

# Elixinol Wellness Ltd.

(ASX: EXL / OTC: ELLXF)

## Expanding Globally with a Leading Australian CBD Brand - Initiating Coverage

**BUY**

Current Price: A\$0.026

Fair Value: A\$0.09

Risk\*: 4

Sector/Industry: Healthcare / Life Sciences

[Click here for more research on the company and to share your views](#)

### Highlights

- Elixinol develops and sells **hemp-derived CBD nutraceutical, cosmetic, and food products**. The company utilizes third-party manufacturers, and distributes its products through pharmacies, wellness stores, and e-commerce platforms.
- We believe the company's **key strengths** include – a wide range of product offerings, extensive distribution channels, and a presence in the two largest CBD markets in the world (the U.S. & the U.K.), and in Australia, Latin America, South Africa, Japan, and South Korea. Australia accounts for over 50% of revenue currently.
- Its flagship subsidiary, Hemp Foods Australia, is a **leading hemp company in Australia**. Its products are available in **Costco** (NASDAQ: COST), large retailers such as **Woolworths** (ASX: WOW) and **Coles** (ASX: COL), and several leading health food stores and supermarkets. In the U.S., products are mainly distributed through **CVS** (NYSE:CVS) and CBD Emporium. The company also has a licensing agreement with **BRITISH CANNABIS**, a large manufacturer and distributor of cannabis in the U.K.
- The **U.S. CBD market** is expected to grow from US\$5B in 2021, to US\$16B by 2026, implying a **CAGR of 25%** (Statista), while the **Australian CBD market** is projected to grow to US\$376M by 2028, up from US\$52M in 2021, implying a **CAGR of 33%** (grandviewresearch.com).
- Despite its strong product portfolio and extensive distribution channels, **the company has yet to break-even**. Over the past two years, in order to cut costs and turn profitable, the company transitioned from in-house to contract manufacturing, and discontinued production for third parties, and sales of low-margin products. As a result, EBITDA improved from -\$22M in 2020, to -\$14M in 2021. Our forecast for 2022 is -\$11M. **We expect EBITDA to turn positive in 2025**, and believe the company will have to raise \$8M next year for working capital.
- EXL is trading at just 0.3x revenue (forward) vs the sector average of 1.2x. We believe EXL should move closer to the sector average **if management is able to continue slashing costs**, and improve EBITDA in the coming quarters.
- We are **expecting sequential revenue growth in Q3** as product distribution has increased significantly in the past 12 months.

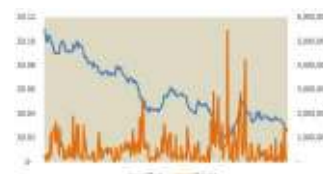
### Risks

- Operates in a **highly regulated industry** subject to government intervention
- No guarantee that EXL will be able to stay competitive
- Hefty marketing budgets are critical for growth
- EBITDA yet to be positive; potential for share dilution from equity financings**
- Product recall risk

Sid Rajeev, B.Tech, CFA, MBA  
Head of Research

Alexis Cabel, B.A.Econ  
Analyst

### EXL Price and Volume (12M)



	YTD	12M
EXL	-65%	-76%
ASX	-15%	-10%

### Company Data

52-Week Range	A\$0.019 - \$0.11
Shares O/S	316M
Market Cap.	A\$8M
Current Yield	N/A
P/E (forward)	N/A
P/B	0.7x

### Key Financial Data (A\$)

YE Dec 31	2021	2022E	2023E
Cash	12,649,000	498,359	995,701
Working Capital	14,873,000	2,282,519	3,238,256
Total Assets	25,332,000	11,776,259	12,256,391
Total Debt	678,000	357,000	250,000
Revenue	9,338,000	6,555,519	8,727,419
Net Income	-17,025,000	-13,224,481	-7,480,723
EPS	-0.05	-0.04	-0.02

\*See last page for important disclosures, rating, and risk definitions. All figures in A\$ unless otherwise specified.

## Company Overview

Elixinol is a **global natural health and wellness consumer products company**. It develops, manufactures, and sells hemp-derived nutraceutical, cosmetic and food products. The company's products are widely distributed through pharmacies, wellness stores, and e-commerce channels.

Founded in 2014, and went public in 2018

10 employees in the U.S., and 18 in Australia

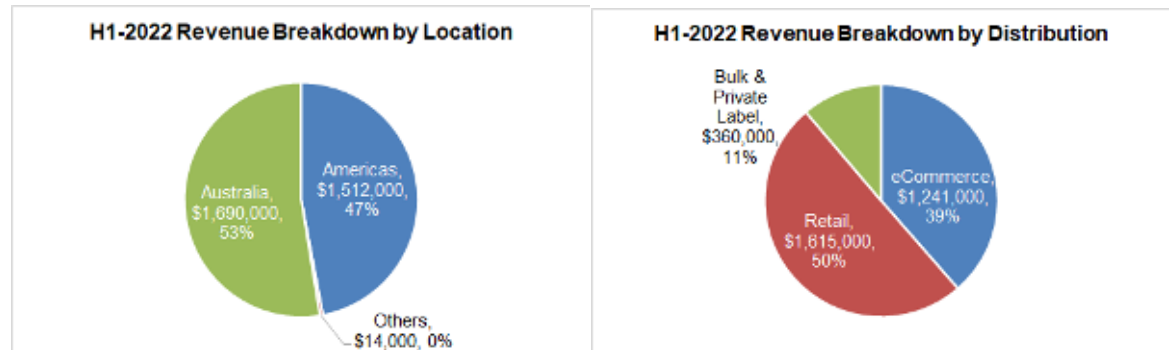
In H1-2022, Australia accounted for 53% of revenue

U.K. sales commenced this quarter (Q3-2022)


In 2020, the company discontinued production for third parties; subsequently, EXL transitioned away from in-house manufacturing, and started using third party manufacturers, resulting in a significant reduction in fixed costs/G&A expenses

As a result of the above, revenue declined 51% YoY in 2020, 38% YoY in 2021, and 33% YoY in H1-2022

However, EBITDA improved from -\$22M in 2020, to -\$14M in 2021; our forecast for 2022 is -\$11M



\*The Americas include the U.S. and Latin America

<b>Elixinol Americas</b> (47% of revenue)	<b>Elixinol Europe</b> (Commenced sales this quarter)	<b>Hemp Foods Australia (HFA)</b> (53% of revenue)
		
<p><b>Background</b> Based in Colorado</p> <p>Established in 2014 to manufacture and distribute dietary supplements and topical products</p>	<p><b>Background</b> Based in London</p> <p>Established in 2018 to manufacture and distribute hemp and CBD based food, cosmetics, and skin care products</p>	<p><b>Background</b> <b>#1 hemp food company in Australia by revenue</b></p> <p>Based in New South Wales; founded in 1999 to manufacture and distribute hemp-derived products</p>

Source: Company/FRC

	Elixinol Americas	Elixinol Europe	Hemp Foods Australia (HFA)
<i>Wide range of products</i>	<b>Production</b> Products are manufactured by third parties using locally/organically grown hemp	<b>Licensing Agreement</b> In December 2021, Elixinol entered into a three-year agreement with BRITISH CANNABIS to manufacture, market and sell CBD products in the U.K.	<b>Production</b> Products are manufactured by third parties using locally/organically grown hemp
<i>Extensive distribution channels</i>	<b>Distribution</b> Available online on elixinol.com and <b>www.cvs.com</b> , and in retail stores such as <b>CBD Emporium</b>	<b>Licensee Background</b> BRITISH CANNABIS is a <b>large manufacturer and distributor</b> of cannabis in the U.K., Europe's biggest CBD market	<b>Distribution</b> Available in <b>Costco</b> , large supermarket chains ( <b>Woolworths and Coles</b> ), leading health food stores (Health Life and Go Vita), supermarkets, IGA, and Harris Farms

Source: Company/FRC

## Brand Portfolio

### Elixinol



- Digestible (gummies, capsules, and dog drops and soft chews) and topical (balms, gels, and oils) products
- 60-capsule bottle: US\$59.99
- 500 mg oil: US\$29.99
- 30-piece gummy bottle: US\$29.99
- 1,000 mg sports gel: US\$49.99
- 30-piece dog chews: US\$19.99

Source: Elixinol and FRC

*We believe Elixinol's products are priced lower than their comparables*

**Favorable product ratings:** 9/10 rating on [cbdclinicals.com](http://cbdclinicals.com), and 4.8/5 stars from 555 reviews, on [reviews.io](http://reviews.io)

### Hemp Foods Australia



- Food (hemp seeds, flour, oils, and peanut butter), supplements (capsules and gels), and skin care (body oils, deodorant, conditioners, lip balms, body wash, and cleansers)
- 1 kg bag of hemp seeds: \$44.95
- 420 g hemp protein can: \$31.95
- 250 ml hemp seed oil: \$10.50
- 250 ml hemp hand & body wash: \$21.95

Source: Hemp Foods Australia and FRC

### Key Developments

Planning to grow through new product launches and distribution channels

Like any business involved in consumer product sales, we believe hefty marketing budgets are critical for growth

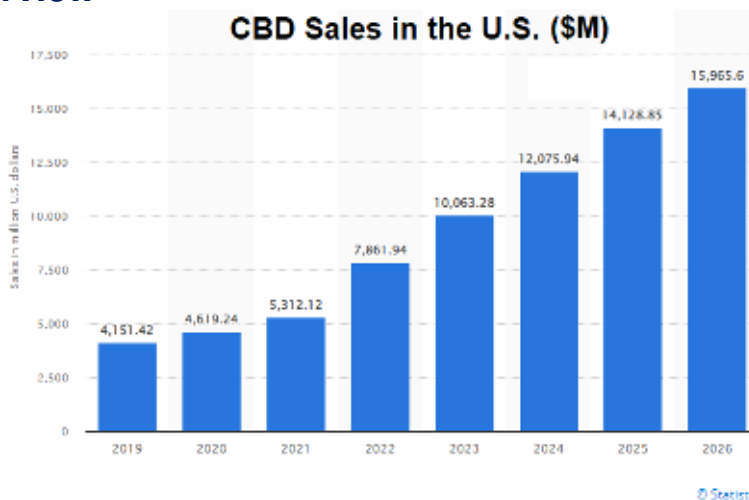
The company currently spends 26% of revenue for marketing; we note that comparables spend 20%-35% of revenue for marketing

Elixinol Americas	Elixinol Europe	Hemp Foods Australia (HFA)
<ol style="list-style-type: none"> <li>1. Aiming to drive e-commerce sales</li> <li>2. Product launches: Everyday adaptogen capsules and CBD gummies</li> <li>3. Upcoming products: Pet foods</li> </ol>	<ol style="list-style-type: none"> <li>1. Elixinol’s products are included in the U.K.’s Food Standard Authority’s (FSA) list of safe products</li> <li>2. Targeting chain stores</li> </ol>	<p>The PA Group, an independent pharmacy with 1,200 members, is expected to start distributing HFA’s products in 50 stores</p>

Source: Company

## Market Overview

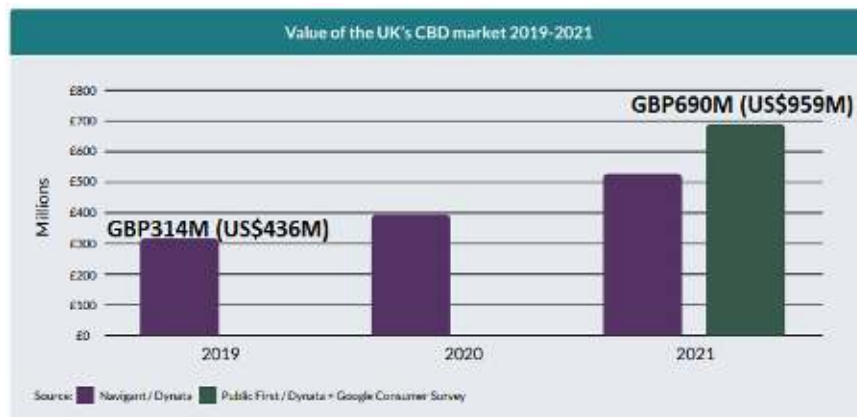
The U.S. CBD market is expected to reach US\$16B by 2026 (from US\$5B in 2021), reflecting a CAGR of 25%



Source: Statista

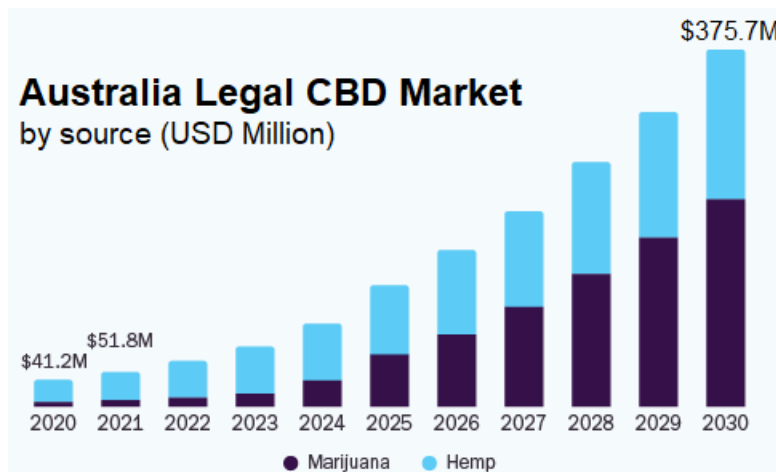
The U.K. has the world's second largest CBD market, after the U.S.

CBD sales in the U.K. more than doubled from 2019 to 2021; sales are expected to grow 10% p.a. from 2021 to 2025 (Source: ACI and CMC)



Source: The Association for the Cannabinoid Industry (ACI) and Centre for Medicinal Cannabis (CMC)

The Australian market is projected to grow to US\$376M by 2028, up from US\$52M in 2021, reflecting a CAGR of 33%



Source: grandviewresearch.com

## Competition

Currently, there are approximately 3,500 companies competing in the cannabis/hemp industry in the U.S. **The sector is undergoing consolidation, where larger companies are acquiring smaller players.** Recently, Australia's Creso Pharma (ASX: CPH) acquired Colorado-based CBD maker Sierra Sage Herbs for \$21M. We believe Elixinol's wide range of products and extensive distribution make it an attractive target.

## Management and Board

Management and directors own 9.9%

Fully independent board

Name	Position(s)	# Shares Outstanding	% of Total
Ron Dufficy	CEO	623,901	0.20%
Helen Wiseman	Non-Executive Chair and Independent Director	280,132	0.09%
Oliver Horn	Non-Executive Director	1,203,971	0.38%
Paul Benhaim	Non-Executive Director	29,209,217	9.24%
David Fenlon	Non-Executive Director	-	0.00%
<b>Total Shares Ownd By Directors</b>		<b>31,317,221</b>	<b>9.90%</b>

Source: Company

Brief biographies of the senior management, as provided by the company, follow:

### Ron Dufficy – Global CEO

Ron Dufficy has been with Elixinol since 2017. He was the company's Global Chief Financial Officer and focused on administrative, financial, and risk management operations. Ron was previously General Manager, Global Shared Services, at Aristocrat and Chief Financial Officer, Aristocrat America, where he was based in for nine years.

### Helen Wiseman –Independent Chair and Non-Executive Director

Helen Wiseman is a non-executive director and audit committee specialist with extensive international experience in food, pharmaceutical, natural healthcare, professional services, energy and natural resources and manufacturing industries. As a former partner of KPMG and previously named as one of the 2014 Australian Financial Review and Westpac 100 Women of Influence, she brings diversity and seasoned governance skills to the board.

### Oliver Horn – Non-Executive Director

Oliver Horn was most recently CEO of Swisse Wellness for Australia and New Zealand (ANZ) and North America. Oliver has previously held senior operational leadership positions at Treasury Wine Estates across ANZ, Europe, Middle East and Africa. With an established track record for exponential growth in established and emerging markets, Oliver has extensive experience in building premium global consumer brands, a deep knowledge of the vitamins, minerals and supplements (VMS) category, and a track record of premium brand building.

### Paul Benhaim – Non-Executive Director

Paul Benhaim has over 25 years' experience in the hemp industry and is co-founder of Elixinol US. Paul is considered an expert in the industrial hemp industry

and frequently presents at industry conferences globally. He has also played a role in shaping regulation around cannabis laws.

**David Fenlon – Independent Non-Executive Director**

David Fenlon has over 30 years of worldwide experience in the fast-moving consumer goods (FMCG) and consumer sectors. He is currently CEO of The Platform Alliance Group, Non-Executive Chair for Nutritional Growth Solutions, and Non-Executive Director of Quest for Life Foundation. He was previously Group CEO and Managing Director of BWX Limited, and prior to that, was Managing Director for Australia and New Zealand at Blackmores Limited. David's experience also includes holding key positions in Tesco throughout Europe and Safeway in the UK.

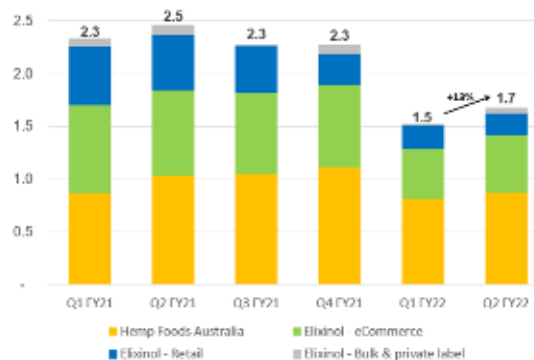
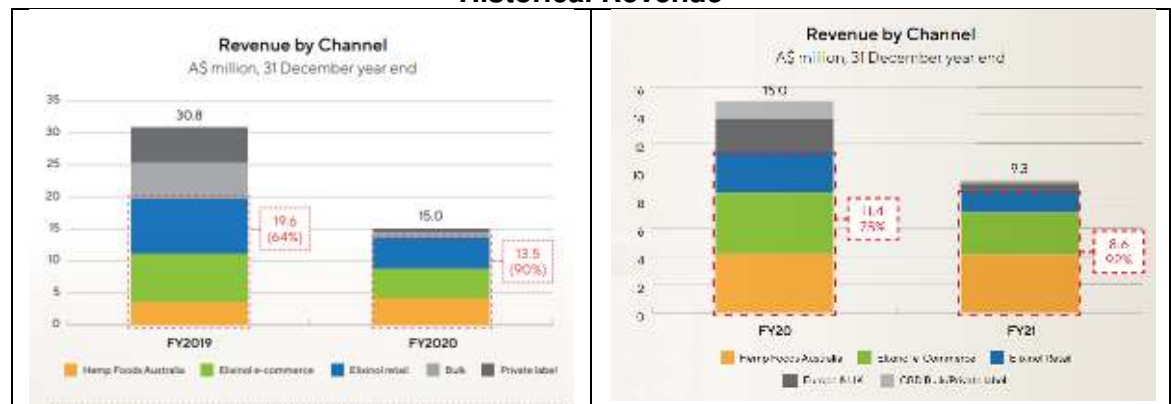
**Financials**

*As a result of restructuring, and increased competition, revenue declined from \$31M in 2019, to \$9M in 2021; H1-2022 revenue was down 33% YoY to \$3M*

*On a positive note, revenue rebounded in Q2-2022 amid increased distribution; we are expecting sequential growth in Q3 as well*

*Despite the steep fall in revenue, EBITDA has been improving due to significant cost savings*

**Historical Revenue**



STATEMENT OF OPERATIONS (A\$)							
Y/E 31 December	2019	2020	2021	YoY	H1-2021	H1-2022	YoY
Revenue	\$30,714,000	\$15,010,000	\$9,338,000	-38%	\$4,790,000	\$3,216,000	-33%
Gross Profit	\$16,344,000	\$6,866,000	\$4,898,000	-27%	\$2,510,000	\$1,485,000	-41%
SG&A Expense	\$22,585,000	\$18,403,000	\$13,380,000	-27%	\$6,777,000	\$5,329,000	-21%
EBITDA	-\$23,033,000	-\$22,114,000	-\$14,119,000	-36%	-\$7,820,000	-\$5,643,000	-28%
Adjusted Net Profit (Loss)	-\$19,459,000	-\$30,292,000	-\$13,160,000	-57%	-\$8,189,000	-\$6,004,000	-27%
EPS	-\$0.83	-\$0.58	-\$0.05	-91%	-\$0.03	-\$0.02	-35%

Source: Company, FRC

Gross margins are in line with the sector average

Margins	2020	2021	H1-2021	H1-2022	Sector
Gross	44%	52%	52%	46%	50%
EBITDA	-147%	-151%	-163%	-175%	14%
EBIT	-169%	-167%	-180%	-189%	10%
Net	-696%	-182%	-226%	-222%	8%
SG&A	123%	143%	141%	166%	37%
Marketing expense	44%	33%	36%	26%	

Operating cash flows and FCF are improving

Summary of Cash Flows	2020	2021	H1-2021	H1-2022
Operating	-\$22,621,000	-\$14,071,000	-\$7,965,000	-\$5,336,000
Investing	\$2,554,000	\$172,000	-\$182,000	\$50,000
Financing	\$27,545,000	-\$1,157,000	-\$610,000	-\$390,000
<b>Net</b>	<b>\$7,478,000</b>	<b>-\$15,056,000</b>	<b>-\$8,757,000</b>	<b>-\$5,676,000</b>
<b>Free Cash Flows to Firm (FCF)</b>	<b>-\$20,264,000</b>	<b>-\$13,899,000</b>	<b>-\$8,147,000</b>	<b>-\$5,286,000</b>

Strong balance sheet

Liquidity & Capital Structure	2020	2021	H1-2022	Sector
<b>Cash</b>	<b>\$27,743,000</b>	<b>\$12,649,000</b>	<b>\$6,933,000</b>	
Working Capital	\$30,359,000	\$14,873,000	\$9,229,000	
Current Ratio	7.08	4.15	3.58	1.80
LT Debt	\$250,000	\$250,000	\$1,236,000	
<b>Total Debt</b>	<b>\$250,000</b>	<b>\$678,000</b>	<b>\$393,000</b>	
LT Debt / Capital	0.7%	3.6%	3.2%	9.1%
Total Debt / Capital	0.7%	1.3%	9.9%	18.6%

Source: Company, FRC

## FRC Projections and Valuations

Our DCF valuation is \$0.12 per share

(YE December 31; In A\$)	2022E	2023E	2029E	2030E
Australia	3,380,000	4,495,403	24,881,721	33,092,713
Americas	3,024,000	3,899,523	17,611,156	22,583,874
U.K.	151,519	332,493	2,320,371	2,864,150
Other Countries	65,555	218,185	2,240,662	2,927,037
<b>Total Sales</b>	<b>6,555,519</b>	<b>8,727,419</b>	<b>44,813,248</b>	<b>58,540,737</b>
COGS	3,462,000	4,538,258	21,958,492	28,684,961
Gross Profit	3,093,519	4,189,161	22,854,757	29,855,776
Operating expenses	14,256,000	10,856,784	16,474,688	21,298,394
<b>EBITDA</b>	<b>(11,162,481)</b>	<b>(6,667,623)</b>	<b>6,380,069</b>	<b>8,557,382</b>

We expect EBITDA to turn positive in 2025

DCF Model	2022E	2023E	2029E	2030E	Terminal
EBIT(1-tax)	(5,519,481)	(6,667,623)	6,380,069	8,557,382	
Non-Cash Expenses	442,000	795,600	422,814	380,533	
Change in Working Capital	760,840	(460,535)	(859,660)	(951,739)	
Cash from Operations	(4,316,641)	(6,332,558)	5,943,224	7,986,176	
CAPEX	(250,000)	(250,000)	(250,000)	(250,000)	
Free Cash Flow	(4,566,641)	(6,582,558)	5,693,224	7,736,176	
Present Value	(4,434,133)	(5,681,383)	2,423,832	2,927,642	31,741,808

We estimate the company will have to raise \$8M next year for working capital

Discount Rate	12.5%
Terminal Growth	3.0%
Present Value	30,687,651
Cash - Debt	6,540,000
Fair Value	37,227,651
Shares O/S	316,265,571
<b>Value per Share (A\$)</b>	<b>\$0.12</b>

Source: FRC



EXL is trading at an 88% discount to the comparables average EV/Revenue

Comparable Companies	EV/Rev
Elixinol (2025E)	0.14
CV Sciences Inc.	0.42
Charlotte's Web Holdings, Inc.	0.71
Ayr Wellness Inc.	1.15
Marimed Inc.	1.39
Jushi Holdings Inc.	1.54
Columbia Care Inc.	1.67
Canopy Growth Corp.	4.47
<b>Personal Products Sector</b>	<b>3.30x</b>
<b>Average Market Multiples (excluding outliers)</b>	<b>1.15x</b>
<b>Elixinol's Premium/(Discount)</b>	<b>-88%</b>

The average of our DCF and comparables valuations is \$0.09 per share

Valuation Method	Fair Value per Share (\$)	Weight
DCF Valuation	\$0.12	50.0%
Fair value per share (\$) - Average EV/R Multiple (2025E)	\$0.06	50.0%
<b>Fair Value Estimate (\$)</b>		<b>\$0.09</b>

Source: FRC

**We are initiating coverage with a BUY rating, and a fair value estimate of \$0.09 per share.** We are expecting sequential improvements in revenue and EBITDA in Q3.

Although the company's product portfolio and distribution are highly appealing, we believe management has to continue slashing costs, and improve EBITDA in the coming quarters to expand its investor-base. Note that we believe the company will have to raise \$8M next year.

### Risks

We believe the company is exposed to the following key risks (not exhaustive):

- Operates in a highly regulated industry subject to government intervention
- No guarantee that the company will be able to stay competitive in the markets it operates in or plans to operate in
- **EBITDA yet to be positive**
- Product recall risk
- Hefty marketing budgets are critical for growth

Assigning a risk rating of 4 (Speculative)

## Appendix

<b>STATEMENTS OF OPERATIONS (A\$)</b>				
<b>YE December 31</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
Revenue	15,010,000	9,338,000	6,555,519	8,727,419
<b>Total Revenues</b>	<b>15,010,000</b>	<b>9,338,000</b>	<b>6,555,519</b>	<b>8,727,419</b>
COGS	8,344,000	4,442,000	3,482,000	4,538,258
<b>Gross Profit</b>	<b>6,666,000</b>	<b>4,896,000</b>	<b>3,093,519</b>	<b>4,189,161</b>
SG&A	18,403,000	13,380,000	10,658,000	7,993,500
Marketing expenses	6,602,000	3,062,000	1,644,000	1,745,484
Professional fees	4,068,000	2,379,000	1,698,000	849,000
Share-based expenses	(293,000)	194,000	256,000	268,800
<b>EBITDA</b>	<b>(22,114,000)</b>	<b>(14,119,000)</b>	<b>(11,162,481)</b>	<b>(6,667,623)</b>
Depreciation	3,213,000	1,490,000	884,000	795,600
Amortization	-	-	-	-
D&A	3,213,000	1,490,000	884,000	795,600
<b>EBIT</b>	<b>(25,327,000)</b>	<b>(15,609,000)</b>	<b>(12,046,481)</b>	<b>(7,463,223)</b>
Net financing expense	49,000	45,000	52,000	17,500
Other Income	716,000	(2,429,000)	218,000	-
<b>EBT</b>	<b>(26,092,000)</b>	<b>(13,225,000)</b>	<b>(12,098,481)</b>	<b>(7,480,723)</b>
Income tax expense	4,200,000	(65,000)	-	-
Unusual/Non-recurring expense	74,186,000	3,865,000	1,126,000	-
<b>Net Income (Net Loss)</b>	<b>(104,478,000)</b>	<b>(17,025,000)</b>	<b>(13,224,481)</b>	<b>(7,480,723)</b>
EPS	(0.5823)	(0.0541)	(0.0418)	(0.0237)
<b>BALANCE SHEET (A\$)</b>				
<b>YE December 31</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
<b>Assets</b>				
Cash	27,743,000	12,649,000	498,359	995,701
Receivables	1,191,000	2,970,000	2,245,500	2,470,050
Inventories	4,735,000	2,201,000	2,001,600	2,201,760
Prepays and other current assets	1,685,000	1,768,000	1,036,800	1,140,480
<b>Current Assets</b>	<b>35,354,000</b>	<b>19,588,000</b>	<b>5,782,259</b>	<b>6,807,991</b>
PP&E	2,471,000	1,308,000	1,558,000	1,012,400
Intangible assets	917,000	463,000	463,000	463,000
Right of Use Assets	1,412,000	1,173,000	1,173,000	1,173,000
Investments	2,316,000	2,617,000	2,617,000	2,617,000
Other Non-current Assets	-	183,000	183,000	183,000
<b>Total Assets</b>	<b>42,470,000</b>	<b>25,332,000</b>	<b>11,776,259</b>	<b>12,256,391</b>
<b>Liabilities &amp; Shareholders' Equity</b>				
Payables and accrued liabilities	2,795,000	2,208,000	1,526,400	1,556,928
Contract Liabilities	89,000	94,000	97,478	99,428
Accruals	818,000	1,009,000	756,750	771,885
Lease Liabilities	920,000	747,000	774,639	790,132
Borrowings	-	428,000	107,000	109,140
Other Current Liabilities	373,000	229,000	237,473	242,222
<b>Current Liabilities</b>	<b>4,995,000</b>	<b>4,715,000</b>	<b>3,499,740</b>	<b>3,569,735</b>
Borrowings	250,000	250,000	250,000	140,860
Lease Liabilities	1,574,000	1,290,000	1,290,000	1,290,000
<b>Total Liabilities</b>	<b>6,819,000</b>	<b>6,255,000</b>	<b>5,039,740</b>	<b>5,000,595</b>
Equity	217,730,000	218,058,000	218,058,000	226,058,000
Additional paid in capital and Other Reserves	8,971,000	9,094,000	9,978,000	9,978,000
Deficit	(191,050,000)	(208,075,000)	(221,299,481)	(228,780,204)
Non-controlling interest	-	-	-	-
<b>Total Liabilities and Shareholder's Equity</b>	<b>42,470,000</b>	<b>25,332,000</b>	<b>11,776,259</b>	<b>12,256,391</b>

<b>STATEMENTS OF CASH FLOWS (A\$)</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
<b>YE December 31</b>				
<b>Operating Activities</b>				
Net loss for the period	(104,478,000)	(17,025,000)	(13,224,481)	(7,480,723)
<b>Items not involving cash</b>				
D&A	3,213,000	1,490,000	884,000	795,600
Impairment expenses & bad debts	74,332,000	3,735,000		
Other non-cash adjustments	1,453,000	87,000		
Share-based compensation	(293,000)	194,000		
<b>FFO</b>	<b>(25,773,000)</b>	<b>(11,519,000)</b>	<b>(12,340,481)</b>	<b>(6,685,123)</b>
Prepaid expense	1,119,000	(51,000)	731,200	(103,680)
Inventory	(2,155,000)	(244,000)	199,400	(200,160)
Receivables	709,000	(2,014,000)	724,500	(224,550)
Accounts payable and accrued liabilities	(460,000)	(619,000)	(933,850)	45,663
Others	3,939,000	376,000	39,590	22,192
<b>Changes in WC</b>	<b>3,152,000</b>	<b>(2,552,000)</b>	<b>760,840</b>	<b>(460,535)</b>
<b>Cash from (used in) Operations</b>	<b>(22,621,000)</b>	<b>(14,071,000)</b>	<b>(11,579,641)</b>	<b>(7,145,658)</b>
<b>Financing activities</b>				
Equity	28,959,000	(110,000)		8,000,000
Debt		-	(321,000)	(107,000)
Lease	(1,414,000)	(1,047,000)		
<b>Cash provided by Financing Activities</b>	<b>27,545,000</b>	<b>(1,157,000)</b>	<b>(321,000)</b>	<b>7,893,000</b>
<b>Investing activities</b>				
PP&E	2,357,000	304,000	(250,000)	(250,000)
Others	197,000	(132,000)	-	-
<b>Cash used in Investing Activities</b>	<b>2,554,000</b>	<b>172,000</b>	<b>(250,000)</b>	<b>(250,000)</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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