

Namaste Technologies Inc

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SPONSORED CONTENT: Namaste Technologies Inc CEO Meni Morim fields questions from shareholders

Namaste Technologies Inc (CVE:N) (OTCMKTS:NXTTF) CEO Meni Morim answers a range of questions the company has received from shareholders in an interview which originally appeared as a blog post on Medium.

When and how will CannMart move closer to profitability?

The cannabis industry is in its infancy. All companies in this domain should have adopted the build-measure-learn loop to validate certain growth hypotheses, which is exactly what CannMart has done. Implementing this loop requires an initial investment and we anticipate seeing the return on it in the medium and long term timeframes.

As an example, we can look at the establishment of our B2B channel. This channel did not exist ten months ago. We needed to hire people, build the infrastructure on-site, invest in building relationships with provincial bodies, etc. This requires an upfront investment, which we are now starting to see the results of (referring to Q1 2020).

Are the B2B contracts profitable at a gross margin level?

To dive further into the B2B initiative, we implemented the same build-measure-learn within this initiative. Meaning, we implemented certain MVPs (minimum viable "products") to validate what the best ways to create this division would be. The result is a department that did not exist ten months ago yet was able to deliver multiple millions in revenue by Q1 of 2020 (i.e. within 5 months of establishment). Breaking into any new distribution channel, it is inevitable, and good strategy, to have some loss leaders in order to penetrate and gain market share and visibility, and our strategy is to slowly but surely balance our offering to increase the blended gross margin.

Is Findify performing to your expectations?

The core driver behind the Findify acquisition was the use of the AI engine to solve the cannabis personalization problem. Growing Findify as a standalone business was a secondary objective. We have since forked the Findify source code and integrated it into the Namaste codebase via various products (Uppy App, NamasteMD, and most recently — CannMart).

Furthermore, 80% of the Findify team has joined Namaste, which required us to rebuild Findify as a standalone company. From a revenue perspective, I am very proud of the work and accomplishments of Findify's new CEO, Philip Nobel. He was able to rebuild the team and grow annual recurring revenue to beyond \$1M, after some expected churn following the acquisition. Findify is showing steady growth, and we're looking forward to capitalizing on future opportunities to enable the business to grow even faster.

What is management's external investment criteria, and how are due diligence methods being improved

Price: 0.23

Market Cap: \$74.51 m

1 Year Share Price Graph



Share Information

Code: N

Listing: TSX-V

52 week High Low
0.71 0.2

Sector: Cannabis

Website www.namastetechnologies.com

Company Synopsis:

With headquarters in Toronto, ON, and offices in both B. C. and around the globe, Namaste Technologies is a leading online platform for cannabis products, accessories, and responsible education. The company's 'everything cannabis store', CannMart.com, provides customers with a diverse selection of hand-picked products from a multitude of federally-licensed cultivators, all on one convenient site.

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following investment losses like Choklat and Pineapple Express?

In the past, Cannabis companies tried to be everything for everyone. Many companies, us included, learned that in order to be successful you must be laser-focused. Companies need to identify their strengths and should strive to be radically perfect at one thing and great at a few supporting areas. The question you raised here falls clearly within that scope. Namaste has worked, and continues to work, on rebuilding and refining our M&A and investment criteria. Any investment the company makes and any M&A the company engages on needs to:

- Align clearly with our strategic objectives. We are an operational business and shareholder capital is important.
- Have a clear plan on how services and personnel will be integrated into the company. Many acquisitions fail because of lack of synergy or poor cultural fit. This must be part of due diligence.
- Have a high level of certainty that it will provide a positive ROI, over a defined period of time. Whether it's a "build vs buy" question or time to market, we need to clearly quantify it.
- To achieve this, we have revised and strengthened our due diligence processes to validate the points above.

How do the vape divisions fit into the current and long term strategies?

Put simply, these businesses generate revenue, and if you look at our financial information you'll see the amazing strides we made towards making them profitable.

Investors should note that we also executed on one of the major elements from the company's early promises: leverage our customer database, and enable cross-selling via the hardware side of the business. Customers can now purchase ancillary products on CannMart.com without a medical authorization, and as of today (July 29, 2020), Namaste Vapes Canada has fully merged with CannMart to provide customers a more seamless experience.

When will we see expansion outside of Canada and where do you think that will be?

Every company always needs to stay ahead of the curve and have a long term plan for growth and expansion. There are two main paths companies can take for expanding: vertical expansion — which is when a company adds more categories to their offering (e.g. Lululemon acquiring in-home fitness company Mirror). The second path is when a company expands to a new geography.

While expansions increase a company's TAM (total addressable market), reach and potential revenue, they are inherently distracting, risky, and costly. A company should only undertake expansion once it has perfected its value proposition at home. We are currently focused on perfecting our operations in Canada, and building a modular system that will allow us to rapidly expand either vertically or geographically when the time is right. This modular system, along with a clear expansion playbook, will allow us to mitigate the risks related to expansion, and increase the likelihood of a positive ROI.

We are constantly monitoring the landscape to determine which expansion opportunity we might be capable of, and is worth capitalizing on. Our key criteria are identifying an adjacent vertical, or country, which will represent a significant increase to the TAM, where regulation allows us to expand, and where our value proposition, position and skillsets are a clear competitive advantage. While I cannot commit to a timeline for expansion, I can commit that when we do it, it will be done professionally, based on the Canadian model of success and a solid plan.

When will the company start to issue formal and detailed financial guidance (e.g. revenue, EBITDA)?

Public companies often take several years to refine and perfect their processes to maximize predictability. Namaste is a young company that is operating within an industry that is also extremely young, rapidly changing and heavily regulated; regulation that is also evolving within the industry at a breakneck pace and swiftly adapting to changing norms due to COVID-19. Just look at Ontario and the changing landscape of cannabis businesses as 'essential' and the OCS loosening, then re-tightening, its grip on its monopoly for legal cannabis deliveries.

With this in mind, the industry has seen many companies provide guidance, only to miss them, consistently, and by a significant margin. One of the public commitments I've made to investors is to show rather than tell. Show results and

improvements, not tell you they are coming. We've remained true to that, working hard in the background to solidify initiatives and deals before press releasing them, rather than talking endlessly about LOIs.

We are working tirelessly to introduce processes to the company, in all departments, to allow us to not only increase our top line and improve our margins but to have greater predictability, allowing for us to plan ahead more precisely. We are making great strides toward that goal, and once we have put the processes in place to mitigate external factors such as regulatory changes, the company will provide the market with guidance they can use to keep the company accountable.

Do you have an update on registration growth for CannMart?

In the early days of legalization, when CannMart had just received its license, the company indeed used the number of registered customers as a metric. Honestly, I see the number of registered users as a "Vanity Metric". A vanity metric is something that we can measure but doesn't necessarily matter and doesn't always bear a direct correlation with numbers that speak to business success. It's like pointing to a team's percentage of possession of the ball and not the actual score of the game.

What matters at the end of the day is our financial results. How much revenue did we generate? Where did this revenue come from? Is this revenue profitable, or do we have a clear path to making it profitable? These are the numbers we share quarterly in our financial results.

Of course, the patients we have on CannMart drive those financial results, however, the numbers that really matter are not the registered users but numbers such as:

- What's the number of active users we have?
- How sticky are these customers? Meaning, do they return and buy from us again?
- What is our CAC (customer acquisition cost) to CLTV (Customer lifetime value) ratio?

In addition to the above, it's important to remember that we have diversified our revenue streams, adding wholesale and services to the mix, which compliment our B2C sales on CannMart. This has resulted in a significant increase in cannabis revenue which is our growth engine.

How does Namaste plan to compete with Shoppers?

While Shoppers Drug Mart and CannMart are the only two companies in Canada who hold the very specific type of license we hold (as far as I know), we don't see Shoppers as direct competition. Yes, there's an overlap on the B2C medical side, however, there are major differences.

First and foremost, it's a question of focus. Shoppers doesn't have a focus on Cannabis and cannabis derivatives. It's an "add-on" to their platform. In my view, that's a massive factor when you try and deliver a service to customers. Meanwhile, Namaste has a degree of control and influence over its supply chain, and we are deepening that control. Meaning, while we don't cultivate, we do process — either in house or via partners who use our processes and our unique formulations. This allows us to be more nimble when addressing customer needs or releasing products with new form factors to the market, which continuously improves our margins. There are quite a few initiatives in the works to improve on this point.

As I noted, Namaste has diversified its revenue streams so the B2C channel of CannMart, where the overlap with Shoppers exists, is no longer our only source of cannabis revenue. We have built our cannabis revenue channels in a way where they complement each other. This is a significant advantage in my view that allows us to not only gather data to fuel decisions but also regulate supply between the channels to maintain consistent supply and optimize sales. This is a point we are still working on as we have experienced fluctuations in supply on the CannMart site, but it is constantly improving.

Are there still companies looking to acquire Namaste?

I cannot comment on the potential of any merger and acquisition activity as it is purely speculative in nature and it is the

company's policy not to comment on rumours. The only thing I can say in this context is that management's mandate and focus is clear — to stabilize and grow the company in a sustainable way. In saying that, the Board has and will continue to consider all available options with the best interest of shareholders in mind.

When will you add CBD dominant or pure CBD products to CannMart?

While I cannot confirm details at this time, we are looking at a wide variety of CBD products to add to our demand plan in the coming months. This includes capsules, high CBD dried flower, and other options.

Do you think Namaste stock is fairly valued as of today?

My personal view is that Namaste is very undervalued, and there's a massive opportunity for us to be one of the key "breakaway" companies in this sector. The key contributing factors to this view are:

- The company has experienced a very difficult year, which eroded investor trust. While we are working to regain that trust, that has impacted our share price.
- I feel that the market still hasn't fully understood Namaste's value proposition, and positioning within the value chain — and that's on us and our messaging. Admittedly, we're a bit of a "strange bird", we're an LP, but we're not a cultivator. Our name says we are a technology company, but we don't sell software (outside of Findify). While our long time investors who have followed the company and its evolution understand our vision and hopefully how we're tracking towards it, new investors might struggle with this, as we are very different from almost all other players in this market.
- And of course, the entire sector has experienced a massive downturn for many various reasons. This had a compounded effect on Namaste when combined with the matters above.

How can customers identify the components of your vape distillate?

Our distillate is produced using a variety of source biomass, not one specific strain. The distillation process removes any defining characteristics of the original strain(s), leaving behind only the cannabinoids. Lastly, we use proprietary formulations to match the characteristics of the strain the final product is named after.

Will you expand your selection of products on the OCS, similar to your variety in BC Cannabis Stores?

The BC Cannabis store is one of our first B2B customers, and as such both parties have more experience working with one another, understanding their respective customers' needs, and building a pipeline of products. If you follow the history, you'll see that the CannMart offering on the BC Cannabis Store has increased gradually over time.

CannMart was only approved as a vendor to the OCS in late spring, and approval to list 2.0 products with the OCS was announced on June 22. Receiving approval, and subsequently building relationships with the provincial bodies is a lengthy process that happens in stages. We are establishing trust, getting a better understanding of the specific needs of customers in Ontario, and adding products accordingly.

While this may seem like a slow process, it has advantages and reflects positively on Namaste and CannMart in the longer term. The barrier to entry as an approved supplier to the provincial bodies is high, and the fact we continue signing more provincial bodies to our list of customers is a testament to our ability to deliver. Furthermore, adding the right products that cater to the needs of customers in that specific province ensures better sell-through, more predictability, and improved margins.

Can you provide an update on the following:

CannMart Labs

CannMart Labs Inc. has submitted its application to Health Canada to receive a processing license. We have faced some typical construction delays and then COVID-19 had its wholly unexpected but inevitable delays on contractors, but we continue to progress towards a dedicated facility designed specifically to enable Namaste's strategic vision of

introducing a larger portfolio of cannabis products to market. Our evidence package has been submitted to Health Canada, and we look forward to working closely with them to get this over the line, anticipated by the end of the fiscal year.

Choklat

In regard to our investment, Namaste retains a 49% stake in Choklat. The purchase order with Choklat was something we were very excited about, and we were intending to distribute the products both via our B2B channel and list the products on CannMart.com to serve our medical patients. Unfortunately, we had to cancel our purchase order with Choklat as disclosed in a news release dated June 17, 2020.

However, this also ties into another question we received, which is the lack of edibles on CannMart. I can tell you that much like our customers and investors, I am personally frustrated with that gap in our offering. To be completely transparent, the main reason for this is the extremely limited availability of edibles in the market right now. In the chocolate category, there are a total of 7 suppliers currently in the market. For soft chews and mints, there are even fewer options available. Some of these suppliers are owned by the larger LPs, who still maintain the strategy of "controlling" everything and striving to full vertical integration. We knew this was coming, and it's why we invested early on in Choklat and established a supply agreement. Unexpectedly, we experienced some bumps in the road that hindered our ability to be one of the first companies to have edibles on the market.

At the moment, the weather is working against our ability to deliver. The hot summer months are here, and we found the resulting experience following a variety of test shipments to be inconsistent. That being said, we are working tirelessly to fill that gap.

ARBR

Due to COVID, ARBR had to pause their in-pharmacy referral program. We are of course in touch with them, and once the program restarts, we will reinitiate the efforts there. Meanwhile, we continue to offer customers access to free consultation via Namaste MD, and we naturally saw a significant uptick in appointments and referrals to CannMart since COVID started.

Why is Namaste so quiet?

There is nothing I'd like more than to give you a constant stream of exciting news. But the reality of the situation is this:

We are a publicly-traded company, which comes with a whole host of disclosure rules. Just to put out this Q&A requires a review and approval process of no less than 10 key internal personnel, not including external advisement! While we recognize this can be frustrating for investors, we are beholden to the rules, which are in place to protect both the company and shareholders.

More importantly, if you've been with us a while, you may recall we used to have a tendency to put out a press release every time it rained in Vancouver. Now, whilst obviously ensuring compliance with disclosure rules, we carefully consider newsworthiness because we're not interested in providing you with temporary distractions like non-binding LOIs or other non-material information. When we're required to share or able to share and it's worth sharing, it will happen. When you hear from us, we want it to mean something because that's what you deserve.

As I have communicated before, we have and continue to refocus and streamline the business, and in doing so, it will naturally be quieter since our goals and strategies have narrowed. To be frank... we are doing a lot of very important, but very dull, stuff.

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