

The Valens Company

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The chase for cannabis profits: Three industry executives weigh in on why their firms are successful

The search for profits has remained elusive for most cannabis companies as the industry nears the two-year mark of legalization in Canada.

Most industry insiders put the dearth of profitable companies down to easy access to capital markets at the dawn of the sector and the slow rollout of retail shops in Ontario, Canada's largest province. But the struggles cannot be laid entirely at the feet of external factors.

"Companies had easy access to capital markets and were in a race to build things as fast as possible," Bruce Campbell, portfolio manager at StoneCastle Investment Management told Proactive. "This resulted in very high corporate expenses - they spent like the money would always be there. Now many of these same companies are trying to cut the administrative expenses as much as possible."

Campbell also pointed out that the uptake of cannabis 2.0 products in Canada "hasn't been as fast as what happened in the US. As a result, dried flower has been a bigger percentage of business, and with the 'value' flower hitting the market, margins are dropping while many LPs (licensed providers) are still trying to get a handle on their costs."

There are signs that the tide may be turning, albeit slowly. This past earnings season showed a glimmer of hope for the sector. A handful of companies reported results highlighting sequential profits, from industry behemoth Trulieve to smaller firms like Delta 9 Cannabis. But as income remains out of reach for the majority of companies, investors are left wondering what the secret to success is in the cannabis business.

Proactive spoke to three firms that delivered positive results this quarter about their thoughts on what makes a cannabis company profitable. Here are their insights.

Focus on execution

The Valens Company (CVE:VLNS) (OTCQX:VLNCF) is one of a handful of cannabis companies that are turning a profit, posting income of C\$6.3 million in fiscal second-quarter 2020 on revenue of \$17.6 million.

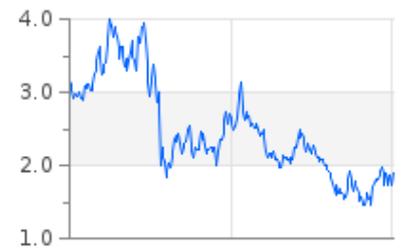
The group began to develop its expertise beyond custom extraction processing of cannabis and hemp biomass to include more product development, custom manufacturing and white label services with both licensed and non-licensed partners. The company has been very successful with the move towards more product development and white label services -- just last week it announced 56 SKUs (stock-keeping units) in its third quarter.

READ: The Valens Company sees fiscal 2Q revenue double driven by custom manufacturing and white label business

Price: 1.9

Market Cap: \$243.86 m

1 Year Share Price Graph



November 2019 May 2020 November 20

Share Information

Code: VLNS

Listing: TSX

52 week	High	Low
	3.13	1.44

Sector: Cannabis

Website: thevalenscompany.com

Company Synopsis:

The Valens Company is a multi-licensed, vertically-integrated cannabis company 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.

action@proactiveinvestors.com

Jeff Fallows, The Valens Company's president, attributes its success to a focus on execution.

"From the beginning, we have been hyper-focused on extracting and manufacturing oil-based products with the view that this segment will experience the most growth and dominate over 75% of the cannabis market in the long-term - not just domestically, but globally," Fallows told Proactive.

"To be ready, we began with high-quality extraction and the build-out of the largest next-generation product infrastructure in Canada, while also preparing for longer-term opportunities in international markets."

Valens continued to strengthen its platform and product development capabilities by entering new strategic partnerships with brands, companies and distributors looking to enter the growing 2.0 market during the coronavirus pandemic. At the same time, Fallows said, the group remained vigilant in its efforts to continue to improve its execution capabilities, which paid off in the form of quarter-over-quarter growth in product SKUs from nine in 1Q 2020 to 56 in 3Q 2020.

Strong leadership

Next Green Wave Holdings Inc (CSE:NGW) (OTCQX:NXGWF) said a string of consecutive revenue-generating months contributed to its second-quarter 2020 profit of US\$2.9 million.

As a fully licensed and vertically integrated cannabis company, the Vancouver-based firm runs on a seed-to-shelf model with its nursery, cultivation, extraction, and distribution operations. It processes and packages its cannabis crop into dry flower, cannabinoid oils, waxes, tinctures, vapes, and concentrates. The company distributes white-label versions and eight house brands sold in dispensaries or online.

READ: Next Green Wave sees US\$2.9 million in profit during its second quarter, sets new sales records for July and August

"Being profitable in the cannabis space is about leveraging a solid business model with focus, commitment and an intimate understanding of the market," Next Green Wave CEO Michael Jennings told Proactive.

Jennings said that the firm's foundation enables its leadership to be both nimble and static when necessary.

"In that way, leadership must embody certain dichotomies to succeed in such a dynamic market by being at once proud and humble, entrenched and adaptive - simultaneously committed and ready to pivot," Jennings said. "In short, leadership must smartly control the inertia of the respective business, otherwise profitability will certainly prove elusive."

Metered growth

In the process of delivering its third consecutive profitable quarter, Winnipeg-based Delta 9 Cannabis Inc (TSE:DN) (OTCMKTS:VRNDF) exceeded expectations with revenue of C\$13 million during its second-quarter 2020 and net profits of C\$1.7 million after analysts pegged revenue estimates at \$10.6 million.

The results follow on from a stellar first quarter where Delta 9 company reported revenues of C\$11.8 million and positive net income of \$2.9 million on the back of its multi-layered business model that allows the company to operate its retail, wholesale and B2B divisions simultaneously.

READ: Delta 9 CEO shares secrets to success in the cannabis industry after firm delivers another profitable quarter

Delta 9 Cannabis CEO John Arbuthnot attributes his company's success in part to a more metered growth approach that allowed revenue to grow exponentially while maintaining its cost structure.

"As we're throwing more effort towards topline revenue, we are also focused on the bottom line, allowing us to reach that inflection point of profitability much quicker than our competitors," the CEO said. "We haven't had to go back and raise additional capital numerous times this past 12 months and instead worked with the funds we have to operationalize our assets and focus on producing positive outcomes from an EBITDA and earnings perspective."

Contact Angela at angela@proactiveinvestors.com

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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