Trickle Research

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

Fiscal 2022 Earnings Update

Vext Science, Inc.

(symbol: VEXTF)
www.vextscience.com

Report Date: 03/29/23

12- 24 month Price Target: US$1.35

Allocation: 7

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

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

Closing Stock Price at Allocation Upgrade (Closing Px: 07/13/21): US$.67

Closing Stock Price at Allocation Upgrade & Target Decrease (Closing Px: 01/11/23): US$.21
Closing Stock Price at This Update (Closing Px: 03/29/23): US$.17

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We provided an extensive update on VEXT in January (2023), but we thought a brief overview of the F-22 results and the associated earnings call might be helpful.

First, for fiscal 2022, VEXT reported Revenues of US$35.4 million versus our January 2023 update estimate of US$35.4 and basic and diluted eps of US$.08 versus our estimate of US$.05. To be honest, most of the upside surprise was a tax item, and in reality, we *understated* fiscal COGS largely because of a Q1F22 adjustment we did not pick up on until year end. Regardless, the operating numbers were largely in-line, which is typically the metric we tend to focus on.

 To reiterate a theme we noted in the prior update, the cannabis space has been challenging for many/most operators over the past several quarters, and those challenges have included fundamental, economic, regulatory and other nuances that have culminated in a bit of a perfect storm for the industry. Despite the headwinds, we have argued that VEXT has weathered the storm probably better than most, and we think that is a highly constructive notion for VEXT shareholders. In our view, their positive operating results through fiscal 2022 support that notion. In addition, in the midst of the challenging operating environment, they have also established and advanced a number of growth initiatives that we think will provide measurable potential valuation catalysts, even in the current (challenging) environment. These include the expansion of cultivation and processing opportunities in Arizona, and perhaps more importantly the coming consolidation of integrated operations in Ohio. Again, we expect these pieces to be additive in the current fiscal year and beyond, *despite* ongoing industry challenges, which means that when the industry is ostensibly able to find equilibrium in the future, these new pieces should prove *markedly* additive thereafter.

Interestingly enough, management also alluded to opportunities that may be emerging in some of the their other existing JV markets (Kentucky for instance), which could provide for additional valuation legs going forward. That by the way, is not particularly surprising to us, because as we have suggested in prior research, we think the industry is beginning to evolve into a posture that looks a lot like many other traditional commodity based industries, the upshot of which is that the best operators ultimately tend to survive and thrive. To that end, we remain constructive on VEXT management's ability to… manage.

Looking ahead, we submit, we do not think the industry's headwinds are behind it. As we covered in the last write-up, we think some of the supply issues plaguing pricing will continue to be problematic, and we also think the general economic environment will continue to challenge the notion that cannabis is somehow immune to the prevailing economic climate, which we also think may get worse before it gets better. On the other hand, we also believe that much of that is (over)baked into the share price. As we said, some of 2022's eps performance was related to a tax issue, but they did generate pretax earnings of nearly US$.05, and we estimate that they will generate a similar number for fiscal 2023. In contrast, for fiscal 2024, when Ohio is fully integrated, we project **fully taxed diluted** eps of US$.11which suggests a forward Price/Earnings ratio of *1.5X*. We get it, cannabis is out of favor, but *1.5X projected 2024 earnings?* Really? Perhaps our projections will prove aggressive, but given the current share price, in our view, they are going to have to be *very aggressive* for our bullishness to be misplaced.

 Lastly, the above said, and setting aside our opinion of the valuation disconnect, we would caution that we are not certain of the timing of the integration of the Ohio pieces, which could compromise some of our quarterly 2023 projections and lead to some misses in that regard. However, again, we anticipate (and are more comfortable with) the full consolidation of the Ohio operations for the larger portion of fiscal 2024.

Despite the (now long-in-the-tooth) compression in the shares, we remain fans of VEXT management and by extension bullish on VEXT, especially at the prevailing valuation. We reiterate our allocation of 7 and our 12-24 month price target of US$1.35.

Projected Operating Model

Vext Science, Inc.
Projected Operating Model
By: Trickle Research LLC

	(estimate) 3/31/2023	(estimate) 6/30/2023	(estimate) 9/30/2023	(estimate) 12/31/2023	(estimate) Fiscal 2023	(estimate) Fiscal 2024
Sales	$ 8,483,738	$ 8,321,394	$ 15,561,549	$ 16,288,950	$ 48,655,631	$ 88,958,887
Cost of Goods	$ 3,119,630	$ 3,094,436	$ 6,170,745	$ 6,391,556	$ 18,776,367	$ 34,129,741
Gross Profit Before Fair Value Adjustments	$ 5,364,107	$ 5,226,958	$ 9,390,804	$ 9,897,394	$ 29,879,263	$ 54,829,147
Unrealized Change in Fair Value of Biological Assets	$ -	$ -	$ -	$ -	$ -	$ -
Realized Change in Fair Value of Inventory Sold	$ -	$ -	$ -	$ -	$ -	$ -
Gross Profit	$ 5,364,107	$ 5,226,958	$ 9,390,804	$ 9,897,394	$ 29,879,263	$ 54,829,147
Operating Expenses:						
Accretion	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	$ 1,490,661	$ 1,485,632	$ 1,480,629	$ 1,475,651	$ 5,932,573	$ 5,853,319
Depreciation	$ 125,970	$ 125,340	$ 124,714	$ 124,090	$ 500,114	$ 490,187
Interest	$ -	$ -	$ -	$ -	$ -	$ -
Share Based Compensation	$ 75,398	$ 300,000	$ 400,000	$ 120,000	$ 895,398	$ 486,394
Salaries, Wages and Commissions	$ 968,931	$ 963,249	$ 2,308,176	$ 2,423,893	$ 6,664,248	$ 13,776,720
General and Administrative Expense	$ 1,096,931	$ 1,091,249	$ 1,344,654	$ 1,370,113	$ 4,902,947	$ 6,313,561
Other	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expense	$ 3,757,890	$ 3,965,470	$ 5,658,173	$ 5,513,747	$ 18,895,281	$ 26,920,181
Other Expenses /Gains:						
Share of Profit/Loss of Joint Ventures	$ (50,000)	$ (50,000)	$ (50,000)	$ (50,000)	$ (200,000)	$ (200,000)
Foreign Exchange (Gain) Loss	$ -	$ -	$ -	$ -	$ -	$ -
Interest (Income) Expense	$ 1,209,369	$ 1,198,740	$ 1,196,359	$ 1,189,671	$ 4,794,138	$ 4,550,484
Other	$ -	$ -	$ -	$ -	$ -	$ -
Total Other Expenses	$ 1,159,369	$ 1,148,740	$ 1,146,359	$ 1,139,671	$ 4,594,138	$ 4,350,484
Net Income Before Taxes	$ 446,848	$ 112,748	$ 2,586,272	$ 3,243,976	$ 6,389,845	$ 23,558,482
Income Tax Expense	$ 125,117	$ 31,569	$ 724,156	$ 908,313	$ 1,789,157	$ 6,596,375
Net Income After Taxes	$ 321,731	$ 81,179	$ 1,862,116	$ 2,335,663	$ 4,600,688	$ 16,962,107
Unrealized Gain (Loss) on Foreign Exchange Translation	$ -	$ -	$ -	$ -	$ -	$ -
Total Comprehensive Income	$ 271,731	$ 31,179	$ 1,812,116	$ 2,285,663	$ 4,400,688	$ 16,762,107
Basic Earnings per Common Share	$ 0.00	$ 0.00	$ 0.01	$ 0.02	$ 0.03	$ 0.12
Diluted Earnings per Common Share	$ 0.00	$ 0.00	$ 0.01	$ 0.02	$ 0.03	$ 0.11
Weighted Average Common Shares Outstanding	147,430,167	147,430,167	147,430,167	147,430,167	147,430,167	147,430,167
Weighted Average Diluted Shares Outstanding	147,430,167	147,430,167	147,430,167	148,216,098	147,626,650	155,559,224

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VEXT has paid fees to present at Trickle's Co-Sponsored Investor Conference.

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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.