

# Investor's Digest

of Canada

September 21, 2018

Vol. 50, No. 18

## BUDDING INDUSTRY

# WeedMD could be your Dr. Feelgood

The formal process to enable legal, recreational use of cannabis has captured media attention and driven a highly speculative trading regimen among a handful of recently listed stocks with leverage to the sector.



Zachary McCrossin

Several Canadian companies have emerged as licensed suppliers and distributors of high-quality cannabis for the domestic market. The pending regulations are scheduled to be rolled out starting in October. This in turn is widely expected to trigger a wave of sales growth across the spectrum of licensed cannabis producers serving the market.

Launched in 2013, **WeedMD Inc.** (WMD-TSX/VEN, \$2.04), was an early participant in this emerging sector. The company has developed a diversified approach to capture market share across the full spectrum of cannabis products. While most of the attention is focused on recreational cannabis, to achieve stronger growth prospects, WeedMD has opted to maintain a focus on the sale and distribution of medicinal cannabis products as well as supply the new recreational stream.

The company is working to build brand awareness of a product line geared towards the bene-

fits of cannabis products through established, trusted distribution channels. This includes an agreement to supply medicinal cannabis through the national pharmaceutical chain, Shoppers Drug Mart, as well as relationships with senior care facilities.

The recreational market will also be a big part of the growth plan. WeedMD has formed supply agreements with several provincial government distributors, including the Alberta Gaming, Liquor and Cannabis Commission, the British Columbia Liquor Distribution Board, and, in its latest deal, with the Nova Scotia Liquor Corporation.

The balanced decision to participate in both the recreational and medicinal cannabis markets is expected to turbocharge the growth potential of the company. In the near-term, the company's objectives include the addition of an international component, along with the development of entirely new products based on cannabis.

Producing for the Canadian market since April 2016, WeedMD is in the midst of rapidly expanding its cannabis production capacity. The company established its original fully licensed growing facility in Aylmer, Ont.

This includes four acres of land with supporting infrastructure including a lab to extract cannabis oils, and a cultivation centre to develop proprietary strains of cannabis plants.

WeedMD brought the facility online for a low upfront cost and has already generated a high return on investment through the initial phases. The company has realized a growing revenue stream from the sale of cannabis clones to other licensed producers, along with higher sales volume to legal medicinal cannabis consumers and distributors. However, there is room for expansion and the company plans to increase cultivation to support large-scale extraction of cannabis oil in future quarters.

Cannabis oil is a concentrated substance, extracted from the cannabis plant, that has many potential applications. WeedMD has come up with a lower-cost production format for cannabis oil, thus raising profit margins.

The company recently acquired a large-scale, modern greenhouse facility near Strathroy, Ont. The first phase of this former vegetable production facility has been refurbished to produce quality cannabis with maximum efficiency.

Given the favourable condition of the existing greenhouse fa-

cilities and supporting infrastructure, the retrofit was completed at a cost of \$70 per square foot, much less than that for newly constructed greenhouses or comparable retrofits.

Three grow rooms are currently in operation; a fourth one will come online shortly. In total, 12 acres or more than 500,000 square feet of growing space is approaching completion, which will enable annual production of 50,000 kilograms or more. This will represent one of the largest cannabis-growing facilities in Canada when fully operational by year-end.

The infrastructure is ideal for cultivation, with controlled temperature, light and humidity. A large portion of WeedMD's experienced agricultural workforce was provided by a family-run business. A surplus of cheap water on the property and a solar farm contributes low-cost power, further improving the operation's economics. The site itself provides ample capacity for further expansion and development. An additional 50 acres of land is available to support effective and economic outdoor cultivation.

The company's plan has already contributed to revenue growth. In its 2018 second-quarter report, released at the end of

August, WeedMD presented excellent performance all-around. One particular highlight was revenue of \$2.1 million, 83 per cent more than in the prior quarter. Several important deals have been announced along the way that will support this trend continuing. The company is on track to join the ranks of the top cannabis producers in Canada as its production facilities expand.

Another exciting recent development is the formation of

Cannabis Beverages Inc. (CanBev), a 50-50 joint venture arrangement with **Phivida Holdings Inc.** (VIDA-CSX, \$0.95). This business unit is engaged to develop a line of cannabis-based beverages for distribution where recreational cannabis use is legal.

With its advanced production capacity and cannabis oil extraction processes, WeedMD has leveraged the skills of a great team at Phivida Holdings. With experience in specialty beverage marketing,

CanBev will have the inside track to create further shareholder value with this product development.

WeedMD has more than \$43 million in cash, which should cover its ambitions. Considering the magnitude of its cannabis production through 2018, the company is one of the most value-priced stocks by market cap among Canadian licensed producers.

The cannabis stocks as a group have attracted a strong market following despite the

changing nature of the government regulatory approval process and limited current legal marketing opportunities. This suggests strong potential for share price gains as WeedMD executes its growth plan and readies itself for significant earnings in 2019.

---

*Zachary McCrossin is a freelance writer specializing in small cap speculative stocks. He can be reached at [zmccrossin@gmail.com](mailto:zmccrossin@gmail.com).*