

# Nextleaf Solutions

## Turning flowers and biomass into gold

Cannabis oil producer Nextleaf's revenues for the nine months ending 30 June more than quadrupled year-on-year to C\$2.0m. With a growing Canadian cannabis market, strong intellectual property (IP) portfolio of US and global patents, start-up of its automated proprietary processing facility, acquisition of the award-winning Glacial Gold brand and expansion into beverages, the parts appear in place for Nextleaf to reach profitability.

### Processing plant start up boosts YTD financials

Nextleaf (CSE:OILS, OTCQB:OILFF) is a cannabis oil producer that owns one of the largest portfolios of US patents for the extraction, purification and delivery of cannabinoids, converting low grade cannabis biomass into high grade product. With nine-month revenues up C\$1.6m y-o-y to C\$2.0m, losses in the period improved to C\$3.4m, down C\$0.2m y-o-y, due to both the start-up of its Canadian processing facility near the end of FY20 and the resulting increase in B2B bulk sales. Margins should likely improve as Nextleaf scales up the facility and enjoys economies of scale in what management believes is one of the most efficient, low-cost methods for producing distillate, a key potential source of competitive advantage.

### Enjoy your Glacial Gold and cannabis-infused drinks

The Canadian cannabis sector, the world's largest federally legal and regulated market, continues to see improving demand, and a recent Brightfield Group report discusses how hundreds of new retail locations have been opening across the country. Nextleaf also recently announced several new deals that should likely boost sales, including acquiring the award-winning, prohibition-era specialty concentrates and extracts brand Glacial Gold in May 2021, under which Nextleaf distributes vapes and distilled oils. In 2019, the firm also entered a research agreement with a private company for generating formulations used in producing cannabinoid-infused water beverages, potentially increasing Nextleaf's total addressable market as Brightfield Group expects cannabis-infused drinks to grow adult-use market share from 2% in 2020 to 7% by 2026.

### The parts appear to be in place for profitability

At the recent \$0.24 share price, Nextleaf is up 34% year to date. For the rating to expand further, clearer timing on the ramp to profitability would be helpful, given Nextleaf needs to address its cash burn (C\$2.1m in 9M FY21), as further financing may be needed. That said, with a rapidly growing Canadian cannabis market, strong IP portfolio, recent facility start-up, the acquisition of Glacial Gold and expansion into beverages, the parts appear to be in place for Nextleaf to continue to grow sales at a rapid pace and approach profitability.

#### Historical financials

Year end	Revenue (C\$m)	EBITDA (C\$m)	EPS (C\$)	Net cash (C\$m)	P/revenue (x)
09/19	0.0	(7.1)	(0.10)	4.3	N/A
09/20	0.7	(4.9)	(0.05)	0.9	42.1

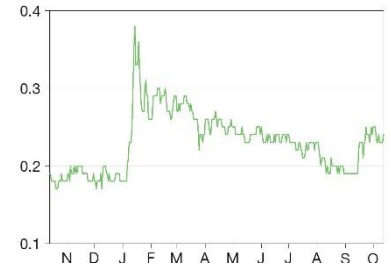
Source: Nextleaf, Refinitiv

#### Cannabis processing

13 October 2021

**Price** C\$0.24  
**Market cap** C\$29m

#### Share price graph



#### Share details

Code	OILS
Listing	CSE
Shares in issue (30 June 2021)	125.3m
Net debt (30 June 2021)	C\$0.69m

#### Business description

Nextleaf Solutions is a Canadian federally regulated cannabis oil producer, focused on commercializing one of the largest portfolios of US patents for the extraction, purification and delivery of cannabinoids, with 17 US patents and over 90 globally. The British Columbia firm operates an automated proprietary closed-loop extraction and distillation plant, and is expanding into products like beverages.

#### Bull

- Growing Canadian cannabis market.
- Strong IP portfolio.
- New scalable facility should improve margins.

#### Bear

- Timing on path to profitability is unclear.
- Increasing competition from US firms.
- Cash burn may require further debt or equity funding.

#### Analysts

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