Trickle Research

Every raging river, every great lake, every
deep blue sea starts … with a trickle

Allocation and Target Downgrade(s)

Generation Next Franchise Brands, Inc.

(OTC: VEND)

http://www.gennextbrands.com

Report Date: 11/22/19

12- 24 month Price Target: *$.35

Allocation: *1

Closing Stock Price at Initiation (Closing Px: 07/23/19): $.59

Closing Stock Price at Allocation and Target Downgrade (Closing Px: 11/21/19): $.11

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Disclosure: Portions of this report are excerpted from Generation Next's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

Generation Next has yet to file their Q1F20 financial results (due 11/15/19). Over het past month they have provided an overview of their largely unsuccessful capital efforts. We would characterize that update as generally negative as it focused on a restructuring that is likely to result in marked dilution and as near as we can requires concession and agreements with a number of constituents. Frankly, that narrative varies a bit from their general filing(s) narrative regarding their need for capital, which has generally been the following: *"Management believes the additional funding required can be obtained on terms acceptable to the Company, although there can be no assurance that we will be successful".*

To be clear, at the time of our initiation, we were well aware of the acute nature of the financing issues. Here is our narrative from the "Risks and Caveats" section of that initiation regarding that issues:

> *They have a working capital problem and, in spite of the favorable momentum, it is the "elephant in the room". In our view, their ability to access sufficient capital, which our model estimates to be between $15 million and $20 million through Q1 Calendar 2020, is the single most topical risk in the story. What is particularly interesting about that is the Company, even in its filings, seems quite confident in their ability to access that capital, which makes us think that maybe they have some insights in that regard that we clearly do not have. Granted, with orders in hand, and a demonstrated ability to deliver functional robots, they likely have more financing opportunities than they would (or had) without those attributes. Nonetheless, this is an acute risk in the story with potentially catastrophic outcomes if they are unable to raise necessary capital. On the flip-side of that issue, we would view clarity on the financing front as perhaps a markedly favorable milestone for the Company.*

We would add, the essence of that caveat is also why we started the stock at an allocation of 3 as opposed to our normal starting allocation of 4 or 5. Also from the initiating coverage:

> *We are initiating coverage of Generation Next with an allocation of 3 and a 12-24 month price target of $1.10. As some will recognize, this is a tick below our typical initiating allocation of 4, reflecting what we view as relatively acute risks associated with the financing requirements we have discussed, (which by the way we believe have negatively impacted the stock price as of late). We will revisit our allocations (and associated discount rates) if/when financing is attained and articulated to the markets as we would view a financing as highly positive (assuming reasonably appropriate pricing).*

In retrospect, we do believe the Company had a number of oars in the water regarding potential financing options and we were actually encouraged by some of the management shake-up because given some of the history of the deal, we thought those changes may have been prerequisites to a potential financing agreement. Just to edify, we have provided some general research notes regarding Generation Next and its inability to access capital, and those notes were written in the context of other small companies who have experienced similar difficulties. To that point, we would reiterate that given the robust environment nearly every other financial asset class on the planet right now, it is hard for us to rationalize why the current environment seems to be one of the more difficult we have ever seen in terms of small companies gaining access to capital. Whatever the minutia if that, we think Generation Next is one of the victims. While we are certainly not suggesting that their past missteps didn't/don't matter, we also think they did several positive things to right the ship and provide a reasonably visible path to profitability and higher valuations given even some expensive financing. Clearly, those potential financiers (which are representative of our "oars in the water" analogy) did not, or at least have not, come to the same conclusion.

Given the above, the outcome here is obviously dicey. We think that is a shame because we stand by our assessment of what could be here, because we like the prospects of the product/technology/model. Unfortunately, capital is quite often the elusive missing link in many of these emerging stories, and procuring it rarely comes easily or painlessly. The Company's future is obviously precarious, (in part because they failed to execute on the

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prior large capital influx), which would normally lead us to terminating the coverage, although we probably should have recognized that that prior to this and at higher prices than where the stock is now. We submit, “success” in the microcap space is as much about recognizing when you are wrong and getting out of the way of the approaching train wreck, as it is about getting it right. That said, part of our “feet dragging” has been tied to our statement above “…we stand by our assessment of what could be here, because we like the prospects of the product/technology/model”.

While prudence tells us we should probably just salvage what remains if this and terminate the coverage, we are inclined to at least hang around enough to see how this plays outs. We are reducing our allocation from 3 to *1 and establishing a new (lower) 12-24 month price target of *$.35 based on substantially more dilution and resulting larger share counts, as well as the precarious nature of the company in general. We have attempted to update our model assumptions around new guidance, and in recognition that the lack of capital will negatively impact revenue progress. We would also caution; the model is likely to be quite fluid/volatile without better visibility on definitive financing. Further, in case it’s not clear by now, this could end up a zero…

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Projected Operating Model

Generation Next Franchise Brands Inc.					
Projected Operating Model					
Prepared By: Trickle Research					
	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	9/30/19	12/31/19	3/31/20	6/30/20	Fiscal 2020
Revenues:					
Vending machine sales, net	$ 2,250,032	$ 2,280,000	$ 2,400,000	$ 2,566,500	$ 9,496,532
Franchise fees	$ 300,000	$ 300,000	$ 300,000	$ 295,000	$ 1,195,000
Company owned machines	$ -	$ -	$ -	$ -	$ -
Royalties	$ 198,285	$ 228,182	$ 258,079	$ 289,880	$ 974,425
Agency sales (net)	$ -	$ -	$ -	$ -	$ -
Other	$ 8,262	$ 9,508	$ 10,753	$ 12,078	$ 40,601
Total revenues	**$ 2,756,578**	**$ 2,817,689**	**$ 2,968,832**	**$ 3,163,458**	**$ 11,706,558**
Cost of revenues	$ 2,347,500	$ 2,347,500	$ 2,347,500	$ 2,317,500	$ 9,360,000
Gross margin	$ 409,078	$ 470,189	$ 621,332	$ 845,958	$ 2,346,558
Operating expenses:					$ -
Personnel	$ 1,265,750	$ 1,266,200	$ 1,268,000	$ 1,270,498	$ 5,070,448
Marketing	$ 376,259	$ 283,750	$ 284,200	$ 286,000	$ 1,230,209
Professional fees	$ 400,000	$ 400,000	$ 400,000	$ 300,000	$ 1,500,000
Insurance	$ 86,150	$ 84,525	$ 82,900	$ 83,650	$ 337,225
Rent	$ 101,284	$ 101,284	$ 101,284	$ 101,284	$ 405,136
Depreciation and amortization	$ 110,000	$ 110,000	$ 110,000	$ 110,000	$ 440,000
Stock compensation	$ 500,000	$ 400,000	$ 200,000	$ 100,000	$ 1,200,000
Research and Development	$ 375,089	$ 338,783	$ 339,088	$ 339,844	$ 1,392,805
Provision for Legal Settlement	$ 75,000	$ 75,000	$ 50,000	$ 50,000	$ 250,000
Other	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 200,000
Total operating expenses	**$ 3,339,532**	**$ 3,109,542**	**$ 2,885,472**	**$ 2,691,276**	**$ 12,025,823**
Loss from operations	**$ (2,930,454)**	**$ (2,639,353)**	**$ (2,264,140)**	**$ (1,845,318)**	**$ (9,679,265)**
Other expenses:					$ -
Interest expense	$ (60,000)	$ (60,000)	$ (60,000)	$ (60,000)	$ (240,000)
Accretion of discount on notes payable	$ -	$ -	$ -	$ -	$ -
Loss on conversion of franchisee debt to stock	$ -	$ -	$ -	$ -	$ -
Derivative liability	$ -	$ -	$ -	$ -	$ -
Total other expenses	$ (60,000)	$ (60,000)	$ (60,000)	$ (60,000)	$ (240,000)
Loss before provision for income taxes	**$ (2,870,454)**	**$ (2,579,353)**	**$ (2,204,140)**	**$ (1,785,318)**	**$ (9,439,265)**
Provision for income tax	$ -	$ -	$ -	$ -	$ -
Loss from continuing operations	$ (2,870,454)	$ (2,579,353)	$ (2,204,140)	$ (1,785,318)	$ (9,439,265)
Gain (loss) from discontinued operations	$ -	$ -	$ -	$ -	$ -
Net loss	$ (2,870,454)	$ (2,579,353)	$ (2,204,140)	$ (1,785,318)	$ (9,439,265)
Net loss per share - basic and diluted (in dollars per share)	$ (0.03)	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.07)
Weighted average shares used in computing net loss per share - basic and diluted (in shares)	95,715,833	116,320,519	136,896,411	157,307,762	126,560,131

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There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.