

KushCo Holdings Inc.

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KushCo Holdings has positioned itself as a premier 'picks and shovels' provider of cannabis and CBD-related ancillary products

- Long-term relationship with industry leaders
- Has sold more than 1 billion of its products
- Transitioning to positive cash flow

What KushCo Holdings does:

North America's burgeoning cannabis sector has sparked rapid growth for California-based KushCo Holdings Inc (OTCQX:KSHB), which has established itself as a premier provider of ancillary products and services to the global cannabis and CBD industries.

The company has been operating for more than 10 years, selling over one billion units to growers, processors, producers, and brands across North America, South America, and Europe.

KushCo's products and services include:

- **Vaporizer hardware and technology** (about 60% of the company's revenue), producing cartridges, pod systems and batteries with a variety of core materials and heating technologies
- **Packaging, papers and supplies** (about 30% of the company's revenue), which encompasses manufacturing child-resistant compatible, fully customizable and CBD packaging plus compliant labels and processing supplies
- **Energy and natural products** (approximately 10% of the company's revenue), which includes cannabis and CBD-based hydrocarbons, solvents and food-safe oils as well as investments in stainless steel storage tanks
- **CBD services**, such as retail execution, merchandising, and sales management for compliant hemp-derived CBD products, along with hemp trading solutions for growers and processors
- **Equipment financing** through the company's strategic partnership with XS Financial, in which KushCo owns an approximate 19.5% equity stake

KushCo Holdings is led by CEO Nick Kovacevich, a serial entrepreneur with success launching BigRentz, Alpha West Holdings, and KushCo, each having generated more than \$50 million in annual revenue.

How is it doing:

In early 2020, KushCo launched a strategic plan to achieve positive adjusted EBITDA, which included reducing its overhead, streamlining warehouse operations, reducing its inventory, and drastically altering its sales strategy and resources to rely less on the smaller operators, while doubling down on efforts to solidify and strengthen its core base of large MSOs, LPs, and leading brands.

The company announced that it has partnered with United Pacific, one of the largest owners of gas stations and

Price: 1.36

Market Cap: \$179.71 m

1 Year Share Price Graph



January 2020 July 2020 January 2021

Share Information

Code: KSHB

Listing: OTCQX

52 week	High	Low
	2.18	0.3

Sector: Cannabis

Website: www.kushco.com

Company Synopsis:

KushCo Holdings, Inc. (OTCQX: KSHB) (www.kushco.com) is a premier provider of ancillary products and services to the legal cannabis and CBD industries.

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convenience stores in the western United States, to expand CBD distribution across 350 locations in California, Nevada, Oregon, Washington and Colorado. KushCo said it will work with United Pacific to curate customized CBD Wellness Centers across 350 United Pacific locations, with each wellness center expected to feature custom displays provided by the brands. The company said it is targeting a December 2020 launch.

As well, KushCo's investee company XS Financial Inc reported recently that it has agreed to provide Columbia Care with an equipment lease facility of up to US\$5.0 million to purchase new equipment.

KushCo formed a partnership and invested in XS Financial, a specialty finance company that provides scalable equipment leasing solutions to cannabis and hemp companies in the US, in January 2020.

In January 2021, the company announced fiscal 2021 first-quarter revenue of \$26.8 million along with its second consecutive quarter of positive adjusted EBITDA, as the company achieved record December sales of \$14.7 million.

KushCo also increased its net revenue guidance for its fiscal year 2021 to be between \$130 million and \$160 million, from between \$120 million and \$150 million previously, and reiterated its expectation for adjusted EBITDA for the fiscal year to be between \$5 million and \$7 million.

The company ended 1Q 2021 with approximately \$5.7 million in cash as of November 30, 2020.

What the broker says:

Roth Capital analysts increased their target price on shares of KushCo to \$2.25, while reiterating their 'Buy' rating, saying the company's 1Q 2021 financial results displayed progress on key initiatives with operating fundamentals moving in the right direction."

The analysts noted that KushCo's revenue of \$26.8 million was in line with its lowered estimates and the company managed positive \$0.5 million in adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization, or AEBITDA), despite industry challenges that impacted its gross margins.

"Despite the headwinds associated with shipping delays, COVID-19 and supply chain interruptions, KSHB managed to publish sequential revenue growth and continued positive AEBITDA margins," the Roth Capital analysts wrote.

They added: "We believe management saw a ~200-300bp decline in its gross margins attributable to COVID-related supply chain issues but this was mostly offset by continued expense reductions and sequential revenue growth. KSHB also called out December as its most successful quarter at ~\$14.7M and we believe the business continues to deeply align with large, reputable clients (90% of sales from its top-100 clients) who are capitalizing on industry strength.

"We believe as the company's revenue growth rate normalizes post-COVID-related issues, its expense structure and leaned out business model will drive bottom-line growth. We also view the current trading multiple of 0.6x 2021 sales represent a material discount to the potential prospects of the business and believe the company can easily trade up into the 2.0x range."

The Roth analysts also raised their 2021 revenue estimates for KushCo Holdings to \$142.3 million from \$136.5M and AEBITDA to \$6.9 million from \$6.7 million, citing the continuing state medical and recreational sales strength along with the addition of new adult-use legislation in Arizona and New Jersey.

They added that they anticipate some additional sales hires by KushCo in the near term to service its expected client growth on the horizon.

"We believe the consolidation of MSOs (multi-state operators) and LPs (licensed producers) benefits KSHB and believe this should be a transformative year when the business turns the corner from a top-line growth standpoint," the analyst wrote.

Inflection points:

- M&A opportunities
- Fiscal 2021 net revenue of between \$130 million and \$160 million expected
- Anticipating 2021 adjusted EBITDA of between \$5 million and \$7 million

What the boss says:

Commenting on the company's 4Q 2020 financial results, KushCo Holdings CEO Nick Kovacevich said in a statement: "After a challenging start to the fiscal year - beginning with the illicit market vape crisis and, shortly thereafter, the onset of the COVID-19 pandemic - fiscal Q4 2020 was one of the most transformational quarters in KushCo's entire 10-year history. We onboarded several new high profile customers, returned to growth, executed many of the major initiatives of our 2020 Plan, and achieved our first quarter of positive adjusted EBITDA and cash flow from operations in more than years."

He added: "From a revenue perspective, we generated \$26.5 million, representing a 19% increase compared to fiscal Q3. The sequential growth was largely driven by an increase in sales to our top customers with whom we have worked hard these past two years to develop deep relationships. These customers are continuing to enter new markets and solidify their positions in existing markets, demonstrating our thesis that the industry will continue to see more consolidation, and that we will be rewarded by aligning ourselves with these larger operators."

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