Earnings Update – 2QF24

Vext Science, Inc.

(symbol: VEXTF; VEXT.CN)

Report Date: 08/29/24

12- 24 month Price Target: US$.80

Allocation: 8

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

Closing Stock Price at Target Decrease and Allocation Increase (Closing Px: 06/05/23): US$.17

Closing Stock Price at This Update (Closing Px: 08/29/24): US$.16

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 2QF24, Vext reported revenues of $8.43 million and a pre-tax loss of $4.5 million and eps of <$.01>. Those numbers compared to our estimates of $9.1 million, pre-tax loss of $3.6 million and eps of <$.01>. Our revenue miss continues to be related to the deteriorating market in Arizona, which we will address below. The higher loss was the result of a handful of issues. First, the majority of the miss was in the "biological assets" and Realized Loss in Fair Value of Inventory " line items (about $400,000). Second, Amortization was a bit higher than we anticipated, as was SG&A, but neither was particularly alarming. As we said, aside from the consolidation of Ohio numbers, (which we should see in the current quarter), Vext continues to face challenges in a soft Arizona market. In retrospect, most of our misses in Arizona have been related to our assumptions around that market finding a bottom, but we have yet to get that part right. We would add, despite some of the shortfalls noted above, they reported Adjusted EBITDA of $1.1 million, which was about $180,000 higher than our estimate.

Setting aside the numbers and resulting comps, as those of our subscribers who have followed Vext since our coverage initiation in 2020 would likely attest, the Vext story has involved a fair amount of complexity. For instance, when we initiated the story, Arizona was a medical only state, and they had a several rules regarding would could own cannabis operations and that did not include public enterprises. As a result, the pre-Arizona recreational market analysis, required trying to rationalize the web of management agreements, and other arrangements that worked around those requirements. We thought the analysis would get easier once Arizona adopted recreational use, and changed the ownership requirements such that Vext could own and consolidate the facilities, which provided markedly better visibility.

At the same time, Vext developed a handful of ventures in other states with the idea that it would provide them with an entrée into potential new markets that might eventually adopt recreational use laws. Ohio was (is) the first of those opportunities to emerge, which added a new layer of complexity, in part around trying to model the permitting and consolidation and associated timing of those new pieces. We have been unable to get much of that correct, although, for the recent quarter (2QF24) our estimates for Ohio were quite accurate. Since we do not generally provide segment breakdowns in our published models, readers will have to take our word for that, but that leads us to our next set of complexities.

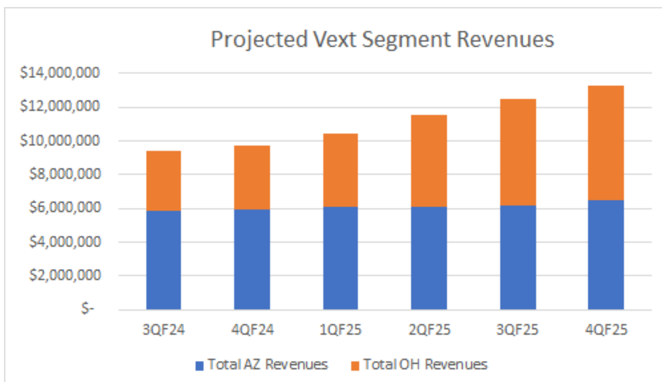
In short, the Arizona cannabis market has been turned upside down ostensibly because of a marked oversupply of cannabis product. We will not rehash our views of how/where that oversupply comes from, but the reality is that it is contributing to a very challenging environment for legal cannabis operators in the state. We would add, as management has suggested throughout several of the recent calls, the market also seems to be suffering from consumers cutting back on their purchases, which likely speaks to the general economic backdrop. Further, declining statewide cannabis sales are not strictly an Arizona problem, as several other more mature cannabis states including California, Colorado, Washington and others have also experienced declines. Regardless, we have struggled to project the bottom of the Arizona market, and while we are hopeful that we are getting there as the market tries to find some supply equilibrium, the analysis is a bit like trying to catch a falling knife. The "good news", is that we continue to believe that management has done a good job of working through these challenges and minimizing the damage. Again, that leads us to *our next* point.

Today, the Vext story looks to be a tale of two cities. On one hand, we have the legacy Arizona market declining under pricing pressure and ebbing consumer demand, while on the other, we have Ohio emerging into a new recreational market, where Vext has established an integrated operation poised to take advantage of the state's new market. From the 10,000 foot view, it looks as if the Company is replacing Arizona's shortcomings with Ohio's new opportunities, which we submit, looks a bit like a zero sum game. While we think that is the street's overriding view, we do not see it that way, and we think there are some relative metrics that suggest otherwise.

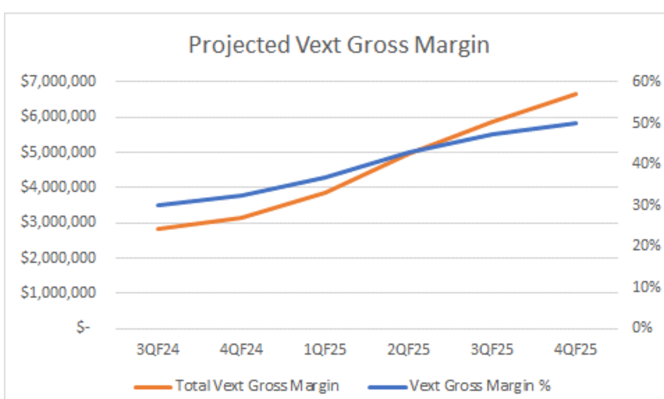
As the Company noted on the call, for 2QF24, Arizona continued to generate positive operating cash flow, which effectively helped to support some of the startup expenses related to Ohio, as well as supporting some of the associated inventory build etc. They also noted that for 2HF24 they anticipate Arizona improving on that operating cash flow over 1H24. We believe that view is supported in part by expectations around positive cultivation results out of Eloy (both yields and potency), but also by the notion that as we see it, management essentially believes that they have built (evolved) the Arizona operation to be a flexible, integrated competitor that is positioned to continue to weather the storm. To be clear, our assessments/targets are predicated on eventual improvements in Arizona, which may not happen, or may happen more slowly than we are anticipating. In that case our targets will likely prove aggressive, but again, we think Arizona is operating at a high level given the poor environment.

As an extension to the prior thought, management's presentations tend to focus on what they see as the acute importance of their integrated posture in Arizona, and especially their corresponding control of the retail store front. In short, we think their view is that the integrated posture is paramount to the survival/success of operators in maturing markets. We concur with that view. To that end, while the decline of cannabis sales in Arizona, and frankly in what appears to be most of the more mature markets in the western U.S., is certainly not a welcome development, it may not be all that unpredictable. In that case, it may tell us something about what successful cannabis companies will need to look like as other markets mature. That is, we think the view that success will require integrated operations that control the store front, may likely be paramount for operators to succeed in the cannabis industry. That posture describes both of the Company's current segments.

To revisit our "zero sum game" comment above, we believe that both Arizona **and** Ohio will make positive contributions to the whole going forward. We submit, that is predicated on the notion that Arizona is at or near the bottom, but again, we think each will ultimately contribute positive results and *that combination* will speak to better valuations. That said, we submit, outside of the idea that a rising tide will lift all boats, we do not feel like we have a good handle on the impact that Ohio recreational sales will have on Vext's current footprint in the state and its likely additions. At this point, we are modeling **what we think are modest growth projections in Ohio** and essentially a normalization of revenues in Arizona:



At the same time, we are projecting marked margin improvement going forward, but to levels the Company has managed to achieve in the past in Arizona alone. To reiterate, our target assessments are predicated on the assumption that Arizona and Ohio will each make growing contributions to both revenue and margin expansion in the coming quarters:



To summarize, we submit, it has been a challenging path for Vext, on multiple fronts including opening a new market during the contraction of another. However, we believe the heavy(est) lifting is behind them, and we expect to see marked comparative improvement in the coming quarters, which we think will provide the basis and associated visibility to support the (much) higher valuations we keep arguing. As a result, we reiterate our 12-24 price target, as well as our (elevated) allocation with a view that coming results will vindicate each.

Projected Operating Model

Vext Science, Inc.						
Projected Operating Model ($USD)						
By: Trickle Research LLC						
	(actual) **3/31/2024**	(actual) **6/30/2024**	(estimate) **9/30/2024**	(estimate) **12/31/2024**	(estimate) **Fiscal 2024**	(estimate) **Fiscal 2025**
Sales	$ 8,390,023	$ 8,426,928	$ 9,430,478	$ 9,742,566	$ 35,989,996	$ 47,821,623
Cost of Goods	$ 6,451,226	$ 6,645,433	$ 6,598,626	$ 6,601,438	$ 26,296,723	$ 26,452,585
Gross Profit Before Fair Value Adjustments	$ 1,938,798	$ 1,781,495	$ 2,831,852	$ 3,141,128	$ 9,693,273	$ 21,369,038
Unrealized Change in Fair Value of Biological Assets	$ (773,855)	$ (1,106,438)	$ (898,423)	$ (910,095)	$ (3,688,811)	$ (3,806,333)
Realized Change in Fair Value of Inventory Sold	$ 1,378,837	$ 1,333,941	$ 1,418,801	$ 1,437,477	$ 5,569,056	$ 5,931,390
Gross Profit	$ 1,333,816	$ 1,553,992	$ 2,311,474	$ 2,613,747	$ 7,813,029	$ 19,243,981
Operating Expenses:						
Accretion	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	$ 1,872,534	$ 2,169,066	$ 2,074,352	$ 2,074,352	$ 8,190,303	$ 8,297,406
Depreciation	$ 124,862	$ 130,954	$ 256,475	$ 256,475	$ 768,765	$ 1,025,898
Interest	$ -	$ -	$ -	$ -	$ -	$ -
Share Based Compensation	$ 13,065	$ 233,868	$ 13,204	$ 13,274	$ 273,411	$ 53,803
Salaries, Wages and Commissions	$ 1,221,632	$ 1,214,730	$ 1,323,067	$ 1,330,990	$ 5,090,419	$ 5,477,757
General and Administrative Expense	$ 1,338,594	$ 1,565,261	$ 1,555,529	$ 1,567,295	$ 6,026,679	$ 6,602,875
Other	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expense	$ 4,570,687	$ 5,313,879	$ 5,222,626	$ 5,242,384	$ 20,349,576	$ 21,457,739
Other Expenses /Gains:						
Share of Profit/Loss of Joint Ventures	$ 162,916	$ 118,370	$ (50,000)	$ (50,000)	$ 181,286	$ (200,000)
Foreign Exchange (Gain) Loss	$ (559)	$ (910)	$ -	$ -	$ (1,469)	$ -
Interest (Income) Expense	$ 800,680	$ 801,832	$ 815,897	$ 815,897	$ 3,234,307	$ 3,157,214
Other	$ 2,474,025	$ (161,900)	$ -	$ -	$ 2,312,125	$ -
Total Other Expenses	$ 3,437,062	$ 757,392	$ 765,897	$ 765,897	$ 5,726,249	$ 2,957,214
Net Income Before Taxes	$ (6,673,933)	$ (4,517,279)	$ (3,677,049)	$ (3,394,535)	$ (18,262,796)	$ (5,170,972)
Income Tax Expense	$ (340,522)	$ (127,244)	$ (1,029,574)	$ (950,470)	$ (2,447,810)	$ (1,447,872)
Net Income After Taxes	$ (6,333,411)	$ (4,390,035)	$ (2,647,476)	$ (2,444,065)	$ (15,814,987)	$ (3,723,100)
Unrealized Gain (Loss) on Foreign Exchange Translation	$ -	$ -	$ -	$ -	$ -	$ -
Total Comprehensive Income	$ (6,333,411)	$ (1,896,964)	$ (2,697,476)	$ (2,494,065)	$ (13,421,916)	$ (3,923,100)
Basic Earnings per Common Share	$ (0.03)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.07)	$ (0.02)
Diluted Earnings per Common Share	$ (0.03)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.07)	$ (0.01)
Weighted Average Common Shares Outstanding	225,131,309	245,450,577	245,450,577	245,450,577	240,370,760	245,450,577
Weighted Average Diluted Shares Outstanding	225,359,459	245,450,577	246,236,508	249,698,347	241,686,223	252,012,995

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, Inc.

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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.