships with its top customers. The company has a dedicated sales team that drives sales in regions outside PRC, such as Asia, Europe, and the U.S.A. However, owing to the challenges faced during the recent global supply chain disruptions, BON decided to focus more on domestic sales than exports. It is looking to expand its sales team to focus more on exports going forward.

Customers are divided into two major segments:

- Raw material and ingredients, and
- Functional health

BON's customers consist of large companies involved in the fragrance, personal care, and natural health and wellness industries

The raw material and ingredients segment accounts for around 70% of the total revenue. These customers are supplied with natural extracts and bioactive ingredients discussed above, including Stachyose, Polyphenols, Ambroxide, etc. These are used primarily in the functional foods and personal care cosmetics industries. Customers in the functional health segment are majorly from the human micro-biome adjustment and control, metabolic health, digestive health, and immune health industries. BON provides a host of solutions for these customers. These include product designing, research, and development, raw material procurement, or being an OEM for them. Some of the well-known customers are mentioned in the following table.

⁷ [https://m2compliance.com/hosting/company/BON/link_files/2022/01-31-2022/Form20-F\(01-31-2022\)BonNaturalLife/Form20-F.pdf](https://m2compliance.com/hosting/company/BON/link_files/2022/01-31-2022/Form20-F(01-31-2022)BonNaturalLife/Form20-F.pdf)

Company	Country	Industry
Ton Reng Tang	China	Pharmaceutical
Liangmianzhen	China	Personal Care
Jing Brand	China	Healthcare (Herbal Spirits)
Angel Yeast	China	Yeast Probiotics
Kao	Japan	Cosmetics and Personal Care
Asahi	Japan	Dietary Supplements
J2K Bio	South Korea	Cosmetics
International Flavors and Fragrances	The U.S.A.	Fragrance, Personal Care, Health
Mars Wrigley	The U.S.A.	Confectionery & Other Food Products
Symrise	Europe	Flavors and Fragrances
Fridal	Europe	Fragrances
ACS International	Europe	Flavors and Fragrances

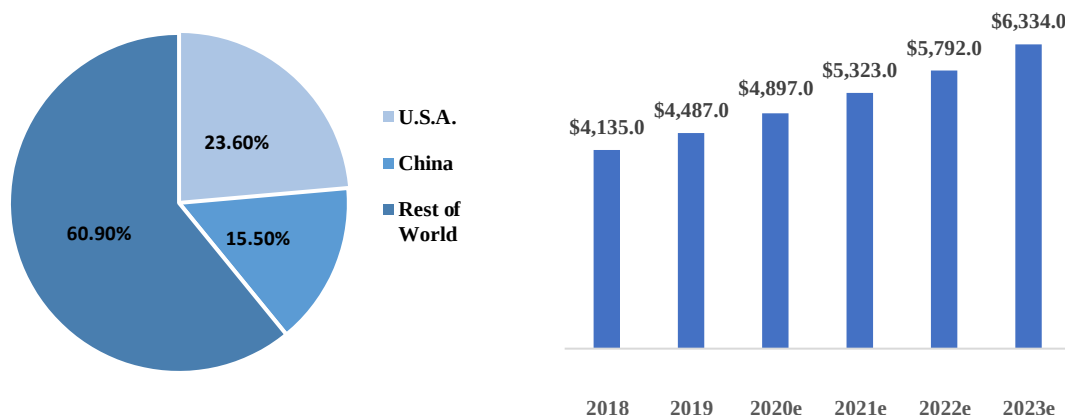
Exhibit 9: BON's Blue Chip Customers. Source: [SEC Filings](#).

BON is a midstream player in the value chain. However, it has started developing its line of personal care products, with two products already on the market and five products under trials. BON will market and sell these products under its own brand name through multiple channels, including e-commerce (currently in the developing stage). This will allow the company to supply finished products to end consumers in addition to being an OEM to its existing customers. As a result, a new potential consumer segment can be formed here, who are individual users of these products.

With increasing awareness about healthy living and its long-term benefits, a record number of young people are adopting healthy practices and incorporating natural wellness products in their daily lives. Also, with incidences of chronic diseases on the rise; especially in the middle-aged and older population, BON's products can significantly improve the quality of life for this segment of people. Apart from regular usage, certain products such as bioactive ingredients, particularly stachyose, also found use in the COVID-19 pandemic. The Chinese Government designated it as a pandemic control substance during the pandemic, and thus, BON experienced increased demand. The company has established a strong image with its customers in PRC and abroad and has become a preferred raw-material supplier for them.

Market Trends and Industry Outlook

Bon Natural Life is headquartered in China, the world's second-largest economy, accounting for a 15.5% share of global GDP.⁸ Additionally, the Chinese retail market is booming rapidly due to the significant rise in per capita disposable income, which was \$4,135 in 2018 and is expected to grow at a CAGR of 29.3% to reach \$6,334 by 2023. The healthcare industry is attractive, with the Chinese government taking bold initiatives and consumers increasing their spending on healthcare. The growth of the healthcare industry in China is expected to rise due to government-led initiatives and increased healthcare expenditure, which is projected to grow from \$1.5 trillion to \$2.1 trillion by 2023E.



With an increasing global population and awareness about long-term healthy living, the health and wellbeing industry is poised to experience sustained growth

Exhibit 10: Percentage of Global GDP (2019) & Per Capita Annual Disposable Income in PRC (in \$ USD). Source: SEC Filings

The company sells its products through two internal sales departments — Raw Materials & Ingredients and Functional Health. The raw material team sells natural active ingredients to the customers in the functional food and personal care industries accounting for 70% of the company's overall sales.⁷ The functional health team focuses on human micro-biome adjustment and control products catered to SME customers in the Chinese Big Health industry. It accounts for 30% of the total company sales. Bon Natural Life promoted brands and slogans are internationally recognized and well-reputed for their micro-biome health products.

China has a deep and historical familiarity with the concept of using natural ingredients and formulations to treat ailments, leading to the growth of the nutritional and dietary supplement market. The companies catering to this industry segment have a tremendous opportunity in addressable market size which is expected to grow from \$69.2 billion in 2020E to \$105.7 billion by 2023E.⁸

BON's three major product categories are fragrance compounds, natural health supplements, and bioactive food ingredients, ultimately absorbed by industry players in the health and beauty segment. Based on Research & Markets study, the global beauty and personal care market was valued at \$422.72 billion in 2020 and is projected to grow at a CAGR of 4.82% to reach \$558.12 billion by 2026. Primarily, the market is forecasted to grow due to increased disposable income and per capita expenditure, as consumers are spending more on luxury, personal care, and health care.

⁸ <https://www.sec.gov/Archives/edgar/data/1816815/000149315221014184/formfwp.htm>

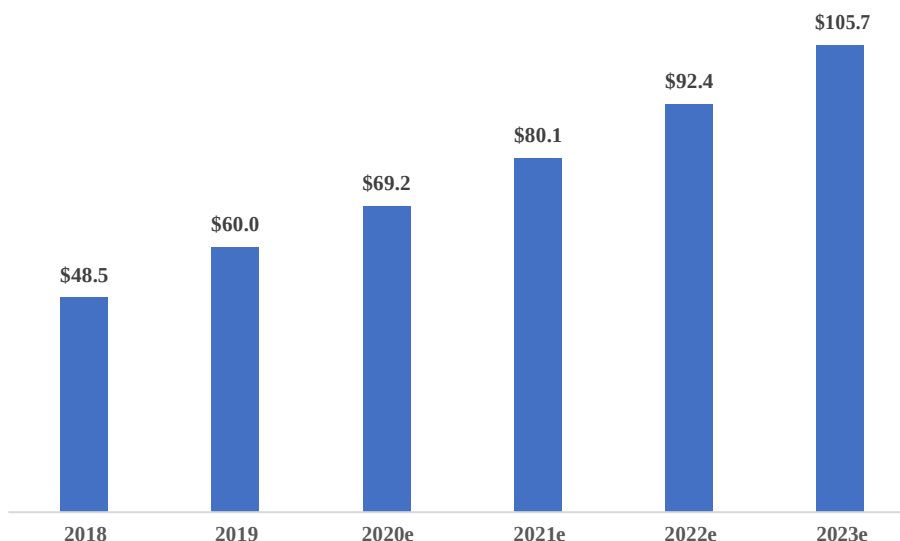


Exhibit 11: Nutritional Supplements Market in PRC. Source: Company filings

Asian Beauty & Personal Care Market

The global COVID-19 pandemic disrupted the world economy, and the after-effects rippled to every sector, including beauty, cosmetics, and personal care markets. Although China was the first country hit by the pandemic, it was also quick to recover. Additionally, it recorded a double-digit decline in 2020 but managed to recover to the pre-pandemic level at an impressive pace. After the initial hit, the Chinese market remained resilient, but e-commerce proved to be the catalyst behind the market recovery, which grew by 20% in 2020.⁹

Consumers are always looking for new and innovative personal care products with unique ingredients. It led to the expansion of skincare products demand, while make-up products demand became increasingly diversified. The company also caters to the health segment, including dietary supplements and powder drinks. Based on Grandview Research, the global dietary supplement market was valued at \$151.9 billion in 2021 and is projected to grow at a CAGR of 8.9% from 2022 to 2030.¹⁰ This market is majorly driven due to the increasing consumer awareness of health and well-being, changing lifestyles, and hectic work schedules. Also, supplements fulfil the essential nutritional requirement more conveniently and owing to the same reason; working people tend to consume more health supplements in their daily lives.

Competitive Analysis

Bon Natural Life is a value-added midstream player which farms sourced raw materials to its bio-manufacturing facilities in the Xi'an area for further processing. These processed materials are then converted into fine powders of various natural chemicals, which form the base active ingredients to make several different proprietary formulations. Further, these proprietary formulations are used by BON or its OEM & ODM customers to manufacture fragrances,

⁹ <https://www.kantar.com/inspiration/consumer/growth-opportunities-in-the-chinese-beauty-market>

¹⁰ <https://www.grandviewresearch.com/industry-analysis/dietary-supplements-market>

flavourings & sweeteners, powdered drinks, and bioactive ingredients. The company has seen decent growth in its existing business in the last financial year. It, therefore, expects to face new direct competition (domestic & international) from some other counterparts engaged in the natural ingredients and health solutions industry.

International brands are taking the Chinese market of vitamins and dietary supplements by storm. The rise in China's aging population is a key fundamental factor driving the Chinese market as it represents more than 16% of the population (more than 220 million people).¹¹ Due to severe environmental pollution and degradation in China, most of the population is concerned about their immune system and health, leading to higher consumption of health supplements. Also, the end of the one-child policy has led to an increased demand for health supplements amongst women and children. Infinitus dominate the Chinese vitamins and supplements market, accounting for 11% market share.¹¹ International brands like Nutrilite and Centrum are perceived to be of better quality than local brands and therefore enjoy premium pricing in the market.

BON has gained superior technological capabilities and invented proprietary processes with over sixteen years of research and development

Domestic Competitors	Category
Quantum Hi-Tech (QHT)	Leading probiotics supplier
Tong Ren Tang	Leading producer of Chinese medicine and health products
BY-HEALTH	Leading supplier of nutrients by indirect selling
Chenguang Biotech	Natural Colors
Zhejiang NHU	Nutrition, pharmaceutical raw materials, flavors & fragrances, and new polymer materials
Guangzhou Boan Health Product Co.	Health food, dietary supplements, herbs, and nutritional supplements
International Competitors	Category
Layn	Natural Sweeteners
Koninklijke DSM N.V.	Health, Nutrition, and Bioscience
Symrise AG	Nutrition & Health, Scent & Care
Givaudan SA	Flavours, Fragrances, and Active Cosmetic Ingredients
Herbalife	Global leader in meal replacements, nutritional supplements, and skincare products
BellRing Brands	Nutrition Products (Premier Protein, Dymatize, and Power Bar products)

Exhibit 12: BON Competitors (Domestic & International). Source: Company Filings, Diamond Equity Research

Bon Natural Life may soon face competition from larger, more developed food and ingredient companies due to the rapid development of human micro-biome technology. It has resulted in quick commercialization of related products under immune health and digestive health, which has increasingly caught the attention of some large-scale companies like Danone Group.

¹¹ <https://marketingtochina.com/the-growing-demand-for-food-supplements-in-china/>

The entrance of such large companies into the industry might directly change the current landscape through mergers & acquisitions. Also, the COVID-19 pandemic has prompted consumers and public administrators worldwide to pay more attention to basic health issues and strengthen the human immune system. The core of the company's business focus is immune health and the precise control of human micro-biome by natural probiotics. This area has increasingly caught external attention from players outside the health industry and potentially challenge Bon Natural Life.

Management Overview

- **Yongwei Hu – Chief Executive Officer & Chairman**

Mr. Hu founded Xi'an App-Chem Bio (Tech) Co., Ltd. (Bon Natural Life's predecessor) in 2006 and has served as the President, CEO, and Chairman of the company since then. Mr. Hu has considerable expertise in the marketing and management of personal care, dietary, and food supplement products with over 20 years of experience in the global natural health industry. Before founding BON, he was the department manager and Deputy Executive President of Shaanxi Iko Ostriches Co., Ltd. and Xi'an England Bioscience Co., Ltd. from 2000 to 2006, and served as the trainer-in-charge of Xi'an Synchrobit Co., Ltd. from 1999 to 2000. Mr. Hu acquired a bachelor's degree in Biology from Northwest University, China.

- **Zhenchao Li - Chief Financial Officer**

Mr. Li has rich experience of more than 36 years in finance and accounting and has served as the CFO of Bon Natural Life Limited since 2019. Prior to that, he handled senior accounting executive roles in multiple companies in various industries, including manufacturing, real estate, construction, energy, consumer, and asset management. In addition to serving as CFO, Mr. Li is also a senior accountant and member of various accounting boards and taxation research institutes that includes serving as a member of National and Local Taxation of Xi'an Municipal International Taxation Research Institute, tax supervisor of the Xi'an Municipal Tax Service, and a guest supervisor of Yanta District Tax Bureau of Xi'an Municipal Tax Service.

- **Yingchun Xue - Chief Operating Officer**

Ms. Xue serves as the COO of Bon Natural Life Limited in charge of research and development of plant extracts, quality control, and procurement of trade products. Ms. Xue was a former Sales Manager at Nu Skin and Amway China and brings along extensive industry experience. Ms. Xue received a bachelor's degree in Applied Chemistry from Nanjing University, China.

- **Jianli Liu – Chief Technology Officer**

Mr. Liu is the CTO and Chief Scientist of Bon Natural Life Limited who is responsible for proposing and developing new products for the company. He also serves as the Dean of the Traditional Chinese Medicine Department at Northwest University, China. Mr. Liu has achieved various scientific achievements in the field of traditional Chinese medicine, publishing over sixty academic papers, among which six have been included in SCI (Science Citation Index) journals and three have been included in EI (Engineering Index) journals. Mr. Liu holds a Ph.D. from the University of Manchester, UK.

- **Wenjuan Chen – Chief Marketing Office**

Ms. Chen joined Xi'an App-Chem in 2006 and currently serves as the CMO of Bon Natural Life Limited. Ms. Chen received a bachelor's degree at Xi'an International Studies University and a master's degree in Business Administration at Shaanxi Master of Business Administration Institute.

Financial Performance Overview

- **Niche market with continuous product expansion** - Bon operates in a niche market with a differentiated platform technology allowing it to innovate and develop additional product offerings in its legacy business. With a focus on human micro-biome health, the company has introduced new over-the-counter products, including Bon Natural Micro-eco Hair Repair Shampoo and Tianmei Jinghao nutrition powder; and new women's personal care product, FeatherPure. Bon also added two new nutraceutical compounds, Glucoraphanin ("GF") and Sulforaphane ("SFN"), allowing it to develop new consumer products.

The company has seen strong demand for its existing product portfolio with the addition of new customers across its three segments, thus considerably increasing the capacity utilization across the board. This has allowed the company to grow its revenue at a CAGR of 33.25% in the past three years. We have modelled the company to grow its revenue at 27.3% growth over FY 21-26. The company seeks to continue its strong momentum driving the revenue growth.

- **Capacity expansion to provide long-term growth runway** - The company recently broke ground on the reserve production facility in Yumen. The construction is in progress, and the commissioning is on schedule and is expected to commence around September 2022. The new facility will increase the production capacity of fragrance compounds and bioactive food ingredients by 200%. The company is also increasing its production capacity at the Tongchuan facility and is expected to triple its current total capacity in the next three years. Commissioning of the additional capacity will provide the company with an opportunity to onboard new customers, and add new products to its pipeline, thus creating a long-term growth runway for the company.
- **Sustainable and stable margins** - The company has been able to maintain a healthy margin profile in the past two years. Average gross margins were 28.25%, while average EBITDA margins stood at 21.15%. The company has been able to catch up with the rising prices of raw materials by passing on the increasing cost, thus keeping the margins stable. We expect gross margins at 28.0% and EBITDA margins at 20.3% for the year ended 2022e. Post the commercialization of its expanded production capacity, although we expect gross and operating margins to contract by 300-350 bps owing to a one-time increase in fixed cost, we model normalization to return post-2024, as benefits of operating levers are realized, leading to dramatically incremental growth in profit.

The company's bioactive food ingredient and health supplement is a high margin business with a gross margin in the range of 30%-34% compared to fragrance compounds at 20%-22%. We model the company's high margin segments to be a major part of the company's business (at 53%-58%) over the long term, improving overall blended gross margins by at least 120-180 bps.

- **Strong financial positioning** - The company is currently in a strong financial standing with a positive cash-flow generating business model, a cash balance of \$1.9 million compared to a total debt balance of approximately \$2.8 million. The majority portion of the company's CAPEX has been incurred, and we expect the rest (\$5.1 million) to be funded through internal accruals.
- **Robust and improving return ratios** - Bon's ROE stands at 28.5%, while ROCE is 17.5%. We expect the company to maintain robust return ratios over the long term, aided by strong growth and margin profile. Based on our estimates, we expect ROCE to contract from the current 17.5% to 16.1% in 2023, attributable to a reduction in asset turnover and contracting margins. As the company ramps up its additional capacity, we model ROCE to gradually improve to 19.4% in 2025.

Year-end 30 September	2020	2021	2022e	2023e	2024e
INCOME STATEMENT					
Revenue	\$18.22	\$25.49	\$31.84	\$49.30	\$67.18
Gross Profit	\$5.20	\$7.11	\$8.91	\$11.89	\$16.18
EBITDA	\$3.47	\$5.40	\$6.19	\$7.50	\$10.34
Depreciation & Amortization	(\$0.23)	(\$0.22)	(\$0.27)	(\$1.91)	(\$2.09)
Profit Before Tax (PBT)	\$3.65	\$5.43	\$5.97	\$7.28	\$10.12
Profit After Tax (PAT)	\$3.10	\$4.61	\$5.08	\$6.19	\$8.60
Basic Shares Outstanding	5.21	6.62	8.35	8.35	8.35
EPS – basic	\$0.58	\$0.69	\$0.61	\$0.74	\$1.03
EPS – diluted	\$0.58	\$0.68	\$0.61	\$0.74	\$1.03
BALANCE SHEET					
Cash and cash equivalents	\$0.05	\$1.90	\$2.42	\$0.47	\$2.54
Other current assets	\$10.79	\$14.65	\$17.40	\$25.06	\$33.18
Total current assets	\$10.84	\$16.55	\$19.82	\$25.54	\$35.71
Non-current assets	\$14.36	\$19.86	\$22.79	\$24.84	\$24.79
Total Assets	\$25.20	\$36.41	\$42.61	\$50.38	\$60.51
Short-term borrowing	\$3.21	\$0.49	\$0.65	\$0.65	\$0.65
Other current liabilities	\$8.49	\$7.04	\$7.99	\$9.58	\$11.11
Total current liabilities	\$11.70	\$7.53	\$8.64	\$10.23	\$11.76
Long-term borrowing	\$2.48	\$2.17	\$2.20	\$2.20	\$2.20
Other non-current liabilities	\$0.00	\$0.18	\$0.15	\$0.15	\$0.15
Total liabilities	\$14.18	\$9.88	\$10.99	\$12.58	\$14.11
Total Equity	\$11.02	\$26.53	\$31.61	\$37.80	\$46.40
Total Liabilities & Equity	\$25.20	\$36.41	\$42.61	\$50.38	\$60.51

Value in \$mm except per share value

Selected Financials

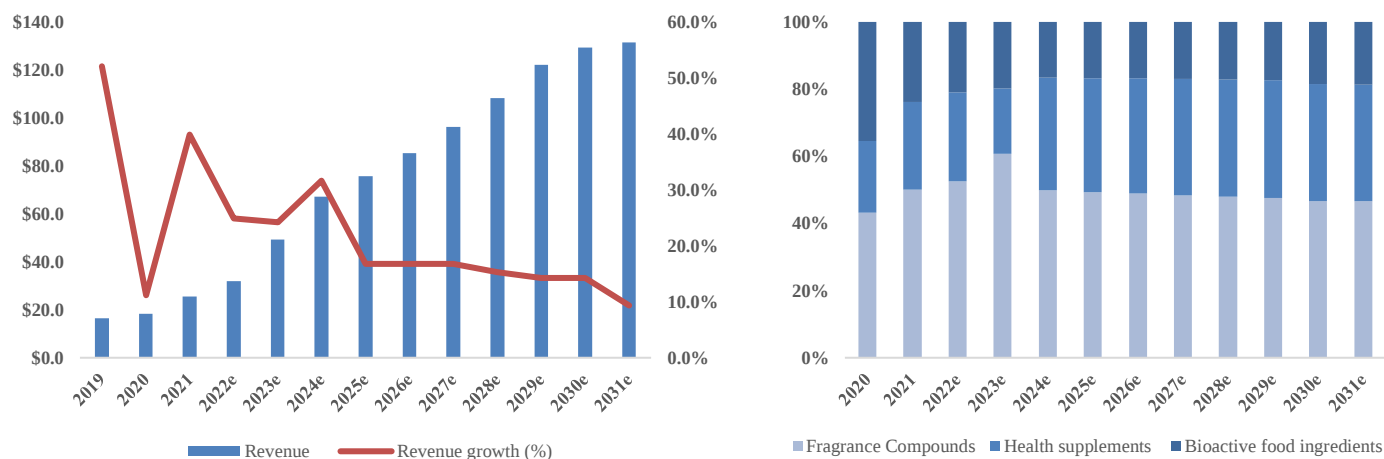


Exhibit 13: Revenue & Revenue Growth Rate (left) Revenue by Segments (Right). Source: Diamond Equity Research

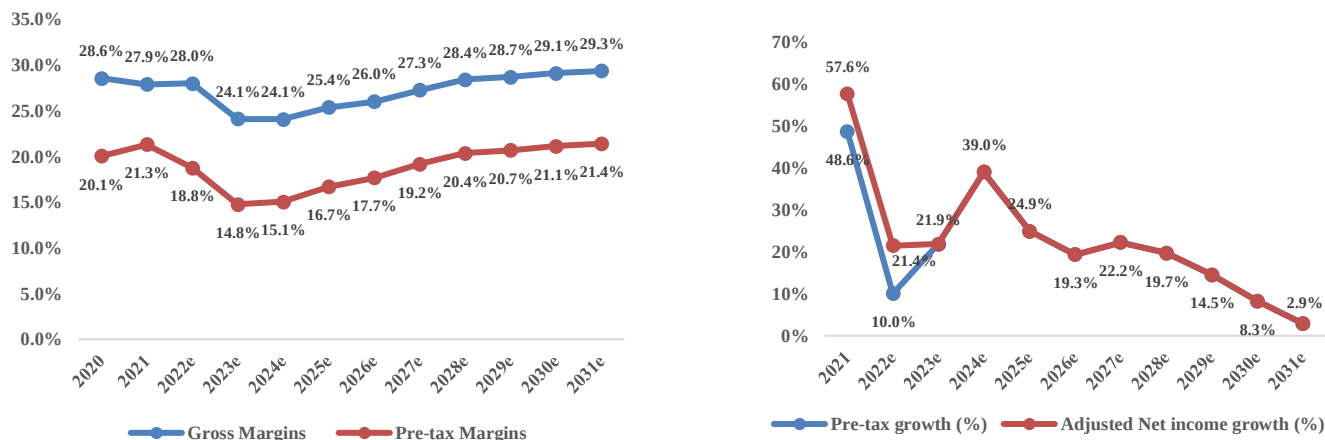


Exhibit 14: Margin Profile (Left) and Growth Profile (Right). Source: Diamond Equity Research

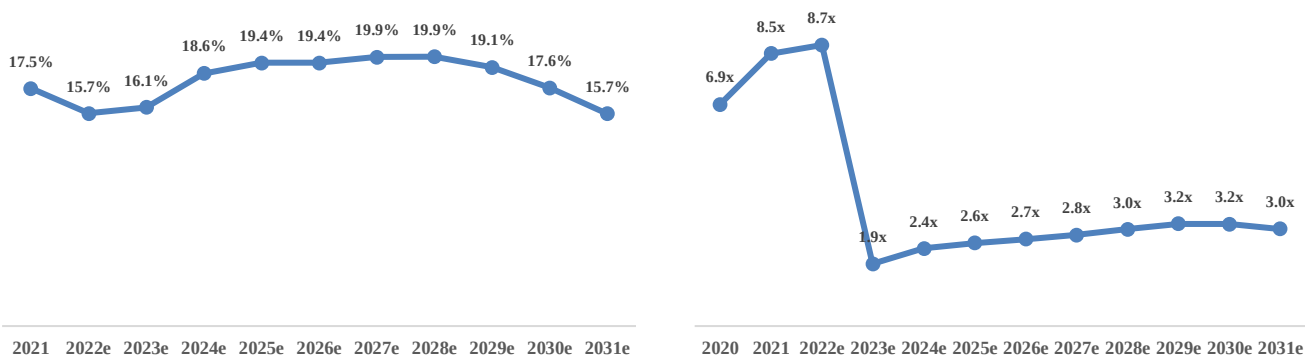


Exhibit 15: ROCE (Left) and Asset Turnover (Right). Source: Diamond Equity Research

Valuation Outlook

We model Bon Natural Life to grow at an 17.8% revenue CAGR (to \$131.48 million) and a 19.1% Adjusted PAT CAGR (to \$23.92 million) over FY22-31. We believe the company's strong R&D capabilities and its ability to innovate and develop additional products will allow it to serve its growing customer portfolio. We model strong FCF generation starting FY24 (\$2.28 million in FY24 and \$7.96 million in FY25).

We have valued the company using DCF as our preferred methodology. Using a discount rate of 11.28% and a terminal growth rate of 1.5%, we value the company at \$122.81 million or \$14.64 per share contingent on successful execution by the company.

		Approaches (in \$ mm)	Value (USD)	Weight	Wtd. Value (USD)	
Calculated Equity Value (\$mm)		DCF	\$125.87	90%	\$113.28	
Enterprise Value	\$127.34	GPCM	\$95.36	10%	\$9.54	
- Debt and Preferred Stock	\$3.38	GTM	-	0%	\$0.00	
+ Cash	\$1.90	Wtd Avg. Equity Value (USD)				\$122.81
Net Debt	-\$1.48	No of Shares (Diluted)				8.39
Equity Value	\$125.87	Intrinsic Value Per Share				\$14.64

Company Name	Ticker	Price	Currency	Exchange	Market Cap.	LTM EV/EBITDA	LTM EV/S
Chr. Hansen Holding A/S	CHYHY	18.47	DKK	CPSE	69021.40	22.40x	7.90x
Novozymes A/S	NZYMB	432.60	DKK	CPSE	16978.13	22.91x	7.75x
Givaudan SA	GIVN	3526.00	CHF	SWX	32703.00	23.31x	5.07x
Corbion N.V.	CRBN	33.16	EUR	ENXTAM	2055.51	14.75x	2.08x
Takasago International Corporation	4914	2584.00	YEN	TSE	390.43	4.59x	0.44x
Symrise AG	SY1	101.00	EUR	XTRA	14844.35	17.11x	3.75x
T. Hasegawa Co. Ltd.	4958	2539.00	YEN	TSE	803.92	6.40x	1.26x
International Flavors & Fragrances Inc.	IFF	128.00	USD	NYSE	32619.27	16.39x	3.59x
Chr. Hansen Holding A/S	CHR	524.20	DKK	CPSE	9756.82	23.23x	8.36x
ChenGuang Biotech Group Co. Ltd.	300138	16.57	YUAN	XSEC	1313.62	18.23x	1.85x
Jiangsu Hengshun Vinegar-Industry Co.Ltd	600305	10.83	YUAN	SHSE	1600.12	43.27x	4.91x
Glanbia plc	GL9	11.83	EUR	ISE	3435.50	11.26x	0.88x
Danone S.A.	BN	54.96	EUR	ENXTPA	36115.98	8.14x	1.72x
By-health Co. Ltd.	300146	19.66	YUAN	XSEC	4974.12	15.31x	3.86x
Beijing Tong Ren Tang Chinese Medicine Co. Ltd.	3613	11.26	HKD	SEHK	1200.73	8.71x	4.71x
Median						16.39x	3.75x
Mean						17.07x	3.88x

Exhibit 16: Valuation Snapshot and Comparable Companies Source: Diamond Equity Research

Risk Factors

- **Operating in China** – Bon Natural Life is based in China and all its operations are in China, too. If the Chinese government exerts more oversight and control over offerings that are conducted overseas, investors may not be able to acquire or trade the company's shares, which may eventually impact its valuations.
- **Customer Concentration** – The company has 132 and 114 customers for the year ended September 30, 2021, and 2020. While it generated 61.6% of revenue from its top two customers in 2021 and 70.3% of total revenue from the top three customers. The loss of any of these customers can have a significant negative impact on the company's revenue and growth.
- **PCAOB Inspection Issues with China** – The PCAOB is currently unable to conduct inspections in China and Hong Kong as the Chinese national security law prohibits companies to turn over audit papers to U.S. regulators. This scenario is changing as the Chinese Securities Regulatory Commission recently removed key hurdles providing US auditors with full access to the financial records of the majority of Chinese companies that have US listings. Although Bon's audit report was issued by a U.S. accounting firm that can be inspected by the PCAOB, if it is later determined that the PCAOB is unable to inspect or investigate the auditor or the audit work undertaken in China completely, the company's ordinary shares may be delisted or prohibited from trading on Nasdaq or other U.S. securities exchanges.
- **Lack of Clinical Proof of Product Safety** – Although the company's products include nutritional supplements made from vitamins, minerals, herbs, and other substances for which there is a long history of human consumption, the company has not conducted clinical trials on the safety or efficacy of its products. Therefore, the company's business would be adversely affected if its products were proven or asserted to be unsafe or ineffective.
- **Capital & Dilution Risk** - The company is in a business expansion phase and needs to raise additional funds for the R&D, marketing, production capacity expansion, and working capital for raw materials and other items. Further cash raises might lead to dilution of the stake of the current shareholders.
- **Product Supply** – Production difficulties, quality control problems, and the insufficient supply of raw materials for products may lead to interruption of supply of related products, thereby affecting sales and adversely affecting the company's business and operating results.

These risk factors are not comprehensive. For a full list of risk factors, please read Bon Natural Life Limited's latest prospectus and/or annual SEC filings

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