

Trickle Research

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



Research Update



Vext Science, Inc.

(symbol: VEXTF)

www.vextscience.com

Report Date: 10/06/23

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: 10/05/23): US\$.21

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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.

Over the past few days, VEXT has made two announcements that were particularly topical, and both were related to their Ohio operations. Here are brief excerpts of each:

Wed, October 4, 2023-

...Vancouver, British Columbia--(Newsfile Corp. - October 4, 2023) - Vext Science, Inc. (CSE: VEXT) (OTCQX: VEXTF) ("Vext" or the "Company"), a U.S.-based cannabis operator with vertical operations in Arizona and Ohio, today announced that it has completed the previously announced acquisition of Appalachian Pharm Processing, LLC, an Ohio limited liability company, together with its subsidiaries and affiliated companies (collectively, "APP") (the "Acquisition"). As part of the Acquisition, Vext has also obtained the right to acquire ownership of a cannabis dispensary in Columbus, Ohio. The Company has applied to the Ohio Board of Pharmacy for an ownership transfer of this dispensary. Vext expects to receive approval of the ownership transfer by the end of 2023 and to close promptly after receipt of regulatory approval...

Eric Offenberger, CEO of Vext, commented, "The close of this acquisition is a defining moment for Vext. In combination with the recent planned transaction adding two additional dispensaries to our footprint, today's announcement makes us a larger, more diverse operator with a vertically-integrated footprint in the Ohio market, which we expect will be one of the best performing long-term markets in the U.S. With cultivation, manufacturing and retail now consolidated in the state, we are well positioned to continue growing revenue and profitability."

Mon, October 2, 2023-

...Vancouver, British Columbia--(Newsfile Corp. - October 2, 2023) - Vext Science, Inc. (CSE: VEXT) (OTCQX: VEXTF) ("Vext" or the "Company"), a U.S.-based cannabis operator with vertical operations in Arizona and Ohio, is pleased to announce the execution of a letter of intent (the "LOI") with the members (the "Sellers") of Big Perm's Dispensary Ohio, LLC ("Big Perm") to acquire two cannabis dispensaries located in Ohio (the "Dispensaries") owned by Big Perm, as well as all licenses and assets related to the business of the Dispensaries (the "Acquired Assets"), for aggregate consideration of approximately \$9.8 million, subject to adjustment in certain circumstances (the "Ohio Expansion Transaction").

The Company also announced a non-brokered private placement of common shares of the Company ("Common Shares") to raise up to \$10 million (the "Offering"). Vext anticipates that one institutional shareholder, as well as certain members of the Company's senior management team and board of directors will participate for over 60% of the Offering. Unless otherwise noted, all currency references used in this news release are in U.S. currency...

We submit, the most recent of these announcements (the first listed above), may be a bit of a formality since we have been assuming the eventual closing of this transaction for some time now. Perhaps that was too assuming on our part since an adverse outcome could have been quite negative, or from another perspective, anything that might have further delayed the closing would have been negative as well. Regardless, we can put that risk behind us. In retrospect, we have been pounding the table about how this acquisition represents another valuation leg in the story that the street was (is) clearly discounting or ignoring. Again, if the concern or indifference was about the risks associated with this not happening, then those have been addressed.

The second of these announcements was less expected, but we would not say it is *unexpected*. Here again, we have been vocal about our enthusiasm for the Ohio addition/expansion, and while the initial phase of that included Appalachian Pharm and the two dispensaries (Jackson and Columbus), we have always viewed (but not modeled) the potential for additional dispensaries to further compliment/leverage the cultivation and processing assets. In our view, this is a highly positive addition to the story, especially the Ohio portion, which brings us to our next point.

Recall, along with a handful of other states, VEXT management identified Ohio as an expansion target some time ago, and they ultimately vetted it out of that list as the most promising target. They subsequently spent considerable time, money and other resources, positioning themselves to become an integrated player in the state. That endeavor was a complex (albeit well calculated) endeavor at that time. The announcements above are the culmination of that plan, and in our view, represent a marked milestone for VEXT as well as a de facto validation of management's ability to execute. Granted, they still must *operate* the business successfully, but we are confident that they can do that because we have seen them do that in Arizona. (To that end, we will stand by our often-reiterated view that lesser managers would have failed by now in Arizona). Moreover, whether via prescience or good fortune, the Ohio cannabis market looks primed for recreational use, which if adopted should be highly additive to VEXT's integrated posture... and just in time. If the timeline rolls out as it looks, the cultivation and processing side of business should be fully integrated and in full swing, the second and largest dispensary in Columbus should be opening (Q1F24) and the two newly acquired dispensaries should open thereafter (perhaps 2QF24) just about the time that recreational use is rolling out in earnest in Ohio (ostensibly starting December 2023). While we will not suggest management planned it all that way, that is pretty good timing, no matter how it came to be. That said, they could still use the turn of a friendly card for all of that to come together...

Recreational marijuana is on the November 7, 2023 ballot in Ohio. If the initiative passes, the law will become effective 30 days following the passage date or December 7, 2023. In that case Ohio will become the 24th state to legalize recreational marijuana. In addition from: [Recreational marijuana in Ohio: What to know about voting on Issue 2 \(wdtn.com\)](#)

Under the statute, existing medical marijuana facilities could obtain new adult-use cannabis licenses from the Division of Marijuana Control. The division would have 40 new licenses to hand out for smaller cannabis cultivators and 50 licenses for new adult-use cannabis dispensaries. No one person would be able to hold more than eight dispensary licenses or more than one cultivator license at a time.

First, if our statistics are close, this will bring the number of Ohio dispensaries to around 160. In contrast, data indicate that Arizona has approximately 140 dispensaries. Ohio's population is approximately 62% larger than Arizona's. Further, those close to the Ohio recreational issue suggest that the letting of new dispensary licenses could take 9 months. Our point is, if recreational is passed, we think VEXT's integrated footprint should prove advantageous.

A recent poll suggests that 59% of Ohio voters are in favor of legalizing recreational marijuana. [New Poll Finds Most Ohio Voters Support Marijuana Legalization \(forbes.com\)](#). As we understand it, there is also similar measures being sponsored in the legislature, although the legislature could and may provide some added caveats to a successful ballot initiative. In short, while we do not think the passage of recreational use in Ohio is necessary for VEXT's success there, its passage should be regarded as a catalyst for the value of the Company. We have updated our model to reflect the two new dispensaries and our best guess as to their closing and integration, as well as the addition of the new shares around the associated financing. We reiterate our allocation of 7 and our 12-24 month price target of \$1.35. We will revisit each as we see results from the ballot initiative and when we acquire additional information from the integration of both the existing and the new Ohio assets.

Projected Operating Model

Vext Science, Inc.						
Projected Operating Model						
By: Trickle Research LLC						
	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	<u>3/31/2023</u>	<u>6/30/2023</u>	<u>9/30/2023</u>	<u>12/31/2023</u>	<u>Fiscal 2023</u>	<u>Fiscal 2024</u>
Sales	\$ 9,110,651	\$ 9,187,122	\$ 9,492,940	\$ 14,331,038	\$ 42,121,751	\$ 82,803,663
Cost of Goods	\$ 4,468,558	\$ 6,397,600	\$ 4,987,063	\$ 7,241,931	\$ 23,095,151	\$ 39,080,138
Gross Profit Before Fair Value Adjustments	\$ 4,642,093	\$ 2,789,522	\$ 4,505,876	\$ 7,089,108	\$ 19,026,599	\$ 43,723,525
Unrealized Change in Fair Value of Biological Assets	\$ (1,063,916)	\$ (1,049,856)	\$ -	\$ -	\$ (2,113,772)	\$ -
Realized Change in Fair Value of Inventory Sold	\$ 1,004,293	\$ 1,169,658	\$ -	\$ -	\$ 2,173,951	\$ -
Gross Profit	\$ 4,701,716	\$ 2,669,720	\$ 4,505,876	\$ 7,089,108	\$ 18,966,420	\$ 43,723,525
Operating Expenses:						
Accretion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization	\$ 981,070	\$ 981,070	\$ 979,753	\$ 976,066	\$ 3,917,959	\$ 3,867,770
Depreciation	\$ 108,034	\$ 110,907	\$ 124,714	\$ 124,090	\$ 467,745	\$ 490,187
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Share Based Compensation	\$ 130,332	\$ 68,862	\$ 130,332	\$ 130,332	\$ 459,858	\$ 486,394
Salaries, Wages and Commissions	\$ 1,617,844	\$ (289,993)	\$ 1,512,977	\$ 2,372,676	\$ 5,213,504	\$ 13,944,638
General and Administrative Expense	\$ 1,050,538	\$ 1,121,683	\$ 1,132,253	\$ 1,301,586	\$ 4,606,060	\$ 6,098,128
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expense	\$ 3,887,818	\$ 1,992,529	\$ 3,880,028	\$ 4,904,751	\$ 14,665,126	\$ 24,887,117
Other Expenses /Gains:						
Share of Profit/Loss of Joint Ventures	\$ 91,205	\$ 13,854	\$ (50,000)	\$ (50,000)	\$ 5,059	\$ (200,000)
Foreign Exchange (Gain) Loss	\$ 2,726	\$ 310	\$ -	\$ -	\$ 3,036	\$ -
Interest (Income) Expense	\$ 860,979	\$ 1,004,808	\$ 1,249,571	\$ 1,242,321	\$ 4,357,679	\$ 4,816,598
Other	\$ 926,994	\$ 263,829	\$ -	\$ -	\$ 1,190,823	\$ -
Total Other Expenses	\$ 1,881,904	\$ 1,282,801	\$ 1,199,571	\$ 1,192,321	\$ 5,556,597	\$ 4,616,598
Net Income Before Taxes	\$ (1,068,006)	\$ (605,610)	\$ (573,723)	\$ 992,036	\$ (1,255,303)	\$ 14,219,810
Income Tax Expense	\$ 1,141,064	\$ (1,141,064)	\$ (160,643)	\$ 277,770	\$ 117,127	\$ 3,981,547
Net Income After Taxes	\$ 73,058	\$ 535,454	\$ (413,081)	\$ 714,266	\$ 909,698	\$ 10,238,263
Unrealized Gain (Loss) on Foreign Exchange Translation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Comprehensive Income	\$ 164,263	\$ 535,454	\$ (463,081)	\$ 664,266	\$ 909,698	\$ 10,238,263
Basic Earnings per Common Share	\$ 0.00	\$ 0.00	\$ (0.00)	\$ 0.00	\$ 0.01	\$ 0.05
Diluted Earnings per Common Share	\$ 0.00	\$ 0.00	\$ (0.00)	\$ 0.00	\$ 0.01	\$ 0.05
Weighted Average Common Shares Outstanding	149,514,914	149,729,061	149,729,061	208,552,590	164,381,407	208,552,590
Weighted Average Diluted Shares Outstanding	149,744,008	150,098,719	151,345,833	208,552,590	164,935,288	209,811,016

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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.

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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.