



DCA



# DCA INVESTMENT ANALYSIS NEXTLEAF SOLUTIONS

An undervalued leader in the cannabis sector

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# RISING POTENTIAL AGAINST ALL CHALLENGES

With cannabis legalization expanding globally, the market holds tremendous potential for growth and investment returns. However, the nascent Canadian cannabis industry has faced challenges, including oversupply and negative market sentiment, leading to the potential for the mispricing of stocks. This environment has created an opportunity to invest in strong companies trading at distressed valuations. Nextleaf Solutions, an innovative extraction technology company, emerges as a compelling prospect.

Nextleaf leverages patented extraction and purification processes to produce premium quality oils and ingredients at industrial scale and low cost. With a robust intellectual property portfolio and highly efficient operations, Nextleaf is poised to capture significant market share as shifting consumer preferences drive demand for cannabis 2.0 products. Recent financial results demonstrate Nextleaf's ability to drive revenue growth and profitability amid industry headwinds.

As Nextleaf rolls out additional branded products, signs IP licensing deals, and pursues international expansion, its strategic positioning and operational excellence make it a potentially promising investment opportunity in the distressed Canadian cannabis sector. While risks exist, Nextleaf's technology, products, and vision represent an attractive opportunity to capitalize on the growth of the global cannabis market.

# AN OVERVIEW

A photograph showing a complex industrial setup for cannabis extraction. It features large stainless steel tanks, blue flexible hoses, and various valves and fittings. The equipment is mounted on a dark metal frame, and the background is a plain, light-colored wall.

Nextleaf Solutions (CSE: OILS, OTCQB: OILFF) is a Canadian cannabis extraction company specializing in the development of innovative, patented cannabis extraction and purification technologies. The company focuses on manufacturing and distributing cannabis products to retailers, B2B processing services to licensed cultivators, and providing white-label cannabis oils and concentrates to qualified Canadian and international partners.

Nextleaf has cemented its position as a frontrunner in the industry, known for its ability to extract high-purity oils efficiently and cost-effectively. As the cannabis market continues to grow, driven by increasing legalization and shifting consumer preferences, Nextleaf's strategic focus on intellectual property and technology places it at a distinct advantage.

This memo provides a comprehensive analysis of Nextleaf's business model, financial performance, and growth prospects, offering insights into its potential as an investment opportunity.

# Investment Considerations

We believe Nextleaf is a promising investment opportunity due to its innovative and cost-effective patented extraction and purification technologies, strong intellectual property portfolio, diversified product line, and sound financial performance. However, the Canadian cannabis market's challenges, regulatory hurdles, competition, and leadership transitions could impact their growth prospects and investment returns and require monitoring.

Pros:	Cons:
<p><b>1. Innovative Technology:</b> Nextleaf is known for its patented extraction and purification technologies, which are cost-effective and efficient.</p> <p><b>2. Strong Intellectual Property Portfolio:</b> With over 95 issued patents globally, Nextleaf has a strong position in the market, enabling it to offer high-quality, consistent cannabis extracts.</p> <p><b>3. Product Diversification:</b> Nextleaf offers a range of top-ranked consumer products and brands, including vapes, oils, and soft gels, which align with consumer preferences in the cannabis market.</p> <p><b>4. Market Position:</b> Nextleaf is well-positioned in key regions like British Columbia, Alberta, and Ontario, with plans for international expansion, enhancing its market share potential.</p> <p><b>5. Financial Performance:</b> Nextleaf has shown strong financial performance, with significant revenue growth and positive EBITDA, indicating operational efficiency and growth potential.</p>	<p><b>1. Market Challenges:</b> The Canadian cannabis market has faced challenges such as oversupply, regulatory hurdles, and competition from the illicit market, which could impact Nextleaf's growth prospects.</p> <p><b>2. Regulatory Environment:</b> Challenges with the regulatory environment, mostly in the US, could impact Nextleaf's ability to expand and operate.</p> <p><b>3. Competition:</b> Nextleaf faces competition from other cannabis companies, which could affect its market share and profitability.</p> <p><b>4. Leadership Transition:</b> While the new management team at Nextleaf is focused on growth and innovation, the leadership transition does introduce some uncertainty.</p>

# Product

Nextleaf is known for its advanced extraction processes, which are designed to efficiently and cost-effectively transform raw cannabis biomass into high-purity THC and CBD oils. The company holds 95+ issued patents globally (18 in the United States) related to its extraction technology, which it leverages to offer high-quality, consistent cannabis extracts to its clients.

## Global IP Patent Portfolio

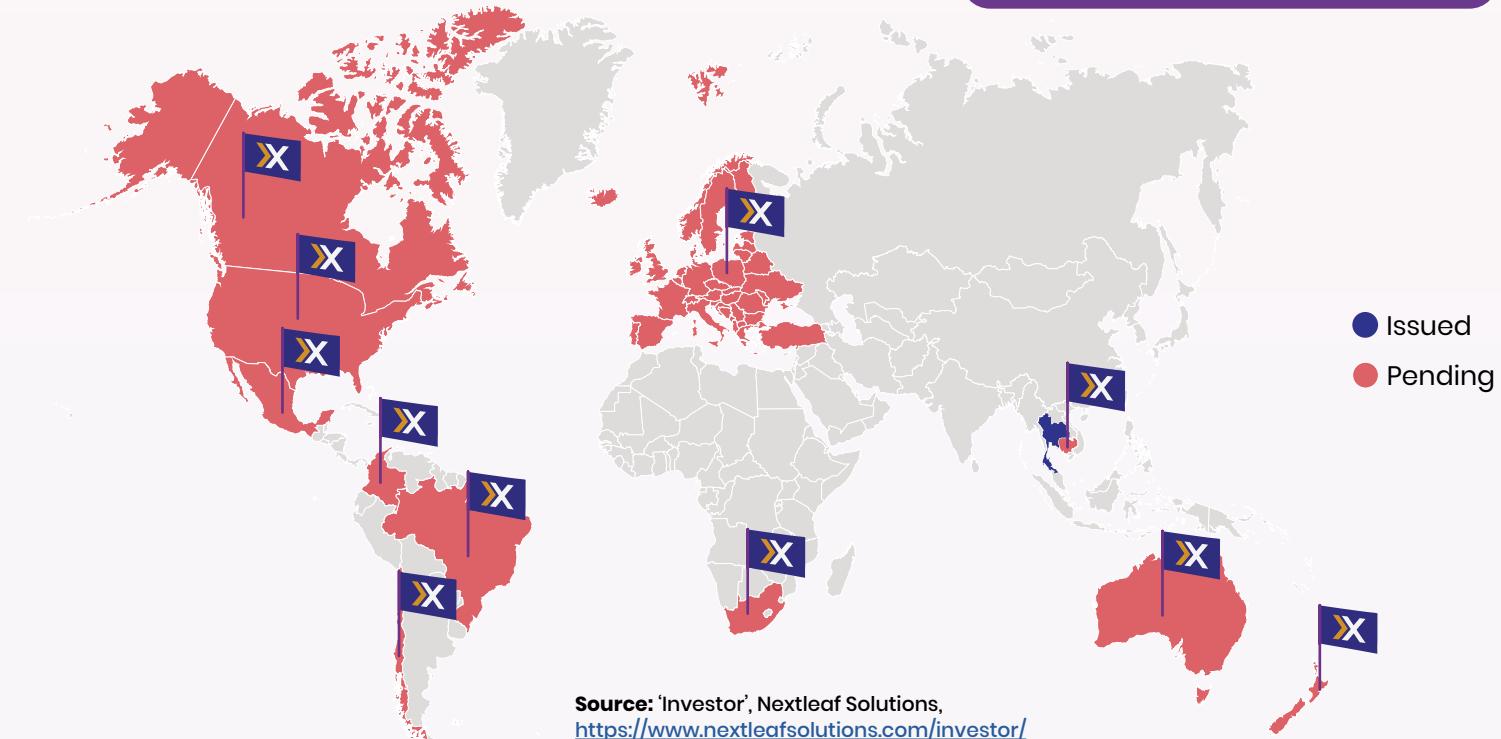
Patents

95

Issued

50+

Pending



The company is a regulated manufacturer and distributor of cannabis vapes, oils, and soft gels under its two retail brands, Glacial Gold and High Plains, and, additionally, operates as a white-label wholesaler. Glacial Gold is focused on organic, pure, high-quality distillate, and High Plains is focused on providing a diverse offering of flavors and high-concentrate THC products. As a wholesaler, they are a low-cost producer and supplier of cannabis oils standardized for potency and purity.

**On the retail side, they hold the #1 selling brand of CBD-focused vapes in British Columbia and are a price point leader across all THC and CBD vape categories in Western Canada**

In addition to its extraction business, Nextleaf has been actively pursuing partnerships and acquisitions to expand its presence in the cannabis industry. The company aims to become a leading provider of cannabis oils and concentrates, both in Canada and internationally.

Consumer preferences in the cannabis market are shifting towards products such as soft gels, oils, vapes, and CBN. Nextleaf has adapted to this trend by offering a range of SKUs (Stock Keeping Units) to meet consumer demand for these products.

# Process

Nextleaf presents a strong investment opportunity due to its strategic advantages in cost efficiency and excess capacity. Their ability to purchase biomass at a low cost and extract high-value distillate and cannabinoid ingredients through an innovative, closed-loop automated extraction process ensures significant returns per gram. Moreover, Nextleaf's facility has excess capacity, allowing it to scale production without additional capital expenditure.

## Cost Efficiency:

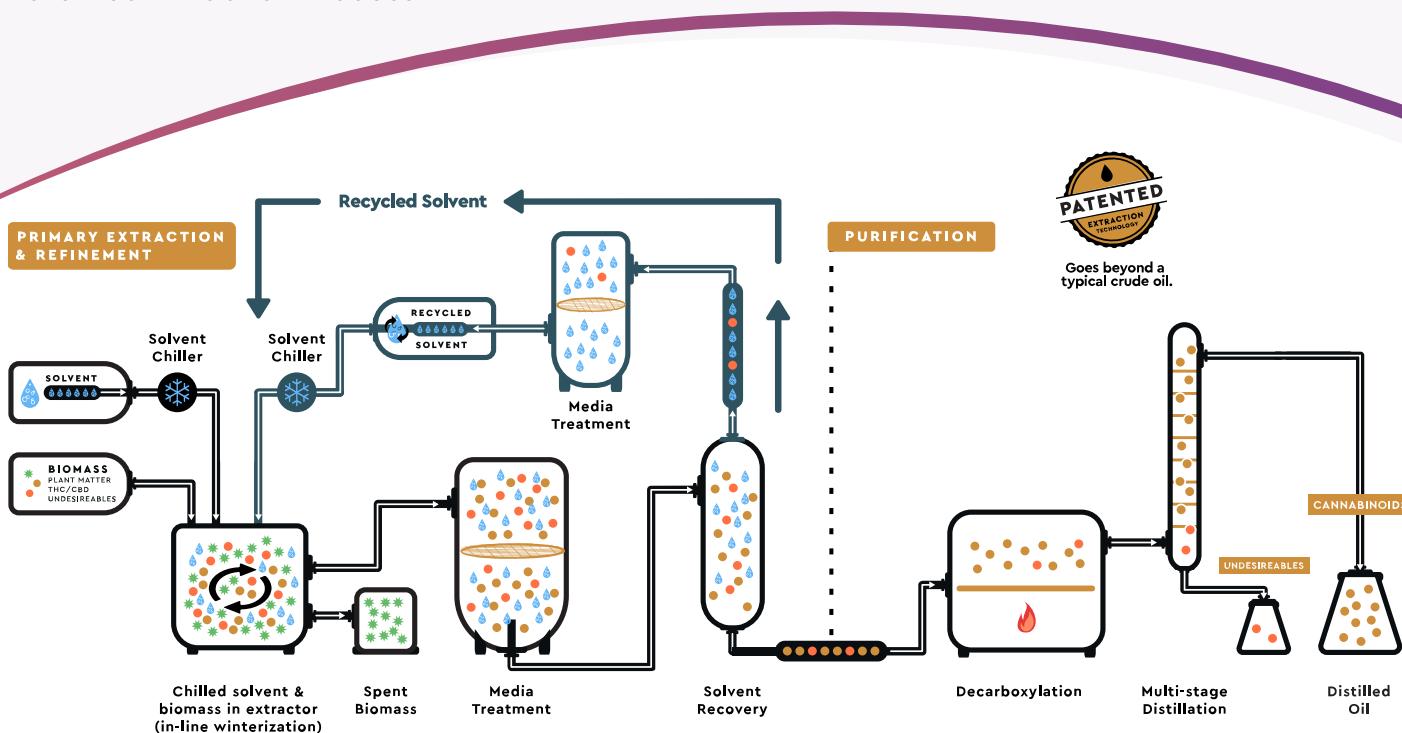
Nextleaf can purchase biomass at a low cost and generate significant returns per gram through its extraction process. Known for up-cycling “garbage into gold,” the company can transform low-value, oil-grade flower and biomass into high-value distillate and cannabinoid ingredients at an industrial scale. They do this by deploying a closed-loop automated extraction plant with in-line winterization, filtration, remediation, and post-extraction processing. Their automated plant processes the same amount of biomass as ten large CO<sub>2</sub> extractors, which require 10x the production footprint and 10x the headcount to operate.

## Excess Capacity:

The company's facility has excess capacity, allowing it to increase production without additional capital expenditure.

## Exhibit A:

## Patented Extraction Process



Source: Extraction Technology, Nextleaf Solutions, <https://www.nextleafsolutions.com/extraction-technology/>

# Key Catalysts

Nextleaf's success in branded products and expanding its provincial rollout and SKU offerings indicates future growth. Its ability to win market share from larger vape and oil competitors further strengthens its position. Additionally, Nextleaf's intellectual property commercialization provides opportunities for expansion with new entrants in established industries driven by potential US legalization, offering a speed-to-market advantage in emerging jurisdictions through IP licensing.

## Branded Products

- Expanded provincial rollout and SKU additions focused on large format, distilled oil utilization
- Winning market share in the vapes and oils segment from the largest, well-funded LPs
- #1 supplier of CBD forward vapes in British Columbia

## Ingredient Supply

- Expanded provincial rollout and SKU additions focused on large format, distilled oil utilization
- Winning market share in the vapes and oils segment from the largest, well-funded LPs

## Intellectual Property Commercialization

- New entrants of established CPG, big tobacco, and pharma driven by potential United States legalization
- IP licensing enables speed to market advantage in emerging jurisdictions

# The Market

The Canadian cannabis market experienced a boom following legalization in 2018 but has since faced challenges leading to a bust scenario. Initial excitement and investment led to rapid expansion, but oversupply, pricing pressure, and slower-than-anticipated market growth resulted in significant challenges for cannabis companies. Regulatory hurdles, limited retail presence, and competition from the illicit market have also contributed to this slower growth trajectory. Despite this, Canada's recreational cannabis industry was still a \$5.07B CAD market in 2023, representing 12% YoY growth<sup>1</sup>.

One of the key challenges facing the Canadian cannabis market is an oversupply glut. Since legalization, Canada has reportedly destroyed over 3 million pounds of unsold<sup>2</sup>, unpackaged cannabis, highlighting the magnitude of the oversupply issue. In response to market challenges, the Canadian cannabis industry has seen significant consolidation. Larger companies have acquired smaller players, leading to a more concentrated market landscape.

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<sup>1</sup> Solomon Israel, 'Canadian recreational cannabis sales surpass CA\$5 billion in 2023', MJ Biz Daily, 22 Feb 2024, <https://mjbizdaily.com/canadian-recreational-cannabis-sales-surpass-ca5-billion-in-2023/>.

<sup>2</sup> Matt Lamers, 'Canada destroyed 3.7 million pounds of unsold, unpackaged cannabis since 2018', MJ Biz Daily, 8 Jan 2024, <https://mjbizdaily.com/canada-destroyed-3-million-pounds-of-unsold-unpackaged-cannabis-since-2018/>

Given these challenges, negative market sentiment has plagued the Canadian cannabis industry over the last four years. However, the negative outlook appears to have swung too far in one direction.

We believe this has created a mispricing in Canadian cannabis stocks, with some trading at bankruptcy prices, creating an investment opportunity for investors. We'd like to highlight Nextleaf Solutions, a cannabis extraction company, which has seen a recent uptick in its stock price. Before we dive into the specifics of the Nextleaf opportunity, we'd like to highlight several macro factors that could potentially drive growth in the Canadian cannabis market going forward:

### **US Considering Rescheduling (or Descheduling) of Cannabis:**

The US is considering rescheduling or descheduling cannabis, which could open up a significant market for Canadian companies. Democrats have urged the Biden administration to deschedule marijuana, which could remove barriers for Canadian companies looking to enter the US market. Additionally, senators have called on the DEA to fully legalize marijuana, highlighting the potential for significant market expansion.

### **Retailers Experiencing Record Sales in Canada:**

Despite challenges, cannabis retailers in Canada are experiencing record sales. High Tide, a Canadian cannabis retailer, reported record sales and is eyeing opportunities in Germany, indicating strong consumer demand both domestically and internationally.

### **International Expansion for Canadian Cannabis Exports:**

Canadian companies are looking to expand internationally, particularly in markets where cannabis regulations are more favorable. This international expansion could help alleviate the oversupply issue by opening up new markets for Canadian cannabis products.

**Nextleaf is well-positioned to capture market share in key regions such as British Columbia, Alberta, and Ontario. The company has also expanded into Manitoba, further increasing its market presence.**

# Public Comps:

## Exhibit B: Comparable Market and Financial Data of Nextleaf and its competitors

(USD \$ Thousands except Price per Share)

\*Figures as of 3/19/24

Company Name	Ticker	Market Data			Financial Data Revenue		
		Price per Share	Market Cap	Enterprise 2024E	2022A	2023A	2024E
NextLeaf Solutions	OILFF	0.0897	14,120	14,200	4,410	8,180	14,539
Valen Inc.	VLNSF	3.800	81,579	95,334	411,242	370,429	300,000
Ayurcann Holdings Corp.	AYURF	0.021	4,191	2,537	9,386	12,492	16,929
Neptune Wellness Solutions	NEPTF	0.107	634	27,524	48,797	52,615	68,640
MediPharm Labs	MEDIF	0.051	20,734	13,183	22,117	29,547	23,015
<b>Average</b>			<b>26,785</b>	<b>34,645</b>	<b>122,886</b>	<b>116,271</b>	<b>102,146</b>
<b>Median</b>			<b>12,463</b>	<b>20,354</b>	<b>35,457</b>	<b>41,081</b>	<b>45,828</b>

Company Name	Ticker	EBITDA			EV/Revenue		
		2022A	2023A	2024E	2022A	2023A	2024E
NextLeaf Solutions	OILFF	(2,090)	1,002	1,831	1.93x	0.88x	1.21x
Valen Inc.	VLNSF	50,614	81,579	(42,464)	0.42x	0.56x	0.32x
Ayurcann Holdings Corp.	AYURF	(3,011)	4,191	(3,483)	0.93x	0.36x	0.16x
Neptune Wellness Solutions	NEPTF	(76,804)	634	(90,933)	0.91x	0.41x	0.38x
MediPharm Labs	MEDIF	(27,086)	(13,123)	N/A	0.05x	0.45x	0.58x
<b>Average</b>		<b>(14,072)</b>	<b>(34,036)</b>	<b>(45,627)</b>	<b>0.58x</b>	<b>0.45x</b>	<b>0.36x</b>
<b>Median</b>		<b>(15,049)</b>	<b>(23,888)</b>	<b>(42,464)</b>	<b>0.66x</b>	<b>0.43x</b>	<b>0.35x</b>

Nextleaf trades at a slight premium based on 2024E EV/Revenue multiples (1.21x vs. 0.36x industry average).

Note that Nextleaf is the only one in its core industry group (Canadian Extraction companies) that is EBITDA positive while also expected to grow revenue in 2024.

Sources: Public Company Filings & Yahoo Finance

# Financials

According to Nextleaf's 4Q23 and 1Q24 quarterly earnings reports<sup>3</sup>, the Company achieved record quarterly revenue growth, driven by market expansion, strong performance across its product portfolio, and successful operational investments and initiatives, bolstering the business's overall health.

From a FY2023 perspective, NextLeaf reported:	In 1Q2024, NextLeaf reported strong financial results, including:
<ul style="list-style-type: none"><li>– Gross Revenue of \$9.96 million, up 87% y/y.</li><li>– Net Revenue of \$8.18 million, up 85% y/y.</li><li>– Gross Margin of 28%, up from 15% in FY2022.</li><li>– OPEX of \$2.8M, down 43% y/y.</li><li>– EBITDA of \$872.8, up from -\$1.9M in FY2022.</li><li>– Net Income of \$223K, up from -\$3.48M in FY2022.</li><li>– Cash flow from operations of \$875K.</li><li>– Ending Cash balance of ~\$898K.</li><li>– Debt-free status and cash flow positive.</li></ul>	<ul style="list-style-type: none"><li>– Gross Revenue of ~\$4.1M CAD, an increase of 189% y/y and a 25% increase q/q.</li><li>– Net Revenue of ~\$3.2M CAD, an increase of 170% y/y and a 23% increase q/q.</li><li>– Gross Margin of 30% up y/y due to optimized pricing and increased unit volume.</li><li>– Opex of ~\$829K CAD was 73% higher y/y driven by increased salary expenses and overhead to support continued top-line growth.</li><li>– EBITDA of ~\$321K CAD compares to 1Q2023 EBITDA of approx. -\$245K CAD.</li><li>– Net Income of \$133K CAD compares to 1Q2023 Net Income of approx. -\$541K CAD.</li><li>– Operating cash flows of -\$452k CAD compares to \$122k CAD y/y, driven by higher net working capital requirements (A/R)</li><li>– Ending cash balance of ~\$368k CAD decreased \$531k CAD q/q</li></ul>

We are encouraged by the growth year-over-year as Nextleaf continues to execute on key operational initiatives. We expect continued operational leverage as they were able to right-size expenses in 2023 while nearly doubling top-line revenue.

<sup>3</sup> Newsfile Corp., Nextleaf Solutions Reports Quarterly Results with Record Revenue, 1 Mar 2024, <https://finance.yahoo.com/news/nextleaf-solutions-reports-quarterly-results-141500937.html>

# Financials Overview

Nextleaf's financials have consistently improved y/y as the company continues to increase its market share through premium THC product expansion across existing and new provincial markets. Along with strong revenue growth, efficient operations and economies of scale have contributed to an improved gross margin of 28% in FY23, up from 15% the prior year driven by increased unit volume, better COGS pricing and improved utilization in 2H23. Increasing operational efficiencies have also shown in the Company's operating expense base, which decreased 43% y/y while revenue increased 85% y/y resulting in positive EBITDA performance. Note that forecasts reflect DCA's internal estimates.

## Exhibit C: Historical and Pro Forma Financials (DCA Estimates)

Nextleaf Solutions - Income Statement						
CAD \$	2020	2021	2022	2023	2024	2025
FY-Sept	Historical				Forecast	
	Sep-2020	Sep-2021	Sep-2022	Sep-2023	Sep-2024	Sep-2025
<b>Revenue</b>						
Cannabis concentrate sales	\$ 235,467	\$ 3,068,805	\$ 1,488,598	\$ 1,988,509	\$ 3,591,322	\$ 4,715,260
Product sales	-	310,389	3,862,911	7,974,410	14,365,289	18,861,041
Toll Processing	-	-	-	-	-	-
Licensing	455,217	-	-	-	-	-
Excise taxes			(941,649)	(1,783,305)	(3,591,322)	(4,715,260)
<b>Total Revenue</b>	<b>\$ 690,684</b>	<b>\$ 3,379,194</b>	<b>4,409,860</b>	<b>8,179,614</b>	<b>14,365,289</b>	<b>18,861,041</b>
<b>Cost of Sales</b>	<b>736,854</b>	<b>4,234,223</b>	<b>3,748,621</b>	<b>5,869,334</b>	<b>9,624,744</b>	<b>12,259,677</b>
<b>Gross Profit</b>	<b>\$(46,170)</b>	<b>\$(855,029)</b>	<b>\$(661,239)</b>	<b>\$(2,310,280)</b>	<b>\$(4,740,545)</b>	<b>\$(6,601,364)</b>
Gross Margin %	-7%	-25%	15%	28%	33%	35%
<b>Total Operating Expenses</b>	<b>\$ 5,823,553</b>	<b>\$ 4,463,925</b>	<b>\$ 4,019,700</b>	<b>\$ 2,278,812</b>	<b>\$ 3,554,662</b>	<b>\$ 4,269,078</b>
<b>Total Other Income (Loss)</b>	<b>\$(83,893)</b>	<b>\$(66,399)</b>	<b>(128,254)</b>	<b>191,866</b>	-	-
<b>Net Income (Loss)</b>	<b>\$(5,953,616)</b>	<b>\$(5,385,353)</b>	<b>(3,486,715)</b>	<b>223,334</b>	<b>1,185,884</b>	<b>2,332,287</b>
Depreciation (COGS + Opex)	-	891,063	794,262	794,262	645,485	602,515
Interest	-	344,447	441,985	-	-	-
<b>EBITDA</b>	<b>(4,997,747)</b>	<b>(4,612,139)</b>	<b>(1,965,441)</b>	<b>872,794</b>	<b>1,875,045</b>	<b>2,977,160</b>
<b>Ending Cash</b>	<b>988,675</b>	<b>915,385</b>	<b>377,716</b>	<b>898,899</b>	<b>3,211,229</b>	<b>6,053,163</b>

\*FY24 and FY25 are DCA estimates and are subject to change.

**Sources:** Public Company Filings & Yahoo Finance & DCA Estimates

# Management:

Nextleaf recently underwent a change in its management team, with a new CEO at the helm. The new leadership is focused on driving growth and innovation within the company.

The Company announced the appointment of Emma Andrews to the role of Interim Chief Executive Officer. [Andrews succeeded co-Founder and prior Chief Executive Officer and President, Paul Pedersen.](#) Andrews has worked closely with Nextleaf leadership and executive team since the company's origin, most recently as the Director of Marketing, where she oversaw the company's entry into branded consumer products and was integral in creating the company's mission, vision, values, and corporate identity.

Andrews has held senior management and public company executive officer roles across every vertical in the cannabis industry, including cultivation/harvesting, processing, retail, ancillary, and consumer products. This is in addition to over a decade working in the Natural Products Industry to help scale emerging brands into category leaders.

She is joined by seasoned cannabis executives who will continue providing strategic value and key leadership to the company: Sam Kassem (Chief Financial Officer); Ryan Ko (VP Innovation & Tech, Co-Founder); and Chris Andrews (Director of Sales).

Ko has over 15+ years of industry experience and has authored 90+ patents for cannabis extraction, filtration, and distillation. Andrews has experience in brand building with a plant-based category leader, Vega, leading to a \$550M USD acquisition.

**NEXTLEAF SOLUTIONS** emerges as a compelling investment proposition within the Canadian cannabis industry, and recent price action with the stock confirms that momentum could be shifting. Nextleaf's strong focus on building a robust intellectual property portfolio underscores its long-term vision and competitive advantage as it now executes on its retail and wholesale strategies. With a track record of operational excellence and a clear strategy for growth, Nextleaf is well-positioned to capitalize on the distressed cannabis market.

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