

# ML CAPITAL GROUP INC.

## A Pure Play Vapor Pen Opportunity

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June 17, 2014

### ML CAPITAL GROUP INC. (OTC:QB - MLCG - \$0.0189)

Price Target: \$0.24

Rating: Speculative Buy

#### COMPANY SNAPSHOT

ML Capital Group, Inc.'s primary business consists of producing products and providing services that support the medical marijuana industry and enhances the lives of the patients that have turned to medical marijuana/cannabis to manage their various ailments. The Company currently produces and markets its products and services under the *SuperStar* brand name, including vapor pens, mobile applications, and books. The Company does not directly engage in the growing, manufacture, or distribution of medical marijuana, cannabis, or cannabis by-products, thus placing it as one of the safest types of companies in the medical marijuana industry.

#### KEY STATISTICS

Price as of 6/16/14	\$0.0189
52 Week High – Low	\$1.45 – \$0.01
Est. Shares Outstanding	82M
Market Capitalization	\$1.5M
3 Mo Avg Vol	401,000
Exchange	OTC:QB

#### COMPANY INFORMATION

**ML Capital Group Inc.**  
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#### INVESTMENT HIGHLIGHTS

**The electronic cigarette, or e-cig market, currently generates \$3 billion in annual sales and industry experts forecast it could reach the \$300 billion mark in the next ten years.** ML Capital recently launched sales of its vapor pen and accessories for use with tobacco, e-liquid, and medicinal marijuana. With distribution and medical marijuana dispensary relationships in a handful of states, the Company has already begun to book wholesale and retail sales.

**Studies that indicate e-cigs and vapor pen usage serve as highly effective smoking cessation devices as well as an alternative to traditional tobacco-based cigarettes.** Thus, the market could emerge as one of the fastest growing consumer segments in years. Future government guidelines and labeling could dramatically boost sales. The recent \$135M purchase of Blue eCigs by Lorillard (NYSE – LO), the 3<sup>rd</sup> largest tobacco seller in the U.S., demonstrates the huge market opportunity.

**The *SuperStar* Vapor Pen product line is an 8-piece vapor pen kit with a tobacco tip, e-liquid tip, and wax atomizer, and is available in 5 colors.** The unique design and features of the *SuperStar* Vapor Pen set is that it can be used with both tobacco based products, as well as medical marijuana or cannabis in the form of liquid, wax, or dry ingredients.

**MLCG's valuation pales in comparison to its publicly traded peers, offering a tremendous opportunity for investors.** For example, e-cig leader MCIG, which carries a \$125M market cap, recorded sales of \$110,000 for 1Q14. Plus, the top 4 e-cig companies carry an average market cap of \$195M. With a paltry \$2M market cap, MLCG offers huge upside for opportunistic investors. We are these shares Speculative Buy with a \$0.24 price target. Even at \$0.24 MLCG would be provided a market cap that is a fraction of the one afforded the peer group.

**ML CAPITAL GROUP INC. (OTCQB - MLCG)****COMPANY OVERVIEW**

Founded in 2009 ML Capital Group, Inc.'s primary business currently consists of producing products and providing services that support the medical marijuana industry and enhances the lives of the patients that have turned to medical marijuana/cannabis to manage their various ailments. The Company currently produces and markets its products and services under the *SuperStar* brand name, including vapor pens, mobile applications, accessories, and books. The Company does not directly engage in the growing, manufacture, or distribution of medical marijuana, cannabis, or cannabis by-products, thus placing it as one of the safest types of companies in the medical marijuana industry.

Prior to the launch of the electronic vapor pen initiative in September 2013, the Company's primary focus was the provision of consulting services to both public and private companies, concentrating primarily on early stage companies, small businesses and emerging growth companies. Management's principal focus centered on serving companies in the green technology and alternative energy industries. While management continues to perform these functions, these services are now secondary to the vapor pen business.

**MARKET SNAPSHOT**

The opportunity for the e-cig industry is tremendous but it is not without hurdles as many cities and states have prohibited their use in restaurants and bars and they cannot be sold to minors. According to smokeless vapor tobacco cigarette leader Victory Electronic Cigarettes Corporation (OTCBB - ECIG), there are over 1.3 billion smokers worldwide who comprise a \$720 billion market. Additionally, each year 19 million Americans try to quit smoking and spend over \$1 billion on products to help them quit. Electronic cigarettes are positioned to capture significant share of both of these markets.

An electronic cigarette uses state-of-the-art micro-electronic technology to provide smokers with a real "smoking" experience without health related issues typically associated with traditional cigarettes. The pen features a unique three tipped design, for tobacco/marijuana, wax atomizer, and e-liquid tip. There is no fire, flame, tobacco, tar, carbon monoxide, ash, stub or smell as is the case with traditional tobacco use. The smoker gains the physical benefit from the nicotine, but also the psychological benefit from the ingrained hand to mouth behavior of the tubular device which is one reason why it has been successfully used as a smoking cessation device.

On the heels of a U.K. study, the FDA has decided to expedite reviews for tobacco products based on risk and toxicity as it prepares its e-cigarette rules. According to the journal *Addiction*, cigarette smokers who used an e-cigarette were 60 percent more likely to stop smoking than those who used traditional nicotine replacement therapies. Today, gums and lozenges that claim to help smokers quit must go through the FDA's rigorous drug approval process. The agency is closely monitoring the approach adopted by the European Union in which e-cigarettes will be regulated as medicines and health agencies can encourage their use for smoking cessation. The European Union decided earlier this year that it would regulate as medicines e-cigarettes that contain a nicotine strength of more than 20 milligrams per milliliter.

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Clearly, traditional tobacco and cigarette producers have recognized the fact that e-cigarettes are becoming a popular alternative to traditional cigarettes due to the advantages cited above. Industry sales are expected to nearly triple in 2014 from the \$1 billion level in 2012 and in response to this growth trajectory, Lorillard (NYSE – LO), the 3<sup>rd</sup> largest tobacco seller in the U.S., recently acquired \$40M in sales Blue eCigs for \$135M.

Medical Marijuana

In addition to the traditional tobacco use, a huge market exists for the use of vapor pens and e-cigs with medicinal marijuana. The medical marijuana and recreational marijuana industries are in the early innings of a major adoption phase which will result in up to \$20 billion in revenue in the coming years. Approved in 20 states and D.C., more states will soon come on line increasing the size of the market to \$100 billion.

Support for legalization of marijuana in recent U.S. polls show a large majority favor, backing the laws of forward-looking states like Colorado and Washington that have more flexible regulation toward moving medicinal marijuana to recreational use. Twenty states, including the District of Columbia allow medical marijuana sales, with eight more to follow. Municipalities across the country have moved to decriminalize possession. Money is the driver; Colorado, which first approved the use of medical marijuana in the year 2000 and since then passed Amendment 64 to expand use of the substance beyond therapy, expects almost \$600 million in revenue outside of clinical measures and an additional \$67 million in taxable income. Tourism to the state could increase this number substantially when recreational use is approved. Predictions say the domestic cannabis market will reach \$20 billion in the next five years.

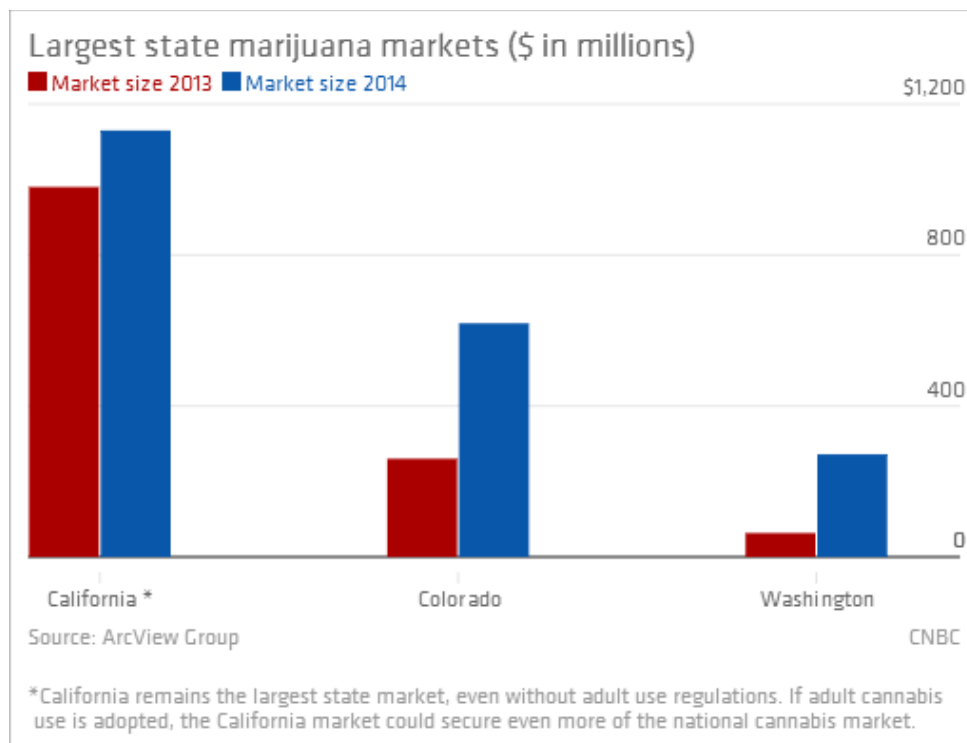
Moreover, medical marijuana and even recreation marijuana use support has come from the most unlikely of sources. A 2013 poll published in *The New England Journal of Medicine* demonstrated that fully 76% of poll participants (doctors) are in favor of the use of marijuana for medicinal purposes. The notion has recently received an endorsement from high profile doctors such as Dr. Sanjay Gupta. Plus, a recent CNN poll found that 55% of Americans believe marijuana should be legalized. In lockstep with the American public, even President Obama gave a tacit endorsement regarding the recreational use of marijuana.

Figure I below represents the three largest legal marijuana markets by state in the U.S. based on 2013 sales and 2014 projections.

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**Figure I: Largest Legal Marijuana Markets by State, U.S.**

Source: CNBC



A simple extraction of the data from the chart above indicates that the projection for the marijuana market in California, Colorado, and Washington for this year alone is roughly \$2 billion dollars. Extrapolation out to legalization in all 50 states and the \$350 billion market by 2020 in the U.S. alone seems more than reasonable.

The smokeless vapor pen product represents a viable direct method for exposure into the tobacco and legal marijuana market as consumers look for alternative ways for consumption. ML Capital Group offers this opportunity at low entry price level.

### THE *SUPERSTAR* PRODUCTS

The e-cigarette or vapor pen products offer tobacco and marijuana consumers the chance for consumption in public places where regular products are banned. The *SuperStar* Vapor Pen, which sells for \$69.99 on the ecommerce site, is a vapor smokeless device that enables people to consume tobacco, wax, or liquid form in a highly efficient, clean, and safe manner. The pen features a unique three tipped design, for tobacco/marijuana, wax atomizer, and e-liquid tip, although the primary end user market for the products is the medicinal marijuana segment. The pictures below are *SuperStar* Vapor Pen products.

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Figure II. Sample Vapor Pens

Source: [www.SuperstarVaporPens.com](http://www.SuperstarVaporPens.com)



Figure III. The *SuperStar* Line

Source: [www.SuperstarVaporPens.com](http://www.SuperstarVaporPens.com)

The Company's products, which became available for sale just a few weeks ago, have already been well received by the wholesale and retail market. ML Capital has distribution and marijuana dispensary relationships in several states such as AZ, CA, NY, and CO, and is rapidly expanding its reach which should result in rapid sales growth this year. Strategic relationships with its advisory board members will likely have a materially positive effect on its growth as well.

Some of the Company's advantages include its (basic) price point, the fact that it is not selling anything that goes into the pen, and its universal head which can be used with other manufacturers.

### ML CAPITAL GROUP INC. EXECUTIVE LEADERSHIP

#### **Lisa Nelson – President, Chief Executive Officer**

Ms. Nelson has over 25 years of experience in sales, operations, entrepreneurship, and executive management in a variety of industries including hospitality, healthcare, marketing and retail. Previously she founded and managed Basket Creations by Lisa where she was instrumental in national sales and developing multi-level marketing channels. Ms. Nelson graduated with a Nursing Degree LPN in 1992 from Pima Community College.

#### **Carolyn Redendo – Director**

Ms. Redendo is a seasoned restaurant venture owner and operator with over 10 years of experience in creating unique culinary concepts and chic settings. Recently, she started Sofrita which offers a unique dining experience with a Spanish flare. In addition, she has been honored by the Fountain Hills, Arizona Chamber of Commerce as "Business Person of the Year" and "Business Advocate of the Year". Ms. Redendo began her



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career as in education as a teacher and assistant administrator and received her Bachelor of Arts in psychology at Hofstra University and also a Masters in Educational Leadership at Northern Arizona University.

**Carlos Lopez – Director**

Mr. Lopez has over two decades of experience in mortgage banking and finance in several roles including Senior Underwriter, Sales Manager, and Operations Manager. These roles have provided a variety of crucial experience in real estate including development of expertise in state and federal regulations. Early in his career he worked in the medical industry in a venture business. Mr. Lopez is a graduate of San Diego University.

**Jeffrey Dias – Advisory Board Member**

Mr. Dias became an official member of the Company's Advisory Board to help with its strategic direction, business development and overall value creation for shareholders. Mr. Dias brings over thirty years of successful senior leadership experience to the Company and has previously served in the capacities of President, Chief Executive Officer, and Global Managing Director among others during his established career. His business background has primarily been with major corporations having consumer based products with global distribution, including Procter & Gamble (NYSE – PG) as Worldwide Managing Director of Healthcare Products; the Dial Corporation as Executive Vice President; President and CEO of Nellson Nutraceutical Corporation, the world's largest manufacturer of fortified protein bars; and The Singer Company, where he was President. Jeff has led businesses in 150 countries, including launching new enterprises in North America, Europe and Asia and has been responsible for growing and improving established companies having annual revenue of \$4 billion. Jeff is an Honors graduate of Stanford University (A.B. Economics) and the Harvard Business School (MBA).

**Mark Steinmetz – Advisory Board Member**

The owner of two licensed dispensaries in Arizona -- Nature's Medicine in central Phoenix and in Fountain Hills, Mr. Steinmetz was recently added to the Company's Advisory Board. Mr. Steinmetz has an esteemed career of holding executive leadership positions and being responsible for growing companies. In 1996, Mark was tapped by ABC Radio/Disney as their Radio Stations Group President, responsible for 700 employees and \$150 million in revenue. During his years at ABC Radio/Disney, he was responsible for conceptualizing and developing ESPN Radio and the Radio Disney brand, and personally orchestrated the acquisition and launch of the very first flagship Radio Disney stations in Atlanta and Minneapolis. Radio stations in Chicago and Pittsburgh soon followed along with many others nationwide. Mark moved to Arizona in 2003 to oversee and manage all of the Phoenix CBS Radio Station Group, where he served for three years and established new records for revenue and profitability.

**RISK FACTORS**

In our view, the biggest factors in impeding ML Capital's success are brand recognition, awareness, and product education regarding its target market. Secondary risks include any new regulations or laws that limit the growth and utilization of vapor pens or medical marijuana on a state or federal level. In our view, given the

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nascent nature of the industry, all companies must struggle with differentiation, distribution capabilities and brand awareness. Separately, we deem it likely that the FDA will take a page from the European Union's approach to vapor pens which would lift any overhang on the space itself. It should be noted that a number of stocks that have tied their fortunes to medical marijuana or the vapor space have come under serious scrutiny due to questionable business models and wild prognostications. While that has had an impact on many stocks market values and trading, we believe that those fully reporting firms generating revenue such as MLCG will remain unaffected. Finally, risks such as those posed by larger firms or newer entrants with exciting new offerings are typical obstacles facing companies of MLCG's size and status.

## CONCLUSION

The electronic cigarette, or e-cig market, currently generates \$3 billion in annual sales and industry experts forecast it could reach the \$300 billion mark in the next ten years. ML Capital recently launched sales of its vapor pen and accessories for use with tobacco, e-liquid, and medicinal marijuana. With distribution and medical marijuana dispensary relationships in a handful of states, the Company has already begun to book wholesale and retail sales.

Studies that indicate e-cigs and vapor pen usage serve as highly effective smoking cessation devices as well as an alternative to traditional tobacco-based cigarettes. Thus, the market could emerge as one of the fastest growing consumer segments in years. Some of the Company's advantages include its (basic) price point, the fact that it is not selling anything that goes into the pen, and its universal head which can be used with other manufacturers.

As illustrated in the table below, MLCG's valuation pales in comparison to its publicly traded peers, offering a tremendous opportunity for investors. For example, e-cig leader MCIG, which carries a \$125M market cap, recorded \$110,000 sales in the most recent quarter. Moreover, the top 4 e-cig companies carry an average market cap of \$195M. With a paltry sub-\$2M market cap, MLCG offers huge upside for opportunistic investors. We are these shares Speculative Buy with a \$0.24 price target. Even at \$0.24, the stock would still trade at a fraction of the value afforded the peer group.

Table I. E-Cig Stocks

Company	Ticker	Price	Mkt Cap (\$, mil)	Est. 1Q14 Sales
mCig	MCIG	\$0.47	\$125	\$110,000
Vape Holdings	VAPE	\$1.60	\$14	\$31,000
Vapor Group	VPOR	\$0.06	\$21	\$950,000
Victory Elec. Cig	ECIG	\$8.35	\$621	\$4,138,000
<i>Average</i>			<i>\$195</i>	
<b>ML Capital</b>	<b>MLCG</b>	<b>\$0.02</b>	<b>\$2</b>	<b>N/A</b>
<b>ML Capital</b>	<b>MLCG</b>	<b>\$0.24</b>	<b>\$20</b>	<b>N/A</b>

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**Recent Trading History For MLCG**

(Source: [www.Stockta.com](http://www.Stockta.com))







## ML CAPITAL GROUP INC. (OTCQB - MLCG)

### Senior Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

### Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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