Trickle Research

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

Research Update and Target Decrease

Vext Science, Inc.

(symbol: VEXTF)

www.vextscience.com

Report Date: 12/21/23

12- 24 month Price Target: *US$1.00

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 Target Decrease (Closing Px: 12/20/23): US$.20

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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.

We missed Vext's 3QF23 numbers as badly as we have ever missed their numbers and we have been covering the stock for 4 years now. Revenues were $8.1 million versus our estimate of $9.5 million. To that end, the Ohio dispensary came in about $200,000 light. The Company's MD&A referenced some added competition from new entrants; "*Our consolidated dispensary in Ohio experienced sales pressure in Q3 2023 as additional retail locations began operating*". We must admit, that is a bit disconcerting, although we suspect that was gathering competition ahead of (in anticipation of) the passing of recreational use in November, and the ultimate commercial launch that is still coming. (We will touch on that below). Setting aside Ohio for a moment, the real problem continues to be the chaos in the Arizona market, which is ostensibly the result of an oversupply of cultivated product, but probably has some additional variables creating the "perfect storm", which we think include particularly seasonal issues (Arizona was *really* hot through much of 3Q), as well as perhaps some economic issues around consumers beginning to seek value in their purchases. For instance, Vext's approach to market conditions has been to adjust pricing (negatively impacting top line sales and margins) to maintain traffic. All of that noted, the oversupply and resulting pricing issues have been unfolding for some time now, and we submit it has been broader and deeper than we (and we suspect a lot of others) had anticipated. As a result, we have made some more guarded adjustments to our model. We would add, operating expenses were spot on, with the exception of a much larger depreciation number, which was the result of the State of Ohio allowing them to reflect ownership of the assets in the period, but prior to the official consolidation.

To be clear, we have expressed throughout this research that we have ongoing concerns about the impact of black-market cultivation in general, but more specifically Arizona, largely because of its proximity to California (where we tend to believe much of the black-market problem originates). We submit, there is also an alternative view that Arizona's oversupply problem is the result of growers that ramped up production in response to Arizona's 2020 approval and subsequent rollout of recreational use. That theory suggests that much of that oversupply is being washed through the system, ultimately "clearing" the market after which prices will normalize, thus improving the environment from the currently depressed statewide levels. We submit that is a completely plausible theory as well. The reality is probably somewhere in between. However, given the regulation around legal grows, it seems to us that information about the magnitude/duration of the problem would be better understood than it appears to be. Again, we have recast our model in an attempt to err on the downside rather than the upside, which means we are modeling lower unit pricing and by extension, markedly lower margins than our prior models assumed. To translate, we are beginning to embrace a scenario where prices will continue to be pressured by elevated supply into the foreseeable future. We are hopeful future periods will provide some positive surprises in that regard.

On the Ohio side of the equation, the post recreational ballot initiative legislative nuances seem to be playing out in favor of the recreational rollout. To edify, despite the passage of the initiative, the Ohio legislature still had/has the ability to exercise some authority on how/when recreational marijuana would be available. That posed some risks of uncertainties around timing and perhaps other cogent items, however, if we are interpreting it properly, the recent legislative actions suggest that the legislature and the Governor are looking to speed recreational commercialization along apparently *to head off potential black-market ambitions.* Perhaps they have taken notice of some of the problems experienced elsewhere. Go figure. That said, VEXT has done some additional positioning in Ohio, most notably adding dispensaries, to expand/complete their integrated presence. To be clear, we have attempted to model all of this as we understand it, but we do not have a great deal of visibility of what this will all look like. We expect that to improve as pieces are added and filings around the consolidation and integration of new pieces are available. We will adjust our model assumptions as that visibility improves. Obviously, we expect Ohio to be meaningfully additive.

To summarize, the cannabis industry has had a rough year+, and that has been duly reflected in the valuation of public cannabis companies and VEXT has not been an exception. That said, we continue to believe that management has done an admirable job of mitigating the damage, while at the same time posturing for future growth. If we assume the industry will in fact have better days ahead, that posturing should prove valuable. With the addition of Ohio, we continue to view VEXT as a growth story, however, as we have suggested prior, we are also beginning to see it as a value story, with underlying (market based) asset values that may markedly exceed the book value of those assets as well as the current enterprise value of the Company.

As a result of our adjustments to reflect continuing challenges in Arizona, we are establishing a new (lower) 12-24 month price target of *US$1.00.

Projected Operating Model

Vext Science, Inc.						
Projected Operating Model						
By: Trickle Research LLC						
	(actual)	(actual)	(actual)	(estimate)	(estimate)	(estimate)
	3/31/2023	6/30/2023	9/30/2023	12/31/2023	Fiscal 2023	Fiscal 2024
Sales	$ 9,110,651	$ 9,187,122	$ 8,099,285	$ 13,055,404	$ 39,452,462	$ 74,761,926
Cost of Goods	$ 4,468,558	$ 6,397,600	$ 4,912,744	$ 7,046,502	$ 22,825,404	$ 37,393,614
Gross Profit Before Fair Value Adjustments	$ 4,642,093	$ 2,789,522	$ 3,186,541	$ 6,008,902	$ 16,627,058	$ 37,368,312
Unrealized Change in Fair Value of Biological Assets	$ (1,063,916)	$ (1,049,856)	$ (763,984)	$ -	$ (2,877,756)	$ -
Realized Change in Fair Value of Inventory Sold	$ 1,004,293	$ 1,169,658	$ 1,145,783	$ -	$ 3,319,734	$ -
Gross Profit	$ 4,701,716	$ 2,669,720	$ 2,804,742	$ 6,008,902	$ 16,185,080	$ 37,368,312
Operating Expenses:						
Accretion	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	$ 981,070	$ 981,070	$ 981,070	$ 977,377	$ 3,920,587	$ 3,872,948
Depreciation	$ 108,034	$ 110,907	$ 848,199	$ 843,958	$ 1,911,098	$ 3,333,845
Interest	$ -	$ -	$ -	$ -	$ -	$ -
Share Based Compensation	$ 130,332	$ 68,862	$ 73,623	$ 130,332	$ 403,149	$ 303,996
Salaries, Wages and Commissions	$ 1,617,844	$ (289,993)	$ 1,417,454	$ 2,291,434	$ 5,036,738	$ 13,020,253
General and Administrative Expense	$ 1,050,538	$ 1,121,683	$ 1,206,797	$ 1,356,939	$ 4,735,957	$ 6,216,667
Other	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expense	$ 3,887,818	$ 1,992,529	$ 4,527,143	$ 5,600,040	$ 16,007,529	$ 26,747,709
Other Expenses /Gains:						
Share of Profit/Loss of Joint Ventures	$ 91,205	$ 13,854	$ 47,777	$ (50,000)	$ 102,836	$ (200,000)
Foreign Exchange (Gain) Loss	$ 2,726	$ 310	$ 448	$ -	$ 3,484	$ -
Interest (Income) Expense	$ 860,979	$ 1,004,808	$ 956,561	$ 918,033	$ 3,740,381	$ 3,414,161
Other	$ 926,994	$ 263,829	$ 175,388	$ -	$ 1,366,211	$ -
Total Other Expenses	$ 1,881,904	$ 1,282,801	$ 1,180,174	$ 868,033	$ 5,212,912	$ 3,214,161
Net Income Before Taxes	$ (1,068,006)	$ (605,610)	$ (2,902,575)	$ (459,171)	$ (5,035,361)	$ 7,406,443
Income Tax Expense	$ 1,141,064	$ (1,141,064)	$ (1,064,372)	$ (128,568)	$ (1,192,940)	$ 2,073,804
Net Income After Taxes	$ 73,058	$ 535,454	$ (1,838,203)	$ (330,603)	$ (1,560,293)	$ 5,332,639
Unrealized Gain (Loss) on Foreign Exchange Translation	$ -	$ -	$ -	$ -	$ -	$ -
Total Comprehensive Income	$ 164,263	$ 535,454	$ (1,838,203)	$ (380,603)	$ (1,519,088)	$ 5,132,639
Basic Earnings per Common Share	$ 0.00	$ 0.00	$ (0.01)	$ (0.00)	$ (0.01)	$ 0.02
Diluted Earnings per Common Share	$ 0.00	$ 0.00	$ (0.01)	$ (0.00)	$ (0.01)	$ 0.02
Weighted Average Common Shares Outstanding	149,514,914	149,729,061	149,769,504	217,416,563	166,607,510	217,416,563
Weighted Average Diluted Shares Outstanding	149,744,008	150,098,719	150,082,912	217,416,563	166,835,550	218,674,988

General Disclaimer:

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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.