



**The Valens Company
VGWCF
Investment Notes**

<http://thevalenscompany.com>

Please read Disclaimer at bottom of these notes!

V A L E N S

*“The Valens Company is a global leader in the end-to-end development and manufacturing of innovative, cannabinoid-based products. The Company is focused on being the partner of choice for leading Canadian and international cannabis brands by providing best-in-class, proprietary services including CO₂, ethanol, hydrocarbon, solvent-less and terpene extraction, analytical testing, formulation and white label product development and manufacturing. Valens is the largest third-party extraction Company in Canada with an annual capacity of 425,000 kg of dried cannabis and hemp biomass at our purpose-built facility in Kelowna, British Columbia which is in the process of becoming European Union (EU) Good Manufacturing Practices (GMP) compliant. The Valens Company currently offers a wide range of product formats, including tinctures, two-piece caps, soft gels, oral sprays and vape pens as well as beverages, concentrates, topicals, edibles, injectables, natural health products and has a strong pipeline of next generation products in development for future release. Finally, the Company’s wholly-owned subsidiary Valens Labs is a Health Canada licensed ISO 17025 accredited cannabis testing lab providing sector-leading analytical services and has partnered with Thermo Fisher Scientific to develop a Centre of Excellence in Plant-Based Science.” **Company website 12/17/19***

All Amounts are in CAD unless mentioned otherwise!

December 16, 2019 (\$2.38) Revenue guidance announced

Announces revenue guidance for the recently completed fourth quarter of 2019 in the range of \$27 million – \$30 million, a significant increase over its third quarter 2019 revenue of \$16.5 million.

November 21, 2019 (\$2.54) Some insider activity reported

Filing Date	Transaction Date	Insider Name	Ownership Type	Securities	Nature of transaction	Volume or Value	Price
Nov 21/19	Nov 20/19	Fallows, Jeffrey William	Direct Ownership	Common Shares	10 - Acquisition in the public market	31,300	\$3.14
Nov 18/19	Nov 14/19	Irwin, Christopher	Indirect Ownership	Common Shares	46 - Compensation for services	15,000	
Nov 21/19	Nov 12/19	Knight, Everett	Direct Ownership	Common Shares	46 - Compensation for services	50,000	\$3.09
Nov 21/19	Nov 12/19	Buysen, Christopher Michael	Direct Ownership	Common Shares	46 - Compensation for services	50,000	\$3.09
Nov 21/19	Nov 12/19	Popoff, Chantel	Direct Ownership	Common Shares	46 - Compensation for services	50,000	\$3.09
Nov 21/19	Nov 12/19	Robson, Andrew Tyler	Indirect Ownership	Common Shares	46 - Compensation for services	150,000	\$3.09
Nov 21/19	Nov 12/19	Anand, Deepak Satish	Direct Ownership	Common Shares	46 - Compensation for services	15,000	\$3.09
Nov 21/19	Nov 12/19	McGrath, Ashley Ervin	Direct Ownership	Common Shares	46 - Compensation for services	15,000	\$3.09
Nov 20/19	Nov 12/19	Kaushal, Nitin	Direct Ownership	Common Shares	46 - Compensation for services	15,000	\$3.09

November 19, 2019 (\$2.37) Initiated a ~0.66% position at ~\$2.37

Two-Minute Drill and Quick Thesis:

Fully diluted shares at August 31, 2019 was 128M. The fully diluted market capitalization is \$303.4M USD.

This is a speculative investment, as are most pure play cannabis companies currently. Our thesis is basically a pure play cannabis investment, with a company that is an extraction company for cannabis and hemp. They have the 3rd largest extraction capacity in Canada.

Higher revenues and volumes are expected to accelerate in 4Q19, with Canada's approval of allowing edibles and extracts (Cannabis 2.0). The company claims to not use any additives that have been thought to cause the crisis (vitamin E). Yet, this is a work-in-progress, and of course, vaping could be deemed to be permanently dangerous. Our thesis is the crisis is contained, and not affected by proper processes. The company claims that vaping is not integral to their long-term business plan.

They claim to have a diverse extraction process. This will allow customers to target and customize their consumer experiences, be it CBD, Terpenes or THC.

Insiders own over 27% of the common stock. I like seeing management have skin in the game.

The company has an agreement with Thermo Fisher Scientific (TMO). I need to look closer at this. I looked at the most recent 10-Q, and conference call for TMO, and saw no mention of Valens.

Although the company has declined to give estimates, there are several analysts providing estimates. The projected revenues are \$54.25M for F2019, \$171.05 for F2020, and \$231.20 for F2021. I am not projecting revenues, nor earnings per share at this point. The current market cap of \$303.4M USD would be a forward price to sales ratio of 2.37X for F2020 (\$171.05 * .75 CAD conversion to USD), and 1.75X for F2021 (\$231.2 * .75 CAD conversion to USD).

Analysts also project F2020 earnings per share of \$0.35 CAD (\$0.2625 USD), and F2021 earnings per share of \$0.52 CAD (\$0.39 USD). This would lead to a forward F2020 price earnings ratio of 9.03X, and a forward F2021 price earnings ratio of 6.08X.

As in all our cannabis research, we expect eventual world-wide legalization of cannabis, like the alcohol industry today. Canada is the first G-7 nation to legalize cannabis, and we expect other G-7's to follow suit, including the USA.

Again, this is a speculative investment, in a speculative industry, and cannabis is Federally illegal in the USA. The company could have execution risks, which are also inherent in the industry. The industry is in its infant stages, and there could be several catalysts to increase the share price over time. These catalysts could include legalization in the USA, changes in laws of a Canadian company selling to States in the USA, greater acceptance of cannabis as a long-term future industry in the USA and the world.

November 19, 2019 (\$2.34) Initial look at company

The company emphasizes extraction and white label manufacturing services. White label manufacturing is when a company (Valens) manufactures a product, and the customer rebrands and sells that product.

Company reported its annual extraction capacity to 425,000 kg with plans to increase this to over 1,000,000 kg.

Valens announced that construction has commenced on its recently acquired adjoining facility in Kelowna, British Columbia. This new facility will expand the company's white label capacity to include capsules, vaporizers, topicals, edibles and concentrates.

\$69.2 million in cash and cash equivalents and short-term investments and a net working capital position of \$84.1 million as at August 31, 2019.

26,625 kilograms of dried cannabis and hemp biomass was processed in the third quarter of 2019, a 212% increase over the second quarter of 2019. The Company has already processed 13,423 kilograms of biomass in the first 45 days of the fourth quarter. During the early part of the quarter we worked with a number of our clients to process smaller, higher revenue white label product lots in preparation for the launch of edibles and concentrates later this year. This is anticipated to result in higher revenue per gram of input compared to previous quarters. Volumes are expected to accelerate into the back half of the fourth quarter, particularly as we begin to process larger white label lots for sale in 2020 and resume the processing of our previously announced contracted volumes.

The company indicates its business is 50% cannabis, and 50% hemp. The company claims this will fluctuate from quarter to quarter.

The company was asked for and replied there is no revenue guidance being given.

On October 15, 2019, the Company granted 445,000 options to purchase common shares of the Company exercisable at a price of \$2.79 per share and expiring on October 14, 2024, to certain new employees as the Company continues to strategically build out its leadership team. The options vest quarterly over a three-year period and are granted pursuant to the terms of the Company's stock option plan, subject to regulatory approval.

Valens has entered into extraction and White Label manufacturing partnerships.

EXTRACTION PARTNERS.

We work with a number of renowned partners who share our commitment to innovation and supreme quality.



STRATEGIC PARTNERS.



Figure 1 - Company website November 19, 2019/

During the 3rd quarter and subsequent to that, Valens entered extraction and white label services for the following companies:

1. **Tilray Inc.** – expanded their agreement by 300% to offer extraction services of 60,000 kg. They also added white label manufacturing services.
2. **Shoppers Drug Mart** – Valens signed an agreement to become the first third party processor to supply Shoppers Drug Mart with cannabis oil products for their online medical cannabis site.
3. **Iconic Brewing** - the Company signed its first beverage agreement with Iconic Brewing to manufacture 2.5 million cannabis beverages over the term of the 5-year agreement.

Valens reported 3Q19 revenues of \$16.4M. Revenues for the 9 months ended August 31, 2019 were \$27.5M.

Gross margin was 77.8%.

On August 31, 2019, current assets were \$88M, with total liabilities of \$3.9M.

Shareholders' equity was \$120.45M. Tangible equity was \$107,243,503.

Property, plant and equipment was \$23.1M.

SELECTED FINANCIAL INFORMATION

Selected Statements of Income (Loss) Information	For the three months ended		For the nine months ended	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Revenue	16,461,626	14,575	27,481,919	37,316
Gross profit	12,806,990	5,875	18,756,543	15,198
Gross profit %	77.8%	40.3%	68.3%	40.7%
Operating expenses	7,284,507	2,429,263	20,977,645	8,813,232
Other expenses (income)	(370,401)	(117,838)	8,781,426	(273,809)
Income (loss) and comprehensive income (loss)	5,892,884	(2,305,550)	(11,002,528)	(8,524,225)
Basic Income (loss) and comprehensive income (loss) per share	0.05	(0.03)	(0.10)	(0.12)
Diluted Income (loss) and comprehensive income (loss) per share	0.05	(0.03)	(0.10)	(0.12)
Weighted average number of shares	122,457,417	72,297,422	107,451,763	69,798,796
Adjusted EBITDA ⁽¹⁾	9,771,779	(1,749,649)	9,765,636	(5,006,008)

⁽¹⁾ Defined as income (loss) and comprehensive income (loss) for the period before interest, taxes, depreciation and amortization adjusted for other one-time and non-cash items, which is a non-GAAP measure discussed in the “Adjusted EBITDA” section.

Selected Statements of Financial Position Information	As At	
	August 31, 2019 \$	November 30, 2018 \$
Cash and cash equivalents	60,375,166	1,726,530
Restricted short-term investments	100,000	-
Short-term investments	8,857,999	23,505,750
Inventory	849,652	506,772
Other working capital	13,954,422	2,882,852
Non-current assets	36,310,760	21,454,383
Equity	120,447,999	52,712,788

Fully diluted shares outstanding at August 31, 2019 was 126,580,551.

Related party transactions, other than compensation are not material.

Davidson & Company LLP is the external auditor of the Company. I am not familiar with this firm.

BEST POSITIONED TODAY, ACCELERATING INTO TOMORROW

EXTRACTION AND NEXT GENERATION PRODUCT CAPABILITIES DRIVE OUR ADVANTAGE

TODAY

- Largest third-party extraction capacity with 425,000 KG and more than 240,000 KG in contracted demand from customers for 2020
- Extracting for \$15B CAD in market cap with 10 contracts including 5 of the top 10 cannabis companies in Canada
- Broadest product and service offering in the market
- Low risk, capital efficient, high margin business

TOMORROW

- Largest third-party cannabis product development and manufacturing company
- Unique, IP based product technology platform offering customized white label services
- Trusted partner of various leading licensed producers and CPG companies
- Exportable business model to high value international markets

Figure 1 - October 2019 Presentation

FINANCIALS & OUTLOOK

FIRMLY INTO OUR GROWTH PHASE; FOCUSED ON UNLOCKING SHAREHOLDER VALUE

CAPITALIZATION TABLE

(In CAD\$MM, Unless otherwise noted)

Share Price: As of 11th of October 2019	\$2.79
Basic Shares O/S	123.3
Fully Diluted Shares O/S	128.0
Equity Value	357.1
Cash and Cash Equivalents	61.8
ITM Securities	6.6
Debt	-
Enterprise Value	288.7

Average analyst estimates	CY2019	CY2020	CY2021
Revenue	53.6	162.6	218.1
Adjusted EBITDA	17.7	74.7	103.2
EPS	(\$0.08)	\$0.36	\$0.54

Implied Multiples	CY2019	CY2020	CY2021
Valens EV/ Adj EBITDA	16.3x	3.9x	2.8x
Extraction Peer Average / Adj EBITDA	36.0x	6.8x	4.0x
Valens Price/ EPS	NMF	7.8x	5.2x
Extraction Peer Average Price/ EPS	39.9x	12.2x	7.1x

Analyst Target Price

Average (5 Analysts)	\$8.28
Implied Return Potential	197%

Source: Company Filings, S&P Capital IQ, As of October 11th, 2019; Shares outstanding based on most recent quarterly financials and adjusted for share issuance transactions and other significant publicly disclosed transactions; presented as Treasury Stock Method



Figure 2 - October 2019 Presentation

COMPETITIVE LANDSCAPE

	V A L E N S	NEPTUNE WELLNESS SOLUTIONS	MediPharm Labs	RADIANT
NO. OF ANNOUNCED TOLL PROCESSING AGREEMENTS WITH LICENSED PRODUCERS	10	3	7	2
NO. OF ANNOUNCED TOLL AGREEMENTS IN TOP 10*	5	3	2	1
CURRENT ANNUAL EXTRACTION CAPACITY	425,000KG	30,000KG	300,000KG	56,000KG
TYPES OF EXTRACTION	5	2	1	1
ISO 17025 ACCREDITED TESTING LAB	Y	N	N	N
EU GMP CERTIFICATION	PENDING	N	PENDING	PENDING
ORGANIC CERTIFICATION	Y	N	Y	N
ENTERPRISE VALUE (CAD\$) Per Comp Table Pg. 23	289M	383M	493M	123M
NET INCOME (CAD\$) Latest Filed Quarter	5.8M	-6.5M	2.0M	-6.4M

*Companies ranked per market cap, as of October 11th 2019, Sourced from company presentations and news releases

SXV:VGW, OTC:VGWCF

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Figure 3 -October 2019 Presentation

DIRECTORS AND OFFICERS

Tyler Robson – Chief Executive Officer, Director
 Chris Buysen – Chief Financial Officer, Director
 Chantel Popoff – Chief Operating Officer
 Jeffery Fallows - President
 Chris Irwin – Director
 Nitin Kaushal – Director
 Ashley McGrath – Director
 Deepak Anand – Director

Officer compensation, as per a September 2019 filing does not seem excessive. CEO, Robson received \$630K. Most other key personnel received substantially less, typically under \$100K.

INVESTMENT

HIGHLIGHTS

Largest extraction company in Canada.

At 425,000 KG of capacity, Valens is equipped to service Canadian demand as well as the global markets with efficiency at scale. Investment banks, private equity and venture capital industry.

High margins.

Operating in one of the highest margin sub-sectors of the cannabis industry with low variability in costs.

Proprietary technology and processes.

Decades of experience have resulted in best-in-class proprietary extraction processes that are optimized to produce consistently high quality products.

First mover advantage.

Founded in 2012, Valens was granted the first Dealer's License to process cannabis. Our R&D and testing process allows us to quickly identify market trends and adapt to a changing landscape.

Most diverse extraction capabilities.

Providing customers with the widest variety of extraction techniques which allows them to produce the largest range of end products.

High cashflow visibility.

Substantial, reoccurring agreements with leading producers, including Canopy, Tilray, HEXO, TGOD and Organigram providing a clear revenue and cashflow path.

Customized product development.

Valens formulation and testing expertise allows for the production of a wide array of tinctures, capsules, concentrates, vapes, topicals, beverages and edibles.

In-house testing laboratory.

Setting global standards, Valens labs was the first ISO 17025 accredited lab for cannabis analyses and is endorsed by \$100B+ Thermo Fisher Scientific as the Centre of Excellence in Plant Based Science.

Figure 4 - October 2019 Presentation

Company ownership structure as of September 2019 Most recent filing at this time:

Name	Shares controlled	% of Outstanding Shares
1009368 BC Ltd.	15.97M	13% (calculated on non-diluted shares of 123.2M)
Tombe	6.72M	5.49%
Gervais	5.55M	4.54%
Robson CEO	5,31M	4.31%
Buysen CFO	152,300	0.12%
McGrath Director	245,000	0.20%

Aug 20/19	Aug 19/19	1009368 Bc Ltd.	Direct Ownership	Common Shares	10 - Disposition in the public market	-2,535,481	\$3.50
Aug 6/19	Aug 6/19	Popoff, Chantel	Direct Ownership	Common Shares	46 - Compensation for services	50,000	\$3.52
Aug 6/19	Aug 6/19	Buysen, Christopher Michael	Direct Ownership	Common Shares	46 - Compensation for services	50,000	\$3.52
Aug 6/19	Aug 6/19	Robson, Andrew Tyler	Indirect Ownership	Common Shares	46 - Compensation for services	150,000	\$3.52
Aug 6/19	Aug 6/19	Knight, Everett	Direct Ownership	Common Shares	46 - Compensation for services	50,000	\$3.52
Aug 2/19	Aug 2/19	Fretwell, Gordon	Direct Ownership	Common Shares	10 - Disposition in the public market	-3,233	\$3.67

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