Trickle Research

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

Q3-F20 Earnings Update

VEXT SCIENCE

Vext Science, Inc.

(symbol: VEXTF)

(http://www.vapenmj.com/)

Report Date: 12/09/20

12- 24 month Price Target: $1.60

Allocation: 5

Closing Stock Price at Initiation (Closing Px: 01/30/20): $.55

Closing Stock Price at Allocation Upgrade (Closing Px: 06/02/20): $.33

Closing Stock Price at This Report Date (Closing Px: 12/09/20): $.66

Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research

Disclosure: Portions of this report are excerpted from Vext's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text. Unless otherwise noted, all prices in this report are in US Dollars.

For 3Q fiscal 2020, VEXT reported revenue of just under $8 million and net income of $1.4 million. Those result measured favorably against our estimates of roughly $7.7 million and $900,000 respectively. This was a strong quarter for VEXT and there are a few items in both these numbers and the detail of some recent releases that are worth considering. Here are a few of those bullet points.

- *On November 2, 2020, VEXT announced that it had closed an oversubscribed public offering for aggregate gross proceeds of approximately $4,827,354 (CAD$6,400,000).* While additive to share counts, this bit of news is constructive on multiple fronts. First, to reiterate a theme that is threaded throughout the coverage to this point, the relationship between VEXT and its (Arizona) customers, largely boils down to cash flow. In its simplest form, VEXT has provided the capital and the infrastructure to *operate* the core business, which amounts to two fully integrated Arizona based enterprises ("HWC" and "Organica"). However, Arizona law requires that the licensees of any/all Arizona cannabis operations be owned by non-profits entities. Recall, while as a result of those state requirements, VEXT does not own these operations per se (which effectively means they can never actually *own* any cannabis at any point in the supply chain), it does provide nearly all of the operating functions of these businesses. As a result, VEXT provides capital and facility leases, personnel services and other managed services to these businesses, as well as selling them goods that include a variety of non-cannabis related products (cannabis delivery systems such as vape pens and cartridges, packaging and others).

  Keep in mind, both HWC and Organica are integrated operations, which means that they grow, and process cannabis along with having dispensaries that sell it. As a result, as they harvest and then process the cannabis (creating inventories of both flower and refined products) those inventories must be held by the respective licensees, even though it was VEXT's capital that created those inventories. Further, it takes those licensee time to sell that inventory through and turn it into cash and profits. In the meantime, VEXT recognizes a receivable from the customers, which again it must collect as those customers sell inventory through. Obviously, that creates a situation where VEXT is "swapping" capital and operating outlays (cash) upfront, in exchange for a receivable that is paid down over time as its customers sell through the inventory in the future. As an extension, the aggregate customer receivable grows especially as the operations of each or both are either initiated (in the case of Organica this year) or expanded (in the case of HWC), because each is in effect creating more inventory than it was the prior periods. We understand why investors might view the expanding receivable with some trepidation, but in a more conventional environment (one where VEXT simply owned the licenses and the cannabis itself for instance) VEXT would carry a finished goods inventory instead of a concentrated receivable, which we suspect might make some investors feel more comfortable with the respective assets, even though, at least in this case they are, at least in part, one in the same. We will revisit this monetarily, but the point is, VEXT's need for expansion and working capital, à la the recent raise, is understandable given the above (as well as in conjunction with investments it has made in other ventures in other states) but is perhaps even more topical given the next two bullet points.

- *On August 18, 2020, VEXT announced that it had received approval from the City of Phoenix for a 10,000 square foot expansion in its cultivation, extraction, and production footprints. This deepens the Company's commitment to the rapidly growing Arizona medical market, which is anticipated to shift to an adult-use market in 2021. It also ensures consistent supply for the two Phoenix dispensaries operated by VEXT and opens additional wholesale opportunities, backed by expanded lab and manufacturing space*. Per the awaited approval, VEXT has added capacity to the operations of its original customer (HWC), which again, means laying out capital today to increase capacity that will be sold and recouped in the future. We submit, one of the difficult parts of evaluating VEXT is that we do not really know how well their customers are doing since they do not report their results anywhere. That leaves us with trying to reconcile the receivables at VEXT to try to glean how the customers are doing. (Obviously, VEXT's ability to collect receivables depends on the success of their customers). We feel confident suggesting that VEXT's decision to expand the HWC business is based in part on its assessment that the busines is likely outgrowing the current footprint. That brings us to the next bullet point.

- *On July 14, 2020, the Company announced it had been awarded a Certificate of Occupancy for its new dispensary in North Phoenix, at 1720 E Deer Valley Rd. The dispensary is conveniently located near a high traffic shopping and business center and is located close to major thoroughfares. This location was included in the Company's results as of the closing date of April 6, 2020*. This reflects the Company's second "Organica" dispensary. To circle back, starting another operation underscores the Company's need for additional capital, while at the same time, doubling down on the Company's Arizona opportunity. Further, as we have noted in prior research, we believe Arizona's recent decision to legalize recreational marijuana use will likely prove particularly fortuitous for entrenched players like VEXT. (We would add, this location was moved mid-quarter, so the quarter did not include a full quarter of contribution from this new location, not to mention the disruption of the move/restart.

Looking ahead, we expect the combination of the addition (and ramp) of Organica, the expansion of HWC and the advance of recreational use laws in Arizona will provided the basis for markedly better comps into the foreseeable future and if we can get a few data points to validate that notion we will likely upgrade our model assumptions to better reflect some of that anticipated momentum. We think these developments will create benefits beyond just the additive revenue. Moreover, as we move through 2021, and certainly through 2022, we expect ventures outside of Arizona (specifically Oklahoma and Ohio), will provide a basis for added layers of growth as well.

To summarize, we submit, the nature of VEXT's Arizona operations continue to make visibility challenging. Regardless, we think the stars are beginning to align here, and while the recent additions/expansions will continue to impact the cash flow cycle we noted above, we expect the cash flow tide to turn as we move forward which will ultimately result in VEXT recouping some if its investment along the way and as a result, building cash. Again, we think momentum is building here and resulting visibility will provide a basis for better valuations.

Projected Operating Model

Vext Science, Inc.						
Projected Operating Model						
By: Trickle Research LLC						
	(actual)	(actual)	(actual)	(estimate)	(estimate)	(estimate)
	3/31/2020	6/30/2020	9/30/2020	12/31/2020	Fiscal 2020	Fiscal 2021
REVENUES						
Management Fees	$ 600,000	$ 1,100,000	$ 1,200,000	$ 1,200,000	$ 4,100,000	$ 4,800,000
Professional Fees	$ 1,402,839	$ 2,283,822	$ 2,052,578	$ 1,902,308	$ 7,641,547	$ 11,010,264
Product Sales	$ 2,005,085	$ 3,029,180	$ 3,408,245	$ 4,164,674	$ 12,607,185	$ 17,852,243
Equipment Leasing	$ 20,752	$ 200,861	$ 1,350,696	$ 200,000	$ 1,772,309	$ 800,000
Property Leasing	$ 67,422	$ 122,859	$ (59,871)	$ 130,000	$ 260,410	$ 520,000
Total Revenues	**$ 4,096,098**	**$ 6,736,723**	**$ 7,951,648**	**$ 7,596,983**	**$ 26,381,451**	**$ 34,982,507**
COST OF SALES						
Cost of Goods	$ 1,494,285	$ 2,070,588	$ 2,603,465	$ 2,734,355	$ 8,902,693	$ 12,341,000
Salaries Wages and Contractors	$ 1,160,271	$ 1,722,377	$ 1,856,835	$ 2,011,271	$ 6,750,754	$ 8,825,016
Property & Equipment Leasing, Utilities and Property Tax	$ 23,636	$ 31,082	$ 21,778	$ 52,563	$ 129,059	$ 210,250
Amortization	$ 212,115	$ 368,684	$ 334,435	$ 356,415	$ 1,271,649	$ 1,425,659
Total Cost of Goods Sold	**$ 2,890,307**	**$ 4,192,731**	**$ 4,816,513**	**$ 5,154,603**	**$ 17,054,154**	**$ 22,801,925**
Gross Profit	**$ 1,205,791**	**$ 2,543,992**	**$ 3,135,135**	**$ 2,442,380**	**$ 9,327,297**	**$ 12,180,582**
OPERATING EXPENSES						
Advertising & Promotion	$ 117,497	$ 152,631	$ 62,910	$ 168,464	$ 501,502	$ 744,755
Amortization & Accretion	$ 56,983	$ 57,340	$ 556,703	$ 89,104	$ 760,130	$ 356,415
Bank Charges and Interest	$ 182,512	$ 177,040	$ 111,776	$ 170,823	$ 642,151	$ 689,261
Consulting	$ 280,591	$ 49,896	$ 87,101	$ 50,296	$ 467,884	$ 203,204
Insurance	$ 6,588	$ 10,186	$ 37,097	$ 24,165	$ 78,036	$ 97,852
Office and General	$ 796,665	$ 222,975	$ (35,334)	$ 289,117	$ 1,273,423	$ 1,186,306
Professional Fees	$ 264,166	$ 103,081	$ 319,908	$ 173,293	$ 860,448	$ 733,045
Rent, Property Tax asnd Utilities	$ 27,069	$ 8,148	$ 32,574	$ 44,988	$ 112,779	$ 187,113
Repairs and Maintenance	$ 19,952	$ 167,672	$ 176,913	$ 58,647	$ 423,184	$ 246,522
Research and Development	$ 30,098	$ 38,728	$ 26,471	$ 39,153	$ 134,450	$ 164,966
Shared Based Compensation	$ 87,406	$ 461,926	$ 86,790	$ 30,000	$ 666,122	$ 120,000
Salaries, Wages and Commissions	$ 330,590	$ 200,000	$ 142,430	$ 381,587	$ 1,054,607	$ 1,594,090
Travel, Entertainment & Training	$ 110,811	$ 48,955	$ 30,598	$ 234,940	$ 425,304	$ 999,567
Total SG&A	**$ 2,310,928**	**$ 1,698,578**	**$ 1,635,937**	**$ 1,754,576**	**$ 7,400,019**	**$ 7,323,096**
Operating Income (Loss)	**$ (1,105,137)**	**$ 845,414**	**$ 1,499,198**	**$ 687,804**	**$ 1,927,278**	**$ 4,857,486**
Loss on Acquisition						
Interest Income (Expense)	$ 71,056	$ 97,508	$ 91,792	$ (42,000)	$ 218,356	$ (218,000)
Contribution from Joint Ventures	$ (62,520)	$ (253,908)	$ (76,747)	$ 346,684	$ (46,491)	$ 2,460,400
Investment Income	$ -	$ -	$ -	$ 120,719	$ 120,719	$ 970,704
Other					$ -	$ -
Income Before Tax	**$ (971,020)**	**$ 556,398**	**$ 1,434,266**	**$ 1,113,207**	**$ 2,132,850**	**$ 8,070,591**
Income Tax	**$ -**	**$ -**	**$ -**	**$ 278,302**	**$ 278,302**	**$ 2,017,648**
Net Income - After Tax	**$ (971,020)**	**$ 556,398**	**$ 1,434,266**	**$ 834,905**	**$ 1,854,549**	**$ 6,052,943**
					$ -	**$ -**
Other Comprehensive Income (Loss)	**$ 344,794**	**$ -**	**$ -**	**$ -**	**$ 344,794**	**$ -**
Less: Non-Controling Interests	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total Comprehensive Income (Loss)	**$ (626,226)**	**$ 556,398**	**$ 1,434,266**	**$ 834,905**	**$ 2,199,343**	**$ 6,052,943**
Basic Earnings per Share	**$ (0.01)**	**$ 0.01**	**$ 0.02**	**$ 0.01**	**$ 0.02**	**$ 0.06**
Weighted Average Earnings per Share	**$ (0.01)**	**$ 0.01**	**$ 0.02**	**$ 0.01**	**$ 0.02**	**$ 0.06**
Basic Shares Outstanding	**$ 84,363,326**	**$ 89,811,678**	**$ 84,363,326**	**$ 103,455,908**	**90,498,560**	**103,455,908**
Weighted Average Shares Outstanding	**$ 84,363,326**	**$ 89,811,678**	**$ 84,363,326**	**$ 109,374,608**	**91,978,235**	**107,832,236**

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Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

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.