Trickle Research

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

Research Update

Vext Science, Inc.

(symbol: VEXTF)

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

Report Date: 07/14/21

12- 24 month Price Target: $1.60

Allocation: *6

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 Allocation Upgrade (Closing Px: 07/13/21): $.67

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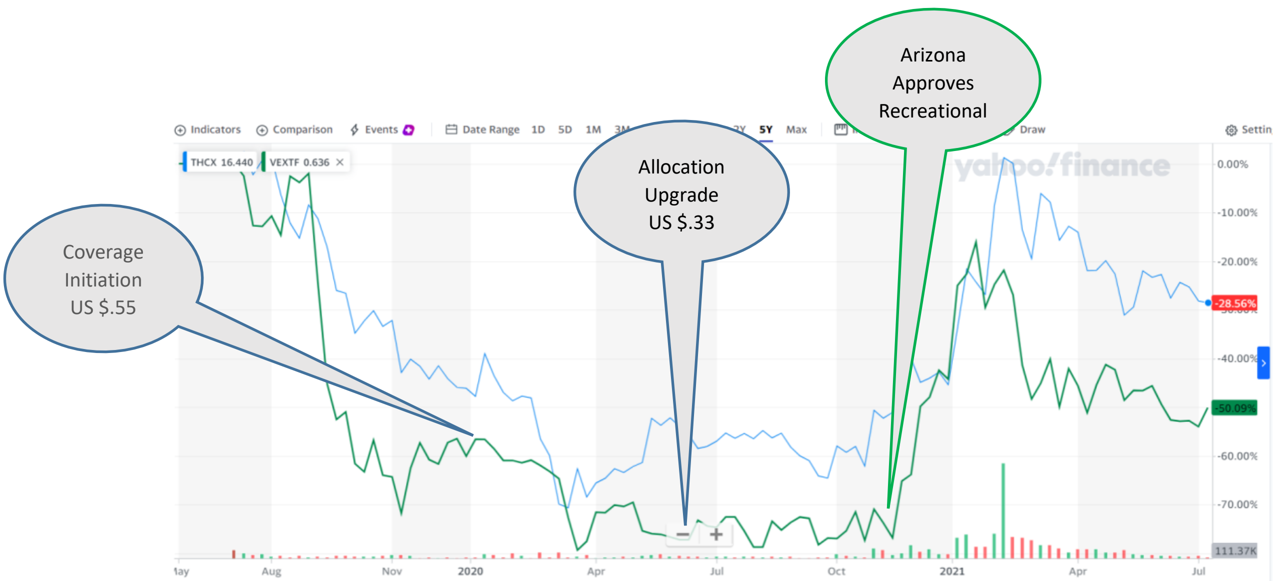
Disclosure: Portions of this report are excerpted from Vext's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text. Unless otherwise noted, all prices in this report are in US Dollars.

Last month (06/10/21) we provided an earnings update on VEXT. To recap briefly, we think visibility is improving but that remains challenging because of the not-for-profit requirement for Arizona cannabis licensees. To reiterate, the Company essentially finances and operates these businesses, but must use a variety of vehicles (management fees, leases etc.) to reconcile their contributions to/from their not-for-profit owner/customers. On the other hand, Arizona's newly adopted recreational use initiatives look as if they will also eliminate the requirement for not-for-profit ownership of cannabis licenses. That is good news for VEXT on multiple levels, not the least of which will be marked improvement in visibility since they will be able to directly receive and report the results of their collective cultivation/processing/dispensary operations. Recall, in the last update, we provided a pro-forma of what we think VEXT will look like post not-for-profit status.

As we also noted in the last update, the Company recently expanded its presence in Arizona via the acquisition of and additional cultivation and processing facilities in Eloy (Arizona). Again, one of the major tenants of our thesis here is that Arizona law provides a viable environment for licensed cannabis enterprises, and recent recreational legislation has enhanced that position. In conjunction, while VEXT has initiatives in other jurisdictions that we believe are promising, its established footprint in Arizona is the cornerstone of its valuation and by extension our enthusiasm for the Company.

The above said, following the November (2020) elections, the market ostensibly recognized the value of recreational use in Arizona because the stock reacted in-kind:



On the other hand, the above Cannabis ETF (THCX) reflects the general boost that the cannabis space received in general, from the time of the elections through the first of 2021.

Interestingly enough, as the second chart above reflects, over the past year, while spending much of the prior period lagging the cannabis market (as measured by the aforementioned ETF), VEXT has managed to outperform the overall cannabis market. In our view, that may be a result of recognition around the industry that VEXT visibility (and the underlying business) is improving and again in our view, supporting better valuations.

Despite our "view" the stock (again like the space in general) has been under pressure over the past 60 days or so. Keep in mind, they raised a considerable amount of equity capital ($17.5 million) in Q1F21, so some "digestion" of that raise is not unusual. That noted, as we mentioned in the prior update, we think that equity boost puts the Company in a more proactive place than they have ever been and we believe they will put the capital to additive use as we move forward.

In the bigger picture, we noted in the past that from a research initiation standpoint, we have spent much of the cannabis investment movement on the sidelines, for a variety of reasons that essentially boiled down to our inability to gain comfort around robust valuations despite what we believed was poor visibility around regulatory and other cogent variables. However, today, we think the cannabis space is beginning to put many of headwinds behind it as the regulatory risks are clearly abating. In a nutshell, when we look at VEXT in the context of the improving macro environment (for instance, federal regulatory posture and approval of recreational use in Arizona), as well as the improving company fundamentals, we view the recent weakness in the stock as an opportunity.

As a result of the above, we are increasing our allocation of VEXT shares from 5 to *6 and reiterating our 12-24 month price target as we continue to view the stock as attractive especially given the recent price compression. We would add, the Company recently attracted another research analyst, (https://www.echelonpartners.com/), who has come to a price target conclusion similar to ours. We will revisit all of our targets and allocations as new data points emerge.

Projected Operating Model

Vext Science, Inc.					
Projected Operating Model					
By: Trickle Research LLC					
	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/2021	6/30/2021	9/30/2021	12/31/2021	**Fiscal 2021**
REVENUES					
Management Fees	$ 1,800,000	$ 1,800,000	$ 1,800,000	$ 1,800,000	$ 7,200,000
Professional Fees	$ 3,122,053	$ 3,441,472	$ 3,441,472	$ 3,441,472	$ 13,446,469
Product Sales	$ 3,641,085	$ 1,464,715	$ 2,246,482	$ 3,628,678	$ 10,980,960
Equipment Leasing	$ 554,907	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 5,054,907
Property Leasing	$ 42,246	$ 100,000	$ 100,000	$ 100,000	$ 342,246
Total Revenues	**$ 9,160,291**	**$ 8,306,187**	**$ 9,087,954**	**$ 10,470,150**	**$ 37,024,582**
COST OF SALES					
Cost of Goods	$ 2,472,081	$ 1,254,014	$ 1,902,428	$ 2,923,998	$ 8,552,521
Salaries Wages and Contractors	$ 2,064,835	$ 2,092,112	$ 2,198,677	$ 2,225,513	$ 8,581,138
Property & Equipment Leasing, Utilities and Property Tax	$ 19,655	$ 36,657	$ 36,657	$ 36,657	$ 129,626
Amortization	$ 443,833	$ 437,496	$ 437,496	$ 437,496	$ 1,756,321
Total Cost of Goods Sold	**$ 5,000,404**	**$ 3,820,279**	**$ 4,575,258**	**$ 5,623,665**	**$ 19,019,606**
Gross Profit	**$ 4,159,887**	**$ 4,485,909**	**$ 4,512,695**	**$ 4,846,485**	**$ 18,004,975**
OPERATING EXPENSES					
Advertising & Promotion	$ 134,513	$ 122,508	$ 135,313	$ 150,358	$ 542,691
Amortization & Accretion	$ 332,960	$ 375,759	$ 375,759	$ 375,759	$ 1,460,237
Bank Charges and Interest	$ 158,840	$ 157,324	$ 161,232	$ 168,143	$ 645,539
Consulting	$ 139,743	$ 140,302	$ 140,863	$ 141,427	$ 562,335
Insurance	$ 42,208	$ 41,465	$ 42,246	$ 43,629	$ 169,548
Office and General	$ 355,872	$ 329,897	$ 306,162	$ 340,717	$ 1,332,648
Professional Fees	$ 325,025	$ 264,294	$ 287,930	$ 290,574	$ 1,167,822
Rent, Property Tax and Utilities	$ 53,847	$ 28,788	$ 33,479	$ 41,772	$ 157,886
Repairs and Maintenance	$ 113,231	$ 84,900	$ 98,190	$ 121,688	$ 418,009
Research and Development	$ 42,883	$ 20,920	$ 29,197	$ 36,866	$ 129,866
Shared Based Compensation	$ 424,953	$ 137,404	$ 124,593	$ 136,319	$ 823,269
Salaries, Wages and Commissions	$ 294,596	$ 293,589	$ 334,859	$ 390,147	$ 1,313,191
Travel, Entertainment & Training	$ 55,709	$ 62,147	$ 70,465	$ 84,287	$ 272,608
Total SG&A	**$ 2,474,380**	**$ 2,059,297**	**$ 2,140,289**	**$ 2,321,685**	**$ 8,995,650**
Operating Income (Loss)	**$ 1,685,507**	**$ 2,426,611**	**$ 2,372,407**	**$ 2,524,800**	**$ 9,009,325**
Loss on Acquisition/disposal					
Interest Income (Expense)	$ 160,767	$ (52,000)	$ (57,000)	$ (62,000)	$ (10,233)
Contribution from Joint Ventures	$ -	$ (22,450)	$ (76,093)	$ (156,540)	$ (255,083)
Investment Income	$ (303,157)	$ 60,188	$ 38,936	$ 17,684	$ (186,350)
Other					$ -
Income Before Tax	**$ 1,537,977**	**$ 2,412,349**	**$ 2,278,249**	**$ 2,323,944**	**$ 8,552,519**
Income Tax	**$ 398,900**	**$ 603,087**	**$ 569,562**	**$ 580,986**	**$ 2,152,536**
Net Income - After Tax	**$ 1,139,077**	**$ 1,809,262**	**$ 1,708,687**	**$ 1,742,958**	**$ 6,399,983**
					$ -
Other Comprehensive Income (Loss)	**$ 265,803**	**$ -**	**$ -**	**$ -**	**$ 265,803**
Less: Non-Controling Interests	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total Comprehensive Income (Loss)	**$ 1,404,880**	**$ 1,809,262**	**$ 1,708,687**	**$ 1,742,958**	**$ 6,665,786**
Basic Earnings per Share	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.05**
Weighted Average Earnings per Share	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.05**
Basic Shares Outstanding	**99,951,301**	**136,712,134**	**136,875,978**	**137,031,860**	**127,642,818**
Weighted Average Shares Outstanding	**99,951,301**	**136,712,134**	**137,391,217**	**143,177,867**	**129,308,130**

General Disclaimer:

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. VEXT has paid fees to present at Trickle's Co-Sponsored Investor Conference.

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.