

On the road to positive cash flow, biopharmaceutical company Avicanna launches its proprietary Pura H&W™

The cannabis sector has had a bit of a rough go over the last year or so, to say the least. In Canada, the worst performing stock on the TSE Composite index in 2021 was Canopy Growth Corp. (TSX: WEED | NYSE: CGC) dropping an abysmal 67% throughout the course of 2021. In fact, you'd be hard pressed to find a single cannabis name that showed a positive return over the year. I looked at about 20 equities and only found OrganiGram Holdings Ltd. (TSX: OGI | NASDAQ: OGI) that bucked the negative trend but that doesn't mean there weren't possibly a few more. Nevertheless, 2021 was not the year to be a diehard cannabis investor.

Will 2022 be the time to shine for cannabis? Perhaps, if you are in the correct segment or have the right name. I don't think we are going to see full on legalization in the U.S. this year that could potentially be the rising tide that lifts all boats. It strikes me that there may be a few more pressing matters on the political agenda that could take precedence over this subject, but you never know. In the meantime, I believe one has to focus on the road to profitability because sooner or later if you need to raise cash to survive in a sector with performance as poor as we saw in 2021 from cannabis it could be very difficult to get your hands on the capital you require to continue as a going concern. That's why today we are going to have a closer look at Avicanna Inc. (TSX: AVCN | OTCQX: AVCNF).

The Company has a few irons in the fire, so to speak, that are all coming along nicely on the road to positive cash flow.

Avicanna is a Canadian commercial-stage biopharmaceutical company established in cannabinoid research, development, and evidence-based products. Avicanna's scientific platform has resulted in 30+ commercial and proprietary formulations and products including cosmetics, medical cannabis, and pharmaceuticals, in addition to its raw material business unit, which reaches across international markets. The latter, marketed under the Aureus™ brand, has successfully completed sales to 11 countries.

The two business segments I'd like to focus on today are the cosmetic business and the raw materials business. When I see what Kylie Jenner's net worth is after selling 51% of her cosmetics brand to Coty for \$600 million in 2019 it made me stop and think about what kind of money there was in this line of business. Ever since the legalization of cannabis in Canada and parts of the U.S. there has been a lot of hype but not a lot of profits. Recreational cannabis has struggled to compete with the illicit market (and still turn a profit), and cannabis 2.0 also seems to be having a hard time finding traction in the marketplace. Medical cannabis appears to be doing well in certain areas but still has a lot of clinical trials and evidence-based science work ahead of it before it hits the mainstream. That's why I'm quite intrigued by Avicanna's CBD derma-cosmetic products marketed under Pura Health & Wellness (H&W)™ or Pura Earth™. These registered, clinically tested products include a portfolio of functional CBD topical products that have been designed to deliver CBD in synergy with other natural ingredients for specific functional skin benefits.



Source: Avicanna Inc. Corporate Presentation

On December 22nd the Company announced the brand launch and commercialization in the United States of its proprietary Pura H&WTM through its exclusive partnership with Red White and Bloom Brands Inc. (CSE: RWB). Avicanna's skincare line is currently available nationwide across Canada in medical channels in partnership with Medical Cannabis by ShoppersTM and in adult-use sales channels through retailers in 4 provinces. These products are also currently being sold in Colombia and Ecuador with anticipated product launches in the UK, and certain Latin American countries in 2022. I like the kind of revenue that can be generated in this business segment.

Another key differentiator for Avicanna, at least to me, is their established, sustainable and economical cultivation and extraction infrastructure in Columbia. I've often wondered why there was such a frenzy to build greenhouses in Canada to cultivate cannabis when you had to anticipate that it would just be a matter of time before far more economic sources of raw materials were available. AureusTM is the Company's business-to-business raw material brand for cannabinoid Active

Pharmaceutical Ingredients, feminized seeds, cannabis biomass, and formulations offered with quality testing and tracking. The Company's extracts include oils, cannabinoid distillates, and isolated cannabinoids (CBD, THC, CBG, and other cannabinoids), and bulk formulations (derived from hemp and cannabis cultivars). Avicanna was ranked highest amongst global cannabis companies in the SAM Corporate Sustainability Assessment in the 2020 Sustainability Yearbook, a sustainability index that has become the basis for numerous S&P Global ESG indices. And as noted earlier, the Company has realized commercial sales of CBD, CBG and THC with exports made into eleven countries. To summarize, their raw materials business is profitable and ESG friendly.

These are just two of what I think are Avicanna's differentiators but there's a lot more going on. Their third quarter MD&A was 40 pages long if you'd like to have a read. Another near-term catalyst is agreements signed by the Company with two companies founded by former NBA star Al Harrington for the use of his brands, re+PLAY™ and Viola™. On December 20th Avicanna announced the launch of re+PLAY™ branded CBD topicals products in Canada across adult use channels in Alberta and Ontario, and medical channels in partnership with Medical Cannabis by Shoppers™. Granted all these late December announcements won't show up in the Company's Q4 results but there is definitely momentum. Gross revenue and product sales grew sequentially in each of the first three quarters of 2021. If that trajectory continues in Q4, then the addition of the two incremental deals noted above could make for an exciting Q1, 2022.

With all that said, Avicanna was not cash flow positive or profitable as of the end of their third quarter (Sep 30, 2021) and might not be come year end 2021. However, you can see the direction things are going and make a case for some exciting results in early 2022. With only 46 million shares outstanding and a market cap of C\$23 million based on yesterday's close,

there could be a lot of leverage to a quarterly result that shows positive numbers.