

Tormont50: Identifying timely topics and trends in the sub-\$300 million market.

Research Type: **Update**

Timeliness: **Current**

Date: **May 8, 2018**

Namaste Technologies Inc.

N \$1.21

TSX Venture Exchange | Market Cap \$333.0M



Update: For those of us who have been around for a few of the market’s most significant industry-related stock trends, the Cannabis sector is holding true to form in comparison to other “*birth of an industry*” type equity cycles. Cannabis is rapidly exiting the pure speculation stage, busily engaging in the positioning phase, and looking ahead toward the competitive period that will fully define the winners and losers. Metaphorically, the tide is no longer rising. Comparing investment cycles is more art than science, but some factors hold true in every cycle – and those will be the subject of this commentary. During this winnowing phase in the micro and small-cap segments of the market, the key attributes in the Cannabis “land grab” can boil down to a few sign posts: Who are the leaders partnering with? Is a stock showing double- to triple-digit revenue growth? And does a company have a unique advantage?

Steady, Impactful News: With Namaste’s move to the TSXV this month, we thought it would be a good idea to provide some point-in-time commentary on recent trends. Few companies in the Cannabis space have generated a steadier stream of meaningful news as Namaste during the last couple of months. The company started out the year having to clean up some accounting errors dating back to 2016, which proved to be little more than a temporary embarrassment and had no effect on key line items such as revenue and cash. Shrugging off that small stumble, Namaste quickly bolstered its war chest by completing a \$40.25 million bought deal (with full over-allotment option) at the end of February 2018. That marked the beginning of a steady stream of partnership and other collaborative announcements in March and April. The accompanying summary is for March 2018 alone.

So, from the standpoint of positioning, Namaste is planting its flag on a global basis with both frequency and quality, with little doubt that they intend to have a full product line and distribution

<p>March 5, 2018</p> <p>Signed LOI, to initiate a research study to evaluate applications for Inolife’s proprietary needle-free injectors in the medical cannabis industry. Namaste will hold exclusive distribution rights.</p>		<p>March 12, 2018</p> <p>Signs LOI. Integrates Namaste's product lines into the industry's top seed-to-sale software platform, with access to 80% of Canada's medical cannabis patients and the country's largest dataset.</p>
<p>March 16, 2018</p> <p>Signed a medical cannabis supply agreement with Marigold Projects Jamaica Ltd. (majority owned by Scythian) whereby Marigold will supply Cannmart with high quality Jamaican produced medical cannabis.</p>		<p>March 20, 2018</p> <p>Wholly owned subsidiary, Cannmart Inc. receives its Access to Cannabis for Medical Purposes Regulations (“ACMPR”) Production License. Cannmart may now place initial orders with ACMPR licensed producers.</p>
<p>March 22, 2018</p> <p>Signed a medical cannabis Product Acquisition Agreement with Clever Leaves (Ecomedics S.A.S.), a vertically integrated, licensed producer of medical cannabis in Colombia.</p>		<p>March 26, 2018</p> <p>Signs a non-binding Terms Sheet with PharmaCann Pty Ltd., whereby Namaste will purchase a 10% equity position in PharmaCann., which is licensed to import, export and wholesale medical cannabis in Australia.</p>

channel when sales reach critical mass. While LOIs and partnerships are plentiful in the space, the deal flow at Namaste is encouraging.

Triple Digit Growth: Admittedly, triple digit growth is not unusual off of a small base, but Namaste has maintained its fast start compared to many other companies in the space. Growth vs. valuation is the order of the day in the industry but hypergrowth in the 150% range is a sign of initial strength. In every industry-formation phase, the stocks are expensive and they stay pricey in terms of multiples, digesting every move until the growth rate can pull them higher. Namaste has the hypergrowth to erase valuation questions over time, though the market will decide when that next tipping point and uptrend begins. Obviously, acceleration or deceleration in this growth rate will be key to price performance in coming quarters, but for now, the revenue trend is excellent.

The Unique Advantage: It is becoming increasingly evident that usage trends will vary by market (as evidenced by the data below from September 2017 and the graph on the following page), but how consumers consume will almost certainly include less smoke and more concentrate as the user base becomes more mainstream. We provide some recent commentary from California (a smoke-free state in public places) as an example. Namaste is essentially covering all bases for the future in that regard, with a leading position in vape, and growing interests in other segments of the market.

Recent trends in California may not be a precursor for every market, but they do provide a glimpse into the evolution in a market where recreational and medicinal are now side-by-side.

Technical Analysis: As its stock chart shows, Namaste in 2017 went from near obscurity to



California Pot Trends Already Resemble Colorado's Retail Market

THOMAS MITCHELL | SEPTEMBER 25, 2017 | 9:23AM

in Colorado, good for the highest-selling extract – and still nowhere close to California, where the same category accounted for a whopping 61 percent. Here are the top three concentrates in each state:

California (average price per gram: \$29.64)

- 61 percent vape
- 9 percent wax
- 6 percent shatter

Colorado (average price per gram: \$25.33)

- 36 percent vape
- 23 percent shatter
- 17 percent wax

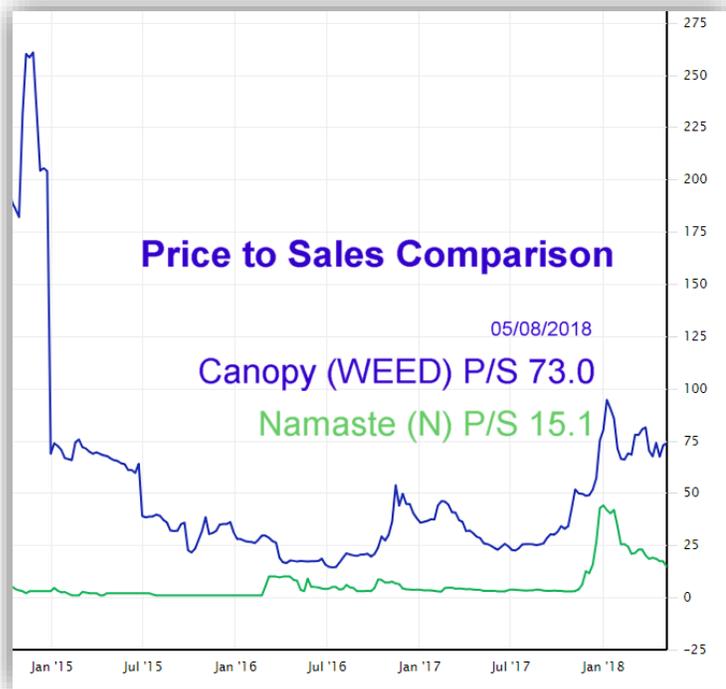
one of the best performing North American stocks – **in any industry group**. The aftermath of that kind of run always includes a certain amount of profit taking, particularly after a rocket-like move in an industry group that often sold more sizzle than steak during its speculative stage. At this point in the company timeline, a few technical comments are necessary based on the Namaste chart.

First, much of the stock pullback was orderly and expected, with light volume and an increasingly flat and tight base. The volume is key in this case, because it has shown equilibrium with low volatility, even with the new 2018 low this week.



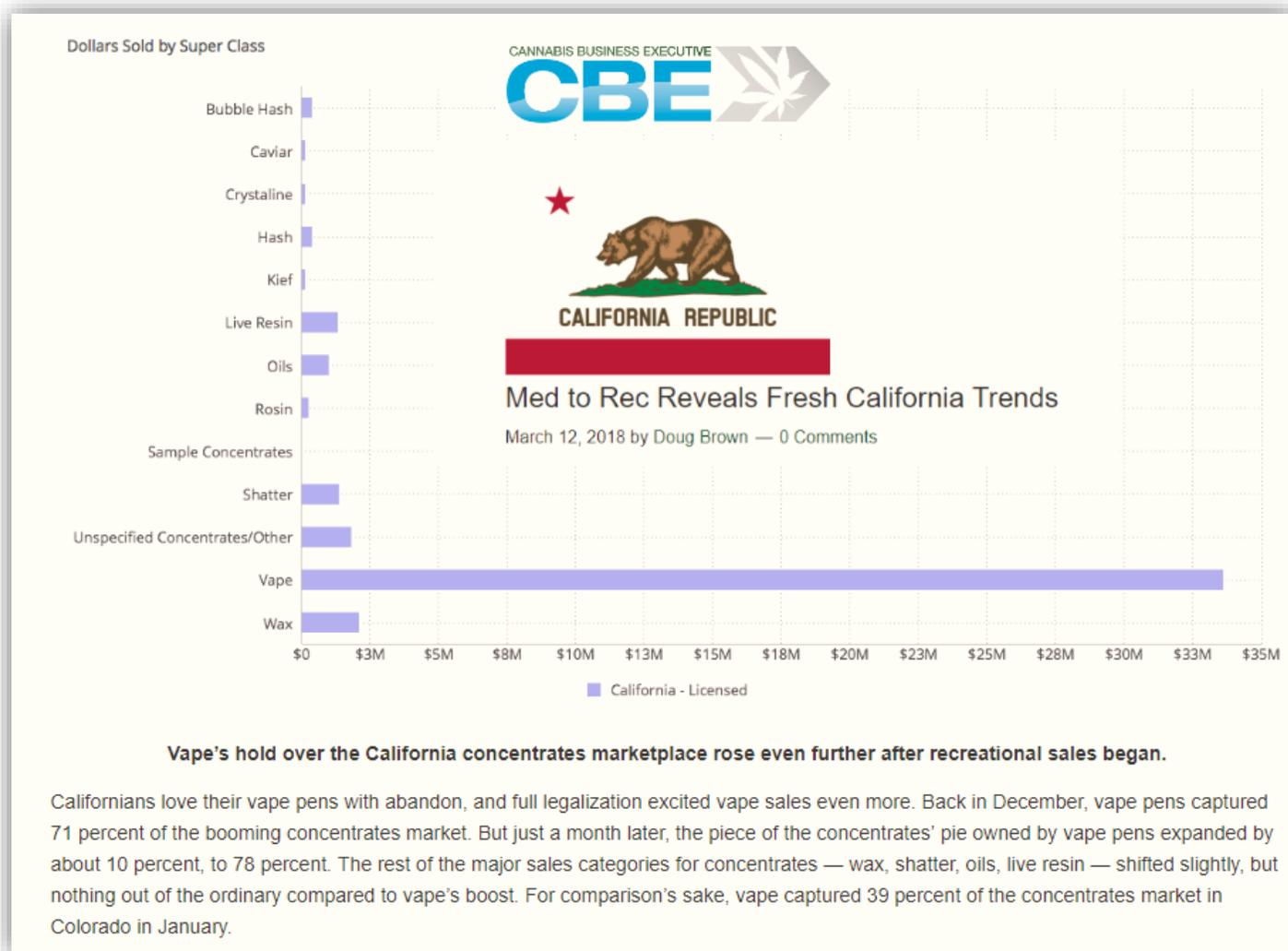
Low-volume downtrends typically need a high-volume capitulation day to resolve the selling pressure.





Long, low-volume bases eventually resolve into a trend, so the stock will test its weaker holders at these levels. By comparison to other leaders, however, Namaste's valuation is less than half of peak levels and far less expensive than industry leaders such as Canopy Growth (WEED) on a price to sales basis. Namaste's hypergrowth makes this current pullback even more interesting. The stock might not be cheap compared to the general market, but it is certainly approaching that level in comparison to other leading cannabis stocks.

The Near Future: The industry land grab is "on" and will be followed by a more severe winnowing phase as the pie gets sliced up among the leading players, so Namaste's growth trajectory will be carefully watched. In the meantime, it should be business as usual for the Company, with more partnerships, increasing sales, and a continued consumer shift into Namaste's niches. In that regard, the Company is well positioned and armed with a customer database that will become increasingly valuable as the industry enters its



Vape's hold over the California concentrates marketplace rose even further after recreational sales began.

Californians love their vape pens with abandon, and full legalization excited vape sales even more. Back in December, vape pens captured 71 percent of the booming concentrates market. But just a month later, the piece of the concentrates' pie owned by vape pens expanded by about 10 percent, to 78 percent. The rest of the major sales categories for concentrates — wax, shatter, oils, live resin — shifted slightly, but nothing out of the ordinary compared to vape's boost. For comparison's sake, vape captured 39 percent of the concentrates market in Colorado in January.

Recent commentary from CBE shows that, anecdotally, Namaste is on-trend for consumer preferences.



inevitable marketing cycle. The sell-off in the stock can be traced to multiple factors, some purely technical, but the fundamentals and positioning for Namaste remain intact. For long-term investors, that is an important distinction during one of the more challenging (but early) periods in what is destined to be a very long business cycle.

T50 Research

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