November 19, 2018

STWC HOLDINGS, INC.

(OTC – STWC)

Price Target: $6.00

Rating: Speculative Buy

STWC HOLDINGS, INC.
The Cannabis Stock with the Greatest Upside

Rob Goldman
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COMPANY SNAPSHOT

STWC Holdings, Inc. represents a complete ecosystem of entities and services that support the burgeoning legal Cannabis industry. From capital, strategic partnership, and seed-to-sale consulting to design, marketing and advertising services, the company is highly diversified within the industry by both offering and geography. The Company offers made-to-order solutions to address the range of challenges that Cannabis entrepreneurs and businesses face.

KEY STATISTICS

Price as of 11/16/18	$1.65
52 Week High – Low	$2.90 - $0.08
Est. Shares Outstanding	27.1M
Market Capitalization	$44.8M
Average Volume	6,002
Exchange	OTCPK

COMPANY INFORMATION

STWC Holdings, Inc.
1350 Independence St
Suite 300
Lakewood CO 80215

Web: http://www.strainwise.com/
Email: investors@strainwise.com
Phone : 303.736.2442

INVESTMENT HIGHLIGHTS

Led by founders which obtained the world's first recreational Cannabis license, STWC is poised to emerge as one of the most important companies in the Cannabis ecosystem. Its leadership has been involved with the submission of over 300 license applications in various states, achieving a success rate over 90%.

Generating high margin consulting services revenue from clients of all sizes and many states, STWC typically garners lucrative equity stakes in exchange for services rendered. Thus, STWC is well-positioned to take advantage of an industry slated to more than double to $23.4B.

STWC was recently awarded 14 contracts and has $2-5M worth of financial visibility in the next few years. These contracts represent service only as well as service + deals that represent potentially STWC's earnings equity.

We project $3.1M in revenue in CY19 and $9.4M in revenue and $0.20 in EPS in CY20. Both years' forecasts could prove to be conservative given the high industry growth and STWC's vast prospect opportunities. Plus, with clients from varied geographies and differing businesses, the STWC model is de-risked.

With major upside ahead, we believe that the stock is dirt cheap, considering that peers in the same space trade at market caps of around $900M, despite their low, relative revenue generation. Our $6 price target reflects a reasonable $128M market cap and is 30x our CY20 EPS forecast. We rate STWC Speculative Buy.

COMPANY OVERVIEW

STWC Holdings, Inc. (OTC – STWC – Speculative Buy), whose founders obtained the world's first recreational Cannabis license, is an integrated, diversified operating company that offers key services to Cannabis entrepreneurs and businesses across the country. For example, the Strainwise segment has been involved with the submission of over 300 license applications in various states, achieving a success rate over 90%. Management has already begun to leverage this unmatched hit rate with recently signed deals that provide enviable near-term financial visibility, along with a deep prospect list. It should be noted that the Company's proven, multi-faceted offering includes options for equity ownership and potential investment in its consulting clients across the U.S. These events could lead to large, recurring, diverse and thus de-risked revenue streams, along with dramatically reduced integration issues as the firms become part of the STWC group over the next few years. As a result, we believe that STWC is well-positioned to emerge as one of the most important companies in the multi-billion dollar legal Cannabis ecosystem.

Through subsidiaries and divisions led by Strainwise Consulting, the Company's SquareOne suite of services offers a proven and highly effective array of consulting services to clients seeking assistance with license applications. SquareOne is a 3-phase consulting platform developed by Strainwise that assists Cannabis entrepreneurs in launching their new businesses successfully with measurable results. Critical continuing industry education and certification will be offered through Strainwise University, beginning in 1Q19.

The Opportunity

As of this writing, no fewer than 33 of the 50 states in the U.S. (plus the District of Columbia) have legalized Cannabis either for medicinal or recreational use, with roughly one in five states having approved Cannabis for both uses, and more are in the offing. By now, most Americans know the Cannabis investment thesis and the order of magnitude of the expected adoption growth rates. Early on in this cycle, sales were dominated by medicinal Cannabis sales. Interestingly, according to Arcview Market Research/BDS Analytics, medical marijuana sales are projected to total \$4.3B this year, compared with \$6.9B in adult recreational use. By 2022, the groups project total revenue of \$23.4B, with \$7.7B coming from medical Cannabis and a whopping \$15.7B derived from adult Cannabis sales. That last figure is more than a double in just 4 years! Clearly, with new states and new licenses come new players, on top of the plethora of opportunistic entrepreneurs in states in which legalization has already occurred. In our view, these events represent an almost greenfield opportunity for STWC with few companies of scale or a deep history of success or experience in business, legal, financial, or operations know-how in the Cannabis industry. (Analyst's Note: A "greenfield opportunity" refers to a marketplace that is completely untapped and free for the taking.)

High Upside, Low Relative Risk

Our current model calls for \$3.1M in sales and \$2.2M in net profit in CY19, and \$9.4M in revenue and \$6.6M in net income in CY20. These figures represent consulting service-only derived revenue as well as "Earnings Equity Ownership" and Minority Interests in various Cannabis-related entities across the country that are provided to STWC in exchange for certain services rendered. It should be noted that these figures could prove to be conservative given the deep prospect pool and the potential growth in revenue and profitability of the clients in which STWC garners equity stakes, down the road.

Furthermore, elements of the Company's client services/equity ownership approach are similar to the franchise model, considering that all STWC clients utilize a single, uniform platform with the same software, compliance tools, operations guidance, best practices, etc. As a result, future integration of those firms into the STWC family is further de-risked given that operations and procedures mirror the STWC model and a close relationship has already been fostered. Plus, cross-sale potential for the entire STWC group is enhanced.

At current levels, we believe that STWC offers Cannabis-centric investors a unique opportunity for five, striking reasons:

- An innovative, high-margin model
- Favorable risk/reward profile
- Solid financial structure
- Under-the-radar status
- Low relative valuation

The Company's model is a service business with no material cost of revenue, or operating costs. Moreover, by taking equity stakes in emerging companies in varying segments of Cannabis and in multiple states, upside is very high with reduced risk to forecasts (accounting only below the operating line.) With such diversity of geography, revenue streams and a reduction of direct legal or market risk, an investment in STWC is akin to buying into the broader Cannabis spectrum in one company. These factors contribute greatly to the favorable risk/reward profile, in our opinion.

Separately, as evidenced by the current low trading volume, the Firm has remained largely under the radar in recent quarters. With several new contracts in hand, an overhauled balance sheet, no long-term debt, a huge splash at the recent MJ Biz 2018 conference, investors may indeed be getting in on the ground floor of a huge, high-growth industry—yet in a company whose leaders are arguably its pioneers!

Finally, STWC trades at a massive discount to 2 of its primary comparables: **MariMed, Inc. (OTC – MRMD – NR)** and **Cannabis Strategic Ventures (OTC – NUGS – NR)**. Both firms are also engaged in a similar approach with respect to consulting services, equity ownership (via investment or other transactions) and operate in multiple states. Interestingly, both stocks trade at a market cap of around $900 million, versus the current, paltry $45M market value afforded STWC. In our view, MRMD is a few steps ahead of STWC with respect to operations, clients, product sales, subsidiary ownership, strategic partnerships and financials. Of course, it is easy to do so with such an outsized market value. Conversely, NUGS appears to be behind STWC, in our view. While we cannot project if the current market caps of these firms are sustainable it is clear that even if they were to decline, STWC remains undervalued.

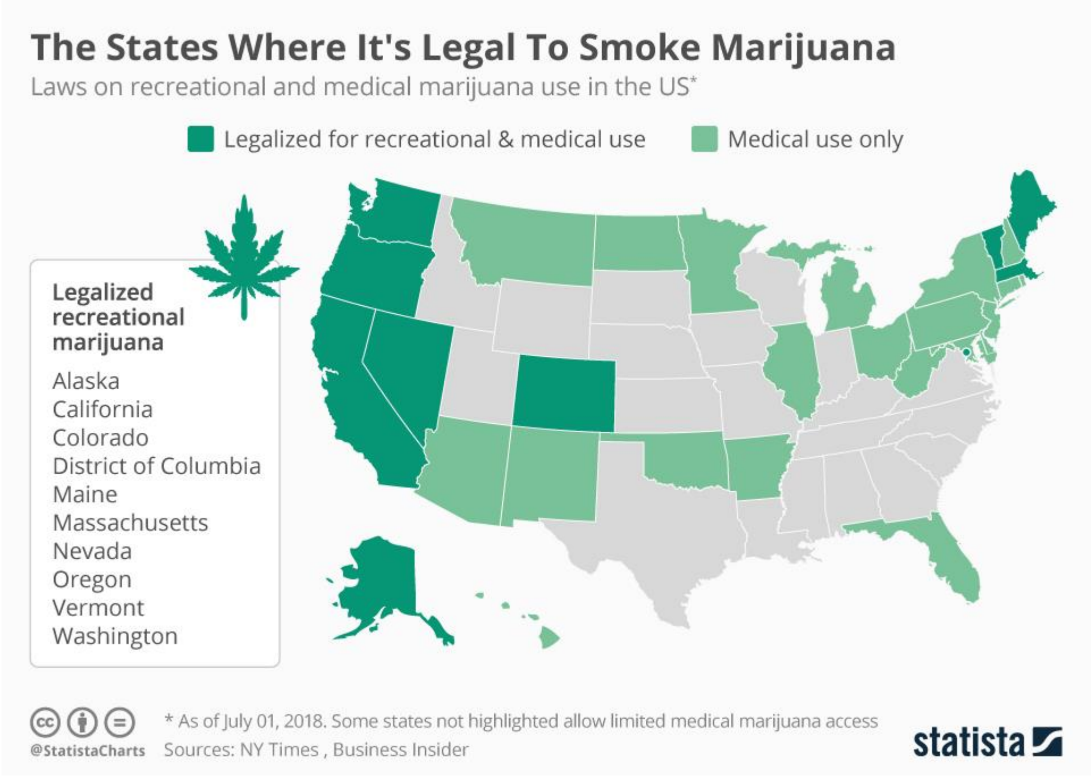
Our current target price for STWC is $6.00, which represents a reasonable market cap of around $128M, or 30x our CY20 EPS forecast of $0.20. It should be noted that MRMD will likely generate around $13M in revenue this year which would represent a nosebleed level Price/Sales ratio. Plus, it appears that NUGS will generate less in revenue than STWC this year. Based on our estimates, at $6.00 per share, STWC would trade around 13x revenue, which while high for traditional industries, as evidenced by these comparables, is still a very low valuation for this segment of the Cannabis space. Against this backdrop, we rate these shares Speculative Buy.

CANNABIS: THE VIEW FROM 30,000 FEET

Proponents refer to anything Cannabis-related as a gold rush or a period akin to post-Prohibition, while naysayers cite Tulipmania. In our view, it is neither. It is certainly not Tulipmania and to refer to it as post-Prohibition or a modern-day Gold Rush does not do it justice. The Cannabis industry is a new paradigm in commerce as it doesn't just include the introduction of a new category of high-demand, high-growth consumer products. Given its limitations from the legal perspective and hurdles from the financial perspective, an entire ecosystem has been spawned---oftentimes in each individual state in which some form of legalization has occurred.

The States vs. the Feds

As of late November 2018, 33 of the 50 states in the U.S. (plus the District of Columbia) have legalized Cannabis either for medicinal or recreational use. The image below, courtesy of Statista.com, illustrates that ten states plus DC (add in Michigan and Missouri (medical) too now) have approved marijuana for both medicinal and recreational use.

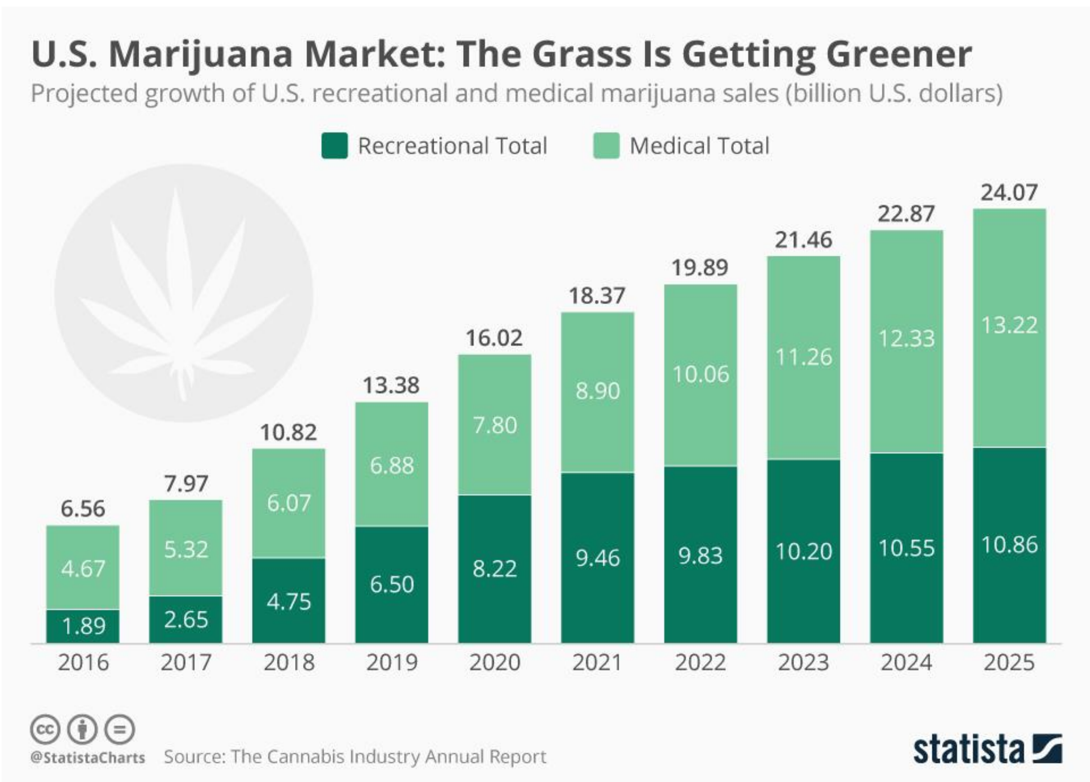


It may seem hard to fathom, but according to the Drug Enforcement Agency (DEA) marijuana is still considered a Schedule I drug by the federal government, placing it in the same category as heroin. Schedule I drugs are found to have a high potential for abuse, have no acceptable medical treatment use, and are considered to inherently have a lack of safety protocols for use while a patient is under medical supervision.

Although the federal government deems possession of Cannabis illegal and the Federal Drug Administration (FDA) has yet to approve Cannabis as a treatment for medical conditions, the National Cancer Institute (NCI) recently published an interesting overview of Cannabis and its prospective medicinal properties on its website (http://www.cancer.gov/about-cancer/treatment/cam/hp/Cannabis-pdq#section/all).

The Numbers

Early on in this Cannabis revenue cycle, sales and thus attention on the space were dominated by medicinal Cannabis business. Interestingly, according to Arcview Market Research/BDS Analytics, medical marijuana sales are projected to total $4.3B this year, compared with $6.9B in adult recreational use. By 2022, the groups project total revenue of $23.4B, with $7.7B coming from medical Cannabis and a whopping $15.7B derived from adult Cannabis sales. Clearly, the movement has pivoted toward adult use versus medicinal use. A September Pew Research survey notes that while 62% of all Americans surveyed are in favor of legalization, with 74% of millennials were heavily behind the notion. Perhaps that is why Statista illustrates a similar order of magnitude with respect to future recreational sales.



The Lay of the Land

As mentioned at the outset of this section, Cannabis has spawned its own ecosystem on both a national and localized scale. True success and evolution in a new industry must be driven by a combination of political, economic, and market conditions, not just grass roots and narrow legislative support. The companies that have scale, vision, capital, and competitive advantages become niche leaders, and end up being acquired by major players seeking to gain critical mass through acquisition rather than building products, services and a food chain from scratch. We see the same things eventually happening with the Cannabis space. The early players were largely budding stage or Mom and Pop shops soon destined to be acquired by bigger, better financed players with real business experience. Case in point: **Constellation Brands (NYSE – STZ – NR)** made a $4B investment in the leading Canada Cannabis producer **Canopy Growth (NYSE – CGC – NR)** a few months ago. Constellation, along with others such as **Coca-Cola (NYSE - KO – NR)** and Walmart (NYSE – WMT – NR) have made comments about their plans to sell a CBD-based (cannabinoid, non-psychoactive or THC ingredient) suite of beverages once the 2018 Farm Bill passes, making industrial hemp legal. The language in the bill for the first time amends the federal Controlled Substances Act of 1970 so that industrial hemp plants containing no more than 0.3 percent THC are no longer classified as a schedule I controlled substance. The bill is likely to pass by year-end and serve as a catalyst for the space.

But before a company can aspire to reach Canopy's stage, it has to start from somewhere. In this vein, the firms in the food chain run the gamut from growers, to equipment providers, dispensers, refiners, marketers, financial technology providers, and food/retail businesses. Since it is largely a cash business due to the federal regulations scaring off most banking institutions, few have the resources to compete or know how to operate let alone file proper paperwork for licensure, etc. Moreover, few have meaningful business operations experience in general, and especially are not seasoned in the Cannabis space. Perhaps this is why firms such as STWC, MariMed and others have elected to enter the services segment of the overall market.

The Services Market

A quick review of the firms offering services and business intelligence/operations to Cannabis entrepreneurs demonstrates that there are few firms of scale and those that have meaningful experience are likely to emerge as the 800-pound gorillas in this segment.

<u>MariMed</u>

According to its website:

"MariMed is a multi-state Cannabis organization that develops and manages Cannabis facilities and branded products lines. MariMed's team has developed state-of-the-art regulatory-compliant facilities in DE, IL, NV, MD, MA, and RI which are models of excellence in horticultural principals, Cannabis production, product development, and dispensary operations. In addition, MariMed is a leader in precision-dosed products for the treatment of specific medical symptoms. MariMed currently distributes its products in select states and is expanding licensing and distribution to numerous additional markets, encompassing thousands of dispensaries."

It appears that the company MariMed provides turnkey solutions to Cannabis cultivators and dispensaries. The Company specializes in solutions for assisting with applications, securing and operating facilities, manufacturing and processing, dispensary design, merchandising and sales. However, it clearly is directly in the product development and sales segment as well and desires to continue on that front. Judging by their latest 10-Q, MariMed appears well capitalized and has significant property (facilities) as well as a number of joint ventures and aggressive investments in other firms to propagate its brands and reach. However, for the first 9 months of the year it recorded $8.4M in revenue and a net loss of over $20M due to stock option issuances and debt issuances. Its October 2018 acquisition of BSC Group bolsters the MRMD strength in this service category and cements it in its head-to-head in competition with STWC, in our view. BSC is a multidisciplinary consulting company with a Cannabis industry operational consulting focus and a foothold in New Jersey.

We believe that MRMD is the most direct comparable with respect to its business model. Interestingly, much of its targeted operations seem to be east of the Mississippi while STWC is entrenched west of the Mississippi. This could prove to be a bifurcation, geography-wise, going forward and mean that the two firms would rarely go head-to-head.

Cannabis Strategic Ventures has been aggressive since it got its start on the consulting side a year ago, has executed acquisitions and utilizes an incubator and integrated, cross-sales model. Revenue remains light and from the filings we are under the impression that the principals may not be as experienced as the STWC team—although they have assembled quite a large and solid team. Given their California-domicile, STWC may see them from time to time but as the approach differs, so too does the risk/reward profile, in our opinion.

An interesting player in the space, **Medicine Man Technologies (OTC – MDCL – NR)** might be considered by some to be a comparable to STWC since it has a history in the Cannabis consulting arena. However, with consulting revenue an ever-shrinking part of total revenue, and emphasis on product sales, cultivation techniques and Master Licensing Fees (which were 75% of revenue in 3Q18), MDCL employs a solid business model and even may sell to the same channels as STWC. But, to consider it akin to STWC is not an apples-to-apples comparison.

THE STWC DIFFERENCE

A Terrific History

The Founders entered the Cannabis business in Colorado in 2010 with the purchase of a fully vertically integrated medical operation that became available through a failed real estate transaction. Instead of selling the property as originally intended, the Founders stepped in to assume the contract and secured the required licensure. In the process they became interested in the business potential of Cannabis and felt their prior professional experience in unrelated industries provided a unique opportunity to distinguish themselves in what was, at that time, largely a craft industry.

From 2010 to 2015 the Founders grew their Colorado operations from a single dispensary to nine retail locations with cultivation capacity in excess of 130,000 square feet. In 2014, Shawn Phillips was awarded the first three recreational use licenses in the city of Denver. Because of the aggressive expansion program for his Strainwise stores, Mr. Phillips was recognized as one of the ten largest holders of Cannabis licenses in the Denver metropolis, with Colorado being a jurisdiction widely recognized as the "Silicon Valley" of Cannabis.

At that same time, Strainwise's compliant labeling system was used as an example by the state of Colorado for other companies to follow. Strainwise was the first Cannabis company to be approved by the FCC for FM radio advertising and was the only Cannabis company accepted by mainstream publications, like The Denver Post, for marketing. Additionally, we the Company has been mentioned in numerous publications and national media outlets.

Mr. Phillips has recently returned to the Company devoting his time to expanding their national operations; after stepping away in mid-2015 to divest his position in the Colorado licensed operations.

Mrs. Phillips has continued to maintain her focus of furthering the Company's vision and has successfully built out the consulting arm of the company to enter into other markets thus constructing the Companies national footprint. From application and license work, to a breadth of services including accounting, HR, compliance, marketing, branding and strategic advisory, STWC is positioned as an invaluable partner to any stage of organizational development in the industry.

STWC Today: Square One

The SquareOne platform is the roadmap used by Strainwise Consulting to successfully deliver consistent results to Cannabis clients.

Phase One:

MARKET ENTRY SERVICES

1.1 Opportunity Assessment
Strainwise Consulting provides all clients an in-depth evaluation and feasibility of the opportunities in the Cannabis industry available to them.

1.2 Licensing Support
The licensing support team is comprised of a unique mixture of legal and compliance specialists, business analysts, business managers, and industry experts having extensive experience across all the various industry verticals and states.

Phase Two:

OPERATIONAL READINESS AND LAUNCH SERVICES

2.1 Disciplined Program & Project Management

2.2 Design & Build Out
The project managers at Strainwise Consulting will establish a time line, organize, and oversee all aspects of the project to ensure it is ready for implementation in a timely manner.

2.3 Operational Launch
The team ensures clients are ready for launch at every step. This includes branding assistance, staffing, training, packaging and labeling, advertising, and compliance.

Phase Three:

CONTINUED OPERATIONAL EXCELLENCE AND ADVISORY SERVICES

3.1 Ongoing Consultation

The STWC Business Model

It should come as no surprise that given the high profile, experience and strong reputation of the STWC founders, the Company routinely generates a good deal of its prospect list from referrals, call-ins, networking, etc. Prospects and clients may be firms in the earliest of stages or those in the midst of expansion and require assistance in licensure, grow operations, cultivation, processing, dispensary procedures, product design, marketing, etc. Today, the Company utilizes a three-category approach to its offerings to clients and prospects. Contract Type #1 is service only and therefore a pure cash, often recurring revenue stream. To date, the Company has successfully utilized their model to obtain Service-Only contracts in six states.

The middle category is what we believe to be the most important driver for the Company. In addition to the cash component, STWC negotiates (each deal is different) with the client for an equity stake for essentially sweat equity in exchange for services rendered. These events can be staged and could result in STWC emerging as the majority holder. In this fashion, STWC and its shareholders benefit from the revenue and profit growth opportunity of these underlying firms with essentially no risk—just time for work performed. Moreover, not only are the businesses diversified with respect to offering but also geography. As we move forward, we believe that this category will be the dominant offering for STWC.

The final silo, Service + Investment includes an opportunity for STWC to make a strategic investment. Much like the middle category, this approach could result in a series of hidden assets that can be monetized via sale as well as carrying the operations via the equity method on its financial statements. However, given the direct or indirect funding, there is greater risk here. Still, considering STWC would be with the underlying management team from potentially the earliest of stages, that risk in our view is muted. To date, eleven Service + contracts have been awarded in California, Oklahoma and Puerto Rico, leveraging the $4B annual tourism business on the island.

Other Business Lines

In recent months, the Company has secured ownership and/or control positions in several operating and newly formed entities to further develop, broaden and monetize its ecosystem and service offering. The key categories in which the Company is developing includes: Accounting, HR, Compliance, Packaging, Software/Reporting, and wholesale trading.

A sleeper segment with regards to future importance is Strainwise University. Management believes that the soon-to-be-launched Strainwise University provides the most comprehensive coursework offered in the Cannabis industry. STWC provides in-person classroom training, online live webinars, and online recorded sessions. Students can tailor their education to their specific areas of interest, take courses according to their individual schedules and proceed through the curriculum at their own pace. Students are required to take and pass a test at the end of each course before receiving a certificate which indicates that they have successfully completed the class.

Strainwise University is run in connection with the National Cannabis Chamber of Commerce, a Florida and Denver based enterprise. It should be noted that STWC' leadership has extensive experience developing and implementing training curricula across numerous industries.

Its trainers have hands-on experience in:

- Regulation compliance
- Marijuana basics
- Cultivation, Processing and Dispensary best practices
- Inventory and point of sale systems
- Safety and security protocols
- Compliance best practices
- Finance and Accounting in a cash based business
- Requirements to apply for a cultivation, processing or dispensary license

What's New

In late October 2018, STWC announced that it signed 14 new contracts across the U.S. as part of its push to establish itself as the most trusted Cannabis consulting firm in the nation. These contracts were with firms based in Puerto Rico, California and Oklahoma. The contracts cover the design and build-out of numerous marijuana dispensaries and cultivation and processing facilities, including employee training, operational management, intellectual property licensing, and compliance oversight. This range of services will provide STWC's clients the tools and operational know-how to launch and operate successfully in their new Cannabis businesses. The contracts can best be characterized variably as development agreements, long-term management agreements, trademark license agreements and consultant services agreements. The total economic value of these contacts provides up to $3.9 million in revenue to the company over the next 2-5 years.

Looking ahead, the current contracts in hand provide enviable visibility to STWC leadership and we believe that the addition of new silos in the form of service offerings via organic or inorganic introduction could occur in 2019, along with a critical mass of revenue and break-even results beginning in the second half of the year. We expect that management will focus its efforts on the key states that offer low-hanging fruit and a dearth of head-to-head competition from experienced firms which could accelerate STWC's market share and results. Going forward, we believe that an up-listing to a major exchange could also be in the cards in conjunction with the expected solid financial and business development results.

THE STWC LEADERSHIP TEAM

Erin Phillips, Co-Founder, Chief Executive Officer

Erin Phillips is the President of STWC's, Strainwise. Erin has over 17 years of operational and management experience and she is the sole shareholder of the Company. Erin is one of the early pioneers in the marijuana industry in Colorado and is one of the founders of the Company. Erin is responsible for managing the marketing, advertising and promotions at the branded stores, and is responsible for establishing and expanding the brand recognition of the Strainwise name and logo consistently throughout the Company's target markets. Prior to establishing Strainwise, Erin spent 13 years in the mortgage industry as a business owner, audit and funding supervisor, title company closer, mortgage loan processer, and loan originator. Along with her position as a mother and step-mother of four children, Erin's additional experiences include her diverse background of charity and non-profit work, along with her volunteer work with several large Down Syndrome organizations, hospitals, homeowners associations and national sports groups.

Shawn Phillips, Co-Founder, Senior Business Development Strategist

Shawn Phillips is one of the early pioneers of Colorado's Cannabis industry. He entered the industry in 2010, with one store and 4000 square feet of cultivation space. At the time, his plan was to get the store running and profitable, and then sell it. Eighteen months later, he took the decision to expand his single store, and began building an extensive Colorado-based Cannabis operation.

Under his management, the brand boasted nine dispensaries, 90,000 square feet of cultivation space, and roughly 150 employees. According to The Denver Post, this ranked Shawn Phillips as one of the top ten license holders in Denver.

Matthew Willer, Director of Corporate Finance

Matthew Willer graduated from the USC Marshall School of Business with a B.S. degree in Finance and Management. Mr. Willer began his career at Smith Barney in the late 1990s and subsequently moved to the Corporate world where he has been an officer of director in 3 publicly traded Companies over the past 17 years. Mr. Willer has helped raise well over $100 million dollars for private and public entities. Currently, Mr. Willer is focused on the capital market initiatives, management, and strategic M&A activities at STWC Holdings, Inc.

Jason Kotzker, General Counsel

Jay is experienced in all areas of intellectual property and Cannabis law, including brand development and protection; guiding clients through Cannabis business licensing, compliance, and operational issues. With respect to Cannabis compliance, Jay has been an active participant in various state and local stakeholder working groups, which are vital to the drafting and revising of state and local laws affecting Cannabis businesses. Jay is an expert advisor for supported businesses on legal developments and regulations affecting production, transportation, microbial, potency and pesticide testing, and compliant handling and sale of Cannabis and Cannabis products. He has drafted numerous Standard Operating Procedures affecting pesticide use, green waste and legal compliance touching all areas of compliant Cannabis business operations. When Jay is not in the office, he enjoys spending time with his three children, coaching soccer, mentoring high schoolers and enjoying all of the outdoor activities Colorado has to offer.

Michael Hornbeck, Marketing and Creative Director

Michael founded Soapoint Graphics, where he entered the Cannabis space in 2009. Since, he has held the dual role of designer and creative director for over 20 of the most well-known and influential Cannabis brands and has represented two of Colorado's largest dispensary chains. Mr. Hornbeck possesses a Bachelor of Fine Arts degree from Fort Hays State University in Hays, Kansas.

FINANCIALS

Ahead of what we view as an accelerated push in its core consulting offerings, management spent much of the year strengthening its balance sheet but substantially reducing its debt. Today, there is no long term debt and total liabilities are around $1M+. Although the Company has recently signed lucrative contracts, we believe that material revenue will not be booked until the first calendar quarter of 2019. This is a reflection of both the 3-6 month sales cycle and typical back office and infrastructure ramp-up in the industry. Looking ahead, we project total revenue for CY18 of $531,000, with the bulk of it recorded in the calendar year's fourth quarter. Given the services model there is little cost associated with the recorded revenue and expect a modest full year loss of around ($824,000). For CY19, we estimate total revenue of $3.1M with modest operating profit (due to a rise in headcount and marketing expenses); however, we expect that beginning in 2H19 the equity earnings contribution from clients will begin to have a major below-the-operating-line impact, driving net income to $2.2M, or $0.07 in EPS. For CY2020, we project $9.4M in revenue, $2.8M in operating income (a margin higher than comps such as MRMD), and total EPS of $0.20, with major equity contribution once again. It is possible new revenue lines to reflect related product offerings could occur but it is too early to model at this juncture.

STWC Holdings, Inc.*
Pro Forma Projected Statements of Income
($,000)

	CY17A	1Q18A	2Q18A	3Q18E	4Q18E	CY18E	CY19E	CY20E
Revenue								
Consulting Revenue	$263	$44	$87	$100	$300	$531	$3,125	$9,440
TOTAL REVENUE	**$263**	**$44**	**$87**	**$100**	**$300**	**$531**	**$3,125**	**$9,440**
Cost of Goods	$233	$10	$2	$20	$50	$82	$700	$2,300
Gross Profit	**$30**	**$34**	**$85**	**$80**	**$250**	**$449**	**$2,425**	**$7,140**
Gross Margin	*11.4%*	*77.3%*	*97.7%*	*80.0%*	*83.3%*	*84.6%*	*77.6%*	*75.6%*
Operating Expenses								
Rent	$68	$13	$14	$14	$14	$55	$120	$300
Compensation	$524	$146	$138	$160	$180	$624	$900	$1,500
Prof Fees	$194	$50	$35	$50	$75	$210	$475	$900
Dep & Amort	$2	$0	$0	$0	$0	$2	$10	$20
G&A	$307	$53	$89	$100	$140	$382	$750	$1,600
Total Operating Expenses	$1,095	$262	$276	$324	$409	$1,273	$2,255	$4,320
OPERATING INCOME (LOSS)	**($1,065)**	**($228)**	**($191)**	**($244)**	**($159)**	**($824)**	**$170**	**$2,820**
Operating Margin	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*5.4%*	*29.9%*
OTHER ITEMS								
Other Expense (Income)	$25	$1	$1	$1	$5	$8	$20	$100
(Earn Equity Method Minority Int)	$0	$0	$0	$0	$0	$0	($2,300)	($6,000)
PRETAX INCOME (LOSS)	**($1,065)**	**($228)**	**($191)**	**($244)**	**($159)**	($824)	**$2,470**	**$8,820**
Income Tax	$0	$0	$0	$0	$0	$0	$247	$2,205
Inc (Loss) from Cont Ops	($1,065)	($228)	($191)	($244)	($159)	($824)	**$2,223**	**$6,615**
Inc (Loss) from Disc Ops	$1,479	$0	$0	$0	$0	$0	**$0**	**$0**
Net Income	**$414**	**($229)**	**($192)**	**($244)**	**($159)**	**($825)**	**$2,223**	**$6,615**
Net Margin	*157.4%*	*N/A*	*N/A*	*N/A*	*-53.1%*	*N/A*	*71.14%*	*70.1%*
EPS (Cont Ops	**($0.04)**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**($0.03)**	**$0.07**	**$0.20**
EPS (Disc Ops)	**$0.05**	**$0.00**	**$0.00**	**$0.00**	**-$0.01**	**$0.00**	**$0.00**	**$0.00**
Shares Outstanding	27,140	27,141	27,141	27,142	27,500	27,231	31,500	33,000

* STWC is on January fiscal year. Our dates and the company's dates may not match (off by one month). Incremental (conservative) differences may be present in the model due to its calendarization.

Sources: STWC Holdings, Inc. and Goldman Small Cap Research

RISK FACTORS

In our view, the overriding risk to investors is the timing of the STWC service-only contracts along with the timing, magnitude and contribution of the equity earnings contribution. Still, low cost of revenue, low overhead, diverse clientele in terms of number, concentration, type, and geography de-risk this model dramatically. Risks such as a slowdown in legalization, single state political roadblocks, federal changes in the Cannabis arena are all high-level risks for STWC and the entire industry. The variable sales cycle and our resultant forecasts reflect these issues, to a degree. Other risks relate to how or if targeted investments or acquisitions are integrated and functioning with respect to cross-sale opportunities and the magnitude of such events. Conversely, the return on divestitures may vary as well. Moreover, a related risk is the timing of closing of key targets under favorable conditions. Other risks include greater efficacy or more favorable pricing of by competitors of varying sizes, features and domiciles, including new entrants making execution a challenge. Still, these risks are typical future concerns and are also consistent with firms of STWC's size and standing.

Volatility and liquidity are typical concerns for microcap stocks that trade on the stock market. Finally, the shares outstanding of this stock could increase due to potential capital needs or to execute future large-scale acquisitions or a series of investments. However, since the proceeds of any future funding would be used in large part to advance M&As or major business development, we believe that any dilutive effect from such a funding could be offset by related increases in market value.

VALUATION AND CONCLUSION

Led by founders who obtained the world's first recreational Cannabis license, STWC is poised to emerge as one of the most important companies in the Cannabis ecosystem. Its leadership has been involved with the submission of over 300 license applications in various states, achieving a success rate over 90%.

Generating high margin consulting services revenue from clients of all sizes and many states, STWC garners lucrative equity stakes in exchange for services rendered. Thus, STWC is well-positioned to take advantage of an industry slated to more than double to $23.4B. STWC was recently awarded 14 contracts and has $2-5M worth of financial visibility in the next few years. These contracts represent service only as well as service + deals that represent potentially STWC's earnings equity.

We project $3.1M in revenue in CY19 and $9.4M in revenue and $0.20 in EPS in CY20. Both years' forecasts could prove to be conservative given the high industry growth and STWC's vast prospect opportunities

We believe that STWC offers Cannabis-centric investors a unique opportunity for the following reasons:

- An innovative, high-margin model
- Favorable risk/reward profile
- Solid financial structure
- Under-the-radar status
- Low relative valuation

The Company's model is a service business with no material cost of revenue, or operating costs. Moreover, by taking equity stakes in emerging companies in varying segments of Cannabis and in multiple states, upside is very high with reduced risk to forecasts (accounting only below the operating line.) With such diversity of geography, revenue streams and a reduction of direct legal or market risk, an investment in STWC is akin to buying into the broader Cannabis spectrum in one company. These factors contribute greatly to the favorable risk/reward profile, in our opinion.

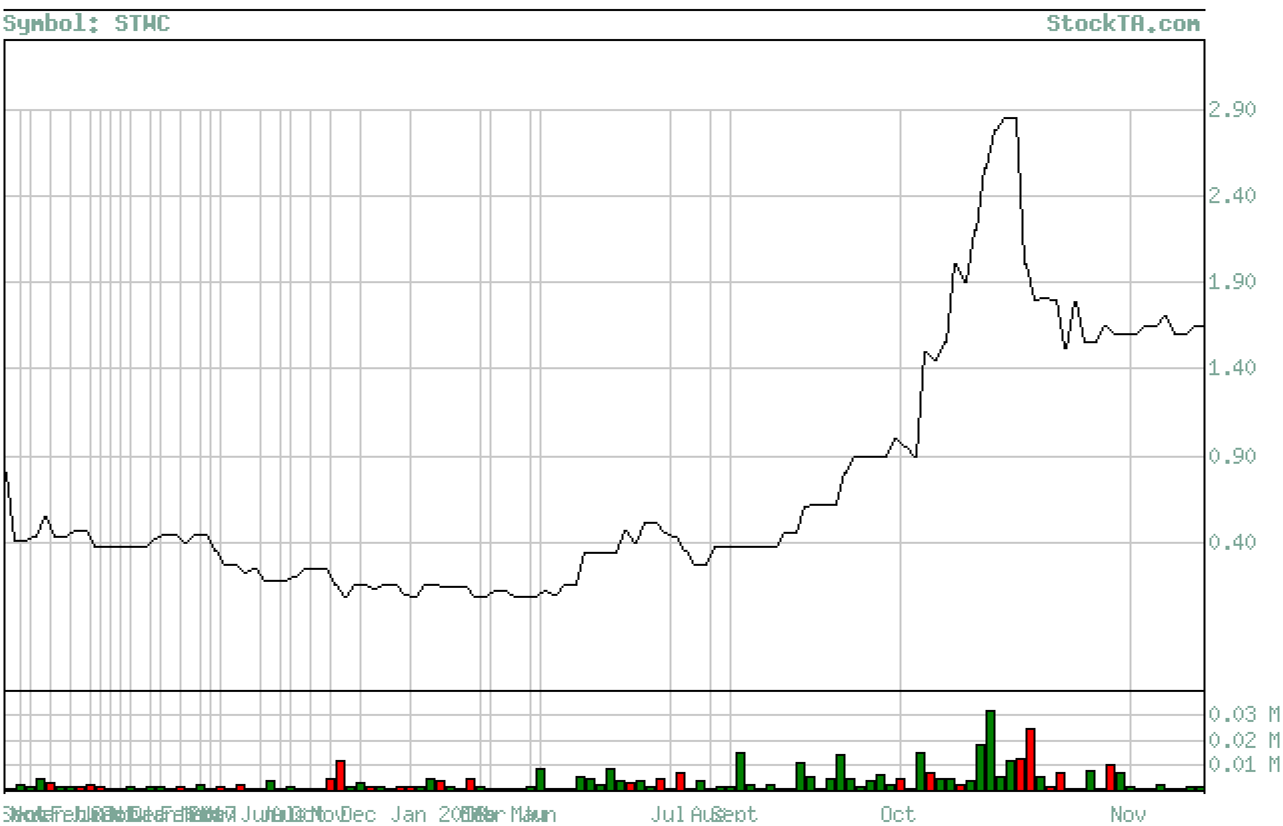
Separately, as evidenced by the current low trading volume, the Firm has remained largely under the radar in recent quarters. With several new contracts in hand, an overhauled balance sheet, no long-term debt, a huge splash at the recent MJ Biz 2018 conference, investors may indeed be getting in on the ground floor of a huge, high-growth industry—yet in a company whose leaders are arguably its pioneers!

Finally, STWC trades at a massive discount to 2 of its primary peers: MariMed, Inc. and Cannabis Strategic Ventures. Both firms are also engaged in a similar approach with respect to consulting services, equity ownership (via investment or other transactions) and operate in multiple states. Interestingly, both stocks trade at a market cap of around $900 million, versus the current, paltry $45M market value afforded STWC. In our view, MRMD is a few steps ahead of STWC with respect to operations, clients, product sales, subsidiary ownership, strategic partnerships and financials. Of course, it is easy to do so with such an outsized market value. Conversely, NUGS appears to be behind STWC, in our view. While we cannot project if the current market caps of these firms are sustainable it is clear that even if they were to decline, STWC remains undervalued.

Our current target price for STWC is $6.00, which represents a reasonable market cap of around $128M, or 30x our CY20 EPS forecast of $0.20. It should be noted that MRMD will likely generate around $13M in revenue this year which would represent a nosebleed level Price/Sales ratio. Plus, it appears that NUGS will generate less in revenue than STWC this year. Based on our estimates, at $6.00 per share, STWC would trade around 13x revenue, which while high for traditional industries, as evidenced by these comparables, is still a very low valuation for this segment of the Cannabis space. Against this backdrop, we rate these shares Speculative Buy.

RECENT TRADING HISTORY FOR STWC

(Source: www.Stockta.com)



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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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