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Medicine Man Technologies, Inc. (MDCL)

Q4 2019 Earnings Call

CORPORATE PARTICIPANTS

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

Nancy Bush Huber

Senior Vice President-Finance, Medicine Man Technologies, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Medicine Man Technologies Company's Update and Fourth Quarter Full Year 2019 Conference Call and Webcast. This conference call and webcast is being hosted by Chief Executive Officer, Justin Dye and Chief Financial Officer, Nancy Huber. Following the formal presentation, management will take questions submitted via the weblink found on the company's Investor Relations website and in the earnings press release.

I would also like to remind you that management's prepared remarks and answers to your submitted questions may contain forward-looking statements which are subject to risk and uncertainties. The words anticipate, could, enable, estimate, intend, expect, believe, potential, will, should, project and similar expressions as they relate to Medicine Man Technologies, or as such, are forward-looking statement. Investors are cautioned that all forward-looking statements involve risk and uncertainties that may cause actual result to differ from those anticipated by Medicine Man Technologies at this time. In addition, other risks are more fully described in Medicine Man Technologies' public filings with the US Securities and Exchange Commission, which may be reviewed at www.sec.gov.

During management's prepared remarks and answering investor questions, there will also be discussion of potential acquisitions. These acquisitions are conditioned upon the satisfaction or mutual waiver of certain closing conditions, including, but not limited to, regulatory approval relating to all applicable filings and expiration or early termination of any applicable waiting periods, regulatory approval of the Marijuana Enforcement Division and applicable local licensing authority approval, receipt of all materials necessary, third-party consent and approvals, each party's compliance in all material respects with the respective obligations under the term sheet, a tax structure that is satisfactory to both the company and the targets, the execution of leases and employment agreements that are mutually acceptable to each party, and the execution of definitive agreements between the respective parties.

I would now like to turn the conference over to our Executive Chairman and Chief Executive Officer, Justin Dye. Please go ahead.

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

Good afternoon, and thank you for joining us. First, I'd like to begin today by discussing the global pandemic COVID-19. We continue to monitor the outbreak, and our thoughts are with those affected, the professionals on the frontlines and the communities doing their part to help those most at need. Here at Medicine Man Technologies and our retail operation, the Big Tomato, we've enacted measures to do our part to slowdown the spread of the virus, ensure the safety of our employees, and protect the health and well-being of the communities

in which we operate. Additionally, we are collaborating with state and local governments to develop and implement rules and regulations for the cannabis industry throughout Colorado during this time of uncertainty. As you can imagine, this is an ever changing situation. But our goal is to protect our patients and recreational consumers, protect our employees, and protect the public safety.

Today, Medicine Man Technologies has not seen a significant negative impact to our business. More importantly, we've actually seen a spike in orders from our hydroponics or the Big Tomato, and from our nutrient line, Success Nutrients. At this time, we believe these purchases could be considered pantry loading, but we're confident that our teams will continue to pull the levers needed to ensure we remain stable during this time.

With regard to industry performance, I want to share what a research analyst following the cannabis industry published last week, which we found very enlightening. Long-term we believe that the need for better tax revenue to pay for the [ph] stimulus (00:04:01) could lead to further liberalization of cannabis on a state and federal level. This may get delayed in some areas in the short-term as local governments, marshal resources to fight the pandemic. Multiple points of anecdotal evidence of higher sales proves out the theory of cannabis will prove defensive in the face of an economic downturn.

Further, as more markets open up, cannabis has the potential [Technical Difficulty] (00:04:29) which may be difficult to find going forward during this downturn. And in general users are likely to sacrifice other activities during periods of economic stress, maintain consumption. While this pandemic is unprecedented in every way, I truly believe that the cannabis industry will be even stronger at the end of it. To echo the analyst's sentiments this industry is a growth driver both from a job creation standpoint as well as a major tax revenue source for states.

In addition to the necessary business levers we continue to pull through this time, I would be remiss if I didn't mention the best-in-class leadership team we've created and have dealt with past national crisis. And while this is unique and unprecedented, we're managing through it as we go.

Since becoming Chief Executive Officer in December, we've added numerous leaders to our team that bring both the cannabis expertise as well as the business acumen needed for us to realize our potential. From working in industries such as tech during the late 1990s bubble to leading operations for grocery retailers facing E.coli outbreaks and hurricanes to managing the uncertainty following September the 11th in the airline industry, our team's experience working through times of change and uncertainty is virtually unparalleled.

I am confident in the team that we've assembled and their ability to lead Medicine Man Technologies during these times and prepare us for future growth. These individuals possess Fortune 500 experience, mergers and acquisitions and integration expertise. Along with cannabis know-how coupled with entrepreneurial backgrounds that we will leverage to buy, integrate, synergize a portfolio of terrific assets.

I would therefore like to take a minute to introduce our new leaders to you. Nancy Hubert was promoted to Chief Financial Officer in December. Nancy joined the company last August as Senior Vice President of Finance and a smart effective a strategic leader with more than 30 years of experience with significant expertise in consumer packaged goods. Bob DeGabrielle was appointed Chief Operating Officer in December. Bob is a trailblazer in the cannabis industry as the founder of Los Sueños Farms, one of the largest outdoor grows in North America. He also has more than 40 years of experience in acquiring, developing, managing and selling commercial and residential real estate.

Brian Ruden was elected to the company's board of directors in December. Brian is the Co-Founder and CEO of Starbuds chain of dispensaries and a recognized business leader in the cannabis community with extensive

regulated cannabis knowledge and expertise. Since 2010, Brian has owned and operated cannabis businesses under the Starbuds brand which has grown into a multi-state operation. Prior to entering the cannabis industry, Brian was a tax attorney in Colorado.

Shane Sampson joined the company as Chief Marketing and Merchandising Officer. Shane has more than 35 years of experience building iconic brands, leading innovative and totally integrated marketing of merchandising programs and strategic operations. Most recently, Sampson served as Chief Marketing and Merchandising Officer for Albertsons Companies. There he was instrumental leading the company during a period of monumental growth through strategic merchandising approaches, oversaw a significant development and innovation through digital and e-commerce strategies, rapidly scaled its private label brands and built customer and associate engagement across 2,300 stores.

And finally, Nirup Krishnamurthy joined the company as Chief Integration and Information Officer. Nirup has over 25 years of experience in innovation, technology, integration, restructuring and M&A at Fortune 500 companies. As Chief Information Officer of United Airlines, Nirup was a part of the management team that undertook one of the largest turnaround restructurings in corporate America. He used technology, business analytics and process improvements as major levers to drive cost reduction and revenue enhancement for the airline.

As you can see these individuals bring us exceptional experience and track records of accomplishment as well for revenue enhancement, increased profitability and immediate actionable growth. I'm confident between our team and our targeted acquisition partners we can deliver on our aggressive growth strategy [ph] leading (00:09:25) the consolidation and growth of Cannabis started in Colorado and then the US before ultimately becoming a worldwide leader in the industry.

Turning now to the business itself, we're very confident that our 2020 is going to be a milestone year for our company, our employees, our shareholders our communities and above all, cannabis consumers. Our confidence is based upon our hard work, building a strong agile infrastructure that will support our growth initiatives. Specifically, we have been laser-focused on finalizing diligence and integration planning with our acquisition partners, deploying our operating playbook and implementing our new enterprise ERP platform.

As you know, in response to the legislative change last year with Colorado House Bill of 19-1090, we've entered into agreements with 11 premier cannabis operators across Colorado to become one of the largest vertically integrated seed-to-sale operators in the global cannabis industry based on revenue.

Our latest investor presentation indicated 2019 pro forma revenues of a \$144 million with healthy EBITDA margins. In accomplishing our acquisition goals, we intend to leverage our collective experience in buying, integrating and synergizing assets in other industries where we've delivered outsized shareholder returns. We believe Colorado is second largest cannabis market in US, is an attractive geography to start our story as many participants are sophisticated, profitable and have weathered the boom and bust economic cycles of early cannabis.

Once complete, these agreements will enable us to offer cultivation capabilities at 13 indoor greenhouse and outdoor facilities totaling 2.1 million [ph] growing (00:11:24) square feet and generating more than 50 times of cannabis annually. Extraction and production capabilities of five facilities, totally 23,000 manufacturing square feet with more than 100 flower and non-flower products across leading growth categories, 34 dispensary operations totaling 64,000 retail square feet and product development and innovation capabilities.

Upon completion of our acquisitions, we will be the number one dispensary operator measured by store count in Colorado with 6% of all stores. Number one in retail cultivation sites in Colorado nearly double the next closest competitor. The number one brand portfolio in Colorado penetration across multiple key product categories and many awards and the number two producer of non-flower products in Colorado with pro forma 2019 retail sales of \$46.5 million and over 2,600 units.

In other words, we have a unique opportunity to lead the Colorado market with a significant advantage in terms of scale, operational excellence and attractive asset base. As you know and understand the process to close on these acquisitions [indiscernible] (00:12:44) both state and local government approval. I am therefore pleased to share that just a few weeks ago, we announced that the Marijuana Enforcement Division, the MED, a Division of Colorado Department of Revenue approved our application for suitability, a critical step in realizing our acquisition strategy. The state mandated review is designed to ensure that a company and its officers are suitable to run and above board a compliant cannabis company. We're proud to be the first publicly-traded company to receive such approval. This approval is a huge milestone for our company and paves the way for the additional approvals that are needed.

In November, Medicine Man Technologies submitted the change of ownership applications at both the state and local levels from Mesa Organics. Mesa Organics operates four dispensaries in Southern Colorado and also operates a business unit under the name Purplebee's which is a leading pure CO2 and ethanol extractor and manufacturer. I'm pleased to share with you that we've received approval from not only the state, but also three out of the four local jurisdictions. We are optimistic in working with local jurisdictions with the final approval.

I want to reiterate that we're creating something new and exciting. As I look to the playbook we're implementing, I'm blown away by the level of execution and the progress our teams are making. We're building a company, this position to become a market leader not only in Colorado but across the nation. I also think it's worth mentioning that while our immediate focus is on the State of Colorado, the business model that we're creating across retail, wholesale and services is transferable beyond the state. And we ultimately aspire to facilitate a multi-state expansion.

Our retail strategy will be customer-centric, supporting the health and well-being and happiness of our customers with products and experiences that deliver beyond our expectations. We will do so by delivering what, where, when and how they want it through an omni-channel presence and store formats at their lifestyles. Our wholesale operation will leverage best practices in our sales organization, account management, incentive practices and cross-sell.

We will also demonstrate our ability at simplifying vendor management, including new business-to-business products and growing capacity for medical cultivation. Finally, our leading candidates consulting practice which service as a full range of cannabis operations including licensing, design, engineering and retail and cultivation operating best practices will be a key enabler of all of our growth. This practice has earned us deep frontline understanding of national products and retail experience brands along with insights into market dynamics, cannabis regulations and procedures across 22 states that we can use to identify partnerships and attractive acquisition targets. I'm excited about our opportunity within Colorado and beyond.

With that said, I'd like to turn it over to our CFO, Nancy Huber to review our 2019 financial performance.

Nancy Bush Huber

Senior Vice President-Finance, Medicine Man Technologies, Inc.

Thank you, Justin. 2019 revenue was \$12.4 million, a 31% increase over 2018 revenue of \$9.4 million. All areas of the business, product sales and consulting were up year-over-year with the exception for the one-time sale of the Canadian master license last year of \$3.5 million. Cost of goods and services for 2019 totaled \$7.6 million compared to \$2.6 million during 2018. This 195% increase was due primarily to increased sales of products.

Gross profit was \$4.8 million for the year ended 2019 compared to \$6.9 million for the year ended December 31, 2018. Gross profit was down as a percentage of sale due to the increase of product mix in 2019, and a one-time licensing sale in 2018. Operating expenses for 2019 were \$21.9 million compared to \$4.7 million during 2018. Increase was primarily attributable to non-cash stock-based and derivative compensation of \$12.7 million and \$6.8 million of costs associated with activities related to building an infrastructure to ensure a seamless integration of our numerous pending acquisitions.

We are building a robust platform including teams for M&A, integration, marketing and merchandising, FP&A, IT and more which will allow the company to close on our acquisitions and integrate them quickly. This platform is an investment for our future and will enable sustainable, organic and acquisition growth for the future.

Net loss for the year ended December 31, 2019 was \$17 million or a loss of approximately \$0.50 per share on a basic and diluted weighted average compared to net income \$0.9 million or \$0.04 per share for the year ended December 31, 2018. We had \$11.9 million classified as cash and cash equivalents as of December 31, 2019 and \$0.3 million classified as cash and cash equivalents as of December 31, 2018. This is an improvement in the year-over-year cash position of \$11.6 million.

I would also like to mention that as we navigate through this pandemic, we continue to review our cash needs and have plans in place that include contingency plans should we need additional cash resources.

Now, I'd like to hand the call back over to Justin for his closing comments.

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

Thanks, Nancy. The cannabis [Technical Difficulty] (00:19:10) for consolidation and our management team is uniquely positioned to bring together a group of experienced cannabis industry pioneers and the leading brands they've created. By combining to create a single publicly-traded organization, we can increase the collective efficiencies and profit margin over time.

Let me conclude our formal remarks by expressing our confidence and optimism regarding the numerous opportunities that lie ahead and for the overall growth of our industry supported by further legalization of the state and the federal level. We're preparing for the closing of our [ph] named (19:49) acquisitions by building the necessary infrastructure so that we're ready to go on day one to execute and to drive performance. This will best position us to drive sustainable EBITDA and long-term success.

Moreover, I believe that we're in a stronger position than others. Not only because we have a first mover advantage in Colorado, but also because of our unparalleled team comprised of leaders with decades of cannabis experience and leaders with proven experience executing successful acquisitions strategies. We're fully in lined, incentivized and passionate about the long-term potential of Medicine Man Technologies.

With that, I'd like to thank our investors for their continued support and look forward to sharing updates on the business developments including the completion of our pending acquisitions when appropriate. For now, we

would be happy to take the questions. To ask a question, please click on the link on the Investor Relations portion of our website and submit. Thank you.

QUESTION AND ANSWER SECTION

A

Okay. Now begins our question-and-answer portion of the call. We will start off with the first question by [ph] Kevin Raquel (00:21:10). Justin, this question is for you. Since the social distancing measures will remain in effect through April 30, why do you think that you will be able to move forward with the [ph] closings (00:21:22) according to your previous schedule?

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

A

Yeah, great, great question, thank you [ph] Raquel (00:21:30). You know we understand that social distancing measures have been extended through the end of April. With that being said, you know, we're still hard at work internally and with our acquisition partners to work through the closing activities. I would tell you, we have not stopped on the work front, so people are working incredibly hard and I'm really proud of them. Additionally, the MED's offices are physically closed, but they're still processing applications, paper work and also approving licenses. So, at this time we believe we'll remain on schedule. We're going to continue to work hard towards that schedule. Thank you

A

Thank you, Justin. Next question, how do you believe the cannabis market is reacting during the COVID-19 pandemic?

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

A

As we mentioned on the call, we believe the cannabis industry will fare fairly well on the other side of this pandemic. In general conversations with the market, we still see tremendous interest in cannabis and more specifically in our company Medicine Man Technologies. So we think cannabis is here to stay and it's an important part of the economy.

A

Great. Thank you, Justin. The next question, do you think that an acceleration in sales is purely pantry worthy or do you think that new customers have been brought into the industry in the view of the shelter-in-place policy?

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

A

Our current retail businesses are the Big Tomato and on the nutrients side, with Success Nutrients. Information that we're tracking leads us towards – there's certainly been a build-up and certainly pantry loading for a number of our customers. Regarding the consumers, a number of our acquisition partners are anecdotally seen a mix of

long-term consumer stocking up, but also starting to see new customers to ease their nerves and to make life a little easier at home. So, we're seeing both, so we're seeing good pickup in terms of demand.

A

Thanks, Justin. Next question. How would you characterize your Q4 and 2019 results as expected or better or worse?

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

A

You know, I'm proud of the report that we just delivered for the Q4 and for 2019. We're ahead of expectations all areas, both product sales and consulting performed very well for the year and for the fourth quarter. So I think we're ahead of our expectations and we look for 2020 to be a historic year for us.

A

Thanks, Justin. Next question. How much money are you looking to or needing to raise in order to complete [ph] the periods (00:24:32) of transaction? Will these transactions take the form of cash equity or a combination?

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

A

Yeah. We've shared this with our investors and with the market. Transactions will take form of a combination of cash and equity which is estimated about a 60/40 at this point. We've not specifically discussed the total amount of cash or equity needed to close all the acquisitions. So, we're not able to do so at this time, but we feel like the acquisitions were in great shape. We prepared for them and we're very optimistic.

A

Thank you. Next question is the MedPharm deal still on the table?

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

A

We extended the term sheet for MedPharm and we continue to do work and to do due diligence. We're doing due diligence on a number of our acquisitions and MedPharm being one of them.

A

Great. Another question that came in, what is the timeline to complete the acquisition?

Justin Dye

Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.

A

You know we are – there a number of variables that drive when these acquisitions can be completed. I would tell you we're doing everything within our control and doing a very good job of that. I would tell you the government at the state and local levels have been very supportive and moving with the speed that we're happy with and

pleased with. So, I think at this time, next report, we're going to have a lot more to say and we'll have some things – certainly have acquisitions under our belt. And I think we're going to have a very, very busy summer.

A

Thanks, Justin. A follow-on question of that is, when do you think you will complete the integration process with the acquisition?

Justin Dye*Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.*

A

Yeah. I think we've not laid out specific dates for the market, but I would tell you we hope to have most of them done by late summer would be our general estimate that things could move up, move back depending on the various state and local governments' approval processes. But we're optimistic. We feel we've been working extraordinarily hard. The team has done a great job coming together. We're ready to go. Our integration process is in place. We know exactly what we've got to do when we've got to do it by our acquisition partners are ready to go. So, I really think we're going to have a good – really terrific next couple of months.

A

Great. Thank you. Justin, we've got time for one more questions. I'll ask that and then you can wrap it up. So, the question is management is aligned with shareholders, but how or what is being done to make sure the frontline employees of the acquisitions have the same commitment?

Justin Dye*Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.*

A

Well, we certainly – once we integrate the businesses, we're offering very fair benefits for our employees. They will certainly be incented to help drive the business. So, it's going to be a number of career opportunities, growth opportunities within our business as we expand. So, we're really excited. We see nothing but great talent in the acquisition companies and we're going to need them. We're going to continue to grow the business and we have great hopes and aspirations for folks to take over more responsibility and grow with the company. So, we expect that and what they've been doing, are going to continue to do that plus more and we're excited about it. But we're going to have great wages. We've got a great benefit package and there'll be lots of career growth and learning opportunities. So, people that want to grow and work hard and be a part of something terrific, I think they're going to be very excited about joining the team.

A

Great. Thanks, Justin. That concludes our Q&A portion. If you want to go ahead and wrap up the call?

Justin Dye*Executive Chairman & Chief Executive Officer, Medicine Man Technologies, Inc.*

Very good. Well, we thank everyone for being online. We thank our investors. We thank our employees and very proud of our management team. We are very proud of our employees for stepping up during these unprecedented times and supporting their employees, families and communities. So with that, we appreciate everyone's support.

We wish you well, be safe, and we'll look forward to speaking to you soon via releases as well as our next earnings announcement. Thank you very much.

Operator: This concludes today's investor call. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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