December 10, 2018

AMERICAN DIVERSIFIED HOLDINGS CORP.

(OTC – ADHC)

Price Target: $0.15

Rating: Speculative Buy

AMERICAN DIVERSIFIED HOLDINGS CORP.

New Technology, Huge Markets to Drive Stock Higher

Rob Goldman
rob@goldmanresearch.com

December 10, 2018

AMERICAN DIVERSIFIED HOLDINGS CORP. (OTC – ADHC - $0.0033)	
Price Target: $0.15	Rating: Speculative Buy

COMPANY SNAPSHOT

ADHC is a holding company that provides executive management, corporate governance, administrative support, financial advice, and introductions to capital sources to various micro-cap private and public companies that have proven revenues and business models. ADHC is currently composed of two divisions: A patented biodevice technology division using "TENS" to alleviate the symptoms of severe migraines and an e-commerce platform to offer cannabis products to consumers.

KEY STATISTICS

Price as of 12/7/18	$0.0033
52 Week High – Low	$0.0121 - $0.0009
Est. Shares Out/Est. Float	784M/331M
Market Capitalization	$2.6M
Average Volume	2,462,382
Exchange	OTCPK

COMPANY INFORMATION

AMERICAN DIVERSIFED HOLDINGS CORP.
PO BOX 2568
Del Mar CA 92104

Web: http://www.AURACISmigraine.com
http://www.thecbdklub.com/
Email: adhcinvestor@gmail.com
Phone : 858.259.4534

INVESTMENT HIGHLIGHTS

ADHC is poised to generate major sales and market share in two multi-billion-dollar health care segments: migraine therapy and CBD-infused products. Migraine sufferers number 37M in the U.S. alone with direct and indirect costs totaling $36B each year. CBD-infused products, which carry meaningful health properties is one of the fastest-growing segments in the market today.

The patent-pending, alternative migraine therapy has demonstrated high efficacy in its current approach and ADHC will be launching a 2-year effort to receive FDA 510(k) clearance for a wearable, OTC-available, non-invasive form of the original therapy, called AURACIS. Management estimates the development costs at only $1.5M.

ADHC's cannabis efforts are presently focused on the introduction of CBD-infused beverages and other products through TheCBDKlub.com. Through this e-commerce platform, we believe that meaningful sales will occur, beginning in 2019.

Our current forecast for AURACIS sales is roughly $1M in Year 1, following approval and as much as $10M in Year 2.

Our target price reflects receipt of FDA clearance for AURACIS yet is still a nearly 50% discount to ADHC's peer subgroup. This target price is based on the current valuations afforded its publicly-traded, FDA-product cleared group and fundings for key privately-held companies.

COMPANY OVERVIEW

The Skinny

In our view, **American Diversified Holdings Corp. (OTC – ADHC – Speculative Buy)** is poised to generate outsized returns for investors. The Company is currently running 2 tracks---both of which offer huge upside in terms of revenue and market value. In fact, we would not be surprised to see the entities spun-off to shareholders down the road.

In June 2018, ADHC acquired a key patent from Brazos Medical LLC and retained its scientific team. The underlying technology is a biodevice utilizing electrostimulation for pain management to improve patient outcomes through creative innovation, with a core competency in the migraine and headache pain space. The lead product, AURACIS, is a licensed TENS migraine therapy that we believe will drive substantial value, going forward. Separately, ADHC's American Cannabis Holdings, Inc. subsidiary has entered into a supply and distribution agreement with a manufacturer of CBD-infused tea. Plus, the Company is now selling CBD-infused coffee and energy drinks as well. The CBD-infused-products space is in the early innings of a major adoption and market valuation growth curve and we believe that ADHC's unique offering and marketing approach will stand out above other brands.

Huge Market, Unmet Need

According to the American Journal of Managed Care, there are 37M migraine sufferers in the U.S. Interestingly, in a study published in a June 2018 issue of AJMC, on a global basis, migraine is the third most common disease and the sixth most disabling disease. In the United States, approximately 1 in 7 adults and 1 in 5 of those in their peak employment years (aged 18 to 54 years) report severe headaches or migraines. The economic burden of migraine in the U.S. is substantial. In fact, the AJMC study notes that in 2016 alone, direct and indirect costs of migraines amounted to an estimated $36 billion. Despite clinicians' attempts to reduce opioid-based drug use, many migraine treatments today are SSRIs, anti-depressants, or are even opioid-based and have demonstrated varying degrees of efficacy. However, in recent years, bioelectric and biomagnetic devices used for migraine treatment have either been approved for use by the FDA or are under development. These alternatives have proven to have greater efficacy and fewer side effects and appear to be the next wave of migraine treatment category.

Underfollowed Stock Set to Rise

With the AURACIS technology in hand, ADHC plans to take the wearable device to market and gain FDA clearance in the next 2 years, following engineering, development, and a completed patient study. Unlike other modalities, it is likely that ADHC offers the product, once approved, through the OTC payer channel rather than the prescription channel, which we believe would be a more difficult and costly method to generate swift adoption. We should note that as part of the development plan, management will raise $1.5M to fund the complete effort. Based on the enormous valuations afforded its publicly traded peer sub-group, fundings for privately-held peers, we believe that the value of an FDA-cleared AURACIS offering could be worth over $100M.

While there is meaningful value to be unlocked in the CBD-infused beverage segment, we have elected to take a conservative approach to our overall price target valuation. Thus, our $0.15 target reflects AURACIS only, which means investors are getting the CBD business, which on its own could be worth $10M in two years, for free. If reached, this return is huge considering the current market cap for ADHC is roughly $2.6M. Going forward, we believe that as milestones occur heading into the marketing phase, the currently underfollowed stock is likely to be news and event driven and garner greater trading activity and value. Based on fundings from private companies in the space, we could see ADHC approach the $0.05 level as milestones occur along the development path.

INDUSTRY OVERVIEW

Migraines—The Numbers

Nearly 100 million people in the U.S. alone regularly experience headaches. Most industry groups report that 37 million people suffer from migraine headaches and that migraines are three times more frequent in women than in men. While migraines can occur in people over a wide range of ages, it is most common in those between the ages of 30 to 39 years. A migraine is the third most prevalent and sixth most disabling disease in the world. The economic burden of migraine in the United States is substantial. In fact, the AJMC study notes that in 2016 alone, direct and indirect costs of migraines amounted to an estimated total annual cost of $36B.

Migraines— What are they?

Migraine headaches are considered a disease of the brain often triggered by the hyperexcitability of several cranial nerves stemming from the trigeminal and occipital branches. Migraines represent a recurring disease state that manifests with a cascade of symptoms over the course of several hours to several days. A prodromal phase occurs in more than 75% of patients with symptoms including yawning, depression and neck stiffness. Approximately 25% of migraines are associated with an aura, a collection of one or more neurologic symptoms, including;

visual (bright lines, shapes or objects), auditory (ringing in ears), somatosensory (burning, pain), or motor (jerking, repetitive movements).

Typical Migraine Treatments

Treatments for migraines include pharmacologic therapies with over-the-counter medications such as aspirin, ibuprofen, and acetaminophen. Many prescription medications are used including triptans, antiepileptics, SSRI's and/or tricyclic antidepressants, beta-blockers, and others. Opioid and barbiturate medications are also used, often with disastrous, addictive consequences. Since most of the medications used to treat migraines are notoriously non-efficacious a number of patients can end up being prescribed opioids and eventually become dependent and/or addicted to these medications.

New Therapies

Given the less than desired efficacy of prescribed medications to treat this chronic issue, major drug companies are seeking to bring in customers to try their new therapies. For example**, Eli Lilly (NYSE – LLY – NR)** is one of three firms granted FDA approval this year for new therapies (monthly injections). Lilly, along with **Amgen (NASDAQ – AMGN – NR)** and **Teva Pharmaceutical (NASDAQ – TEVA – NR)** are all offering 12 months of the drug for free for those with commercial health insurance. While results from their individual trials were promising, side effects exist.

Interestingly, new, non-drug based, biodevices have been approved and are in use today. In our view, these new devices are great comps for AURACIS and with the burden of educating the market on this approach borne by these firms, it bodes extremely well for ADHC to hit the ground running, upon FDA clearance.

Alternative Therapies

<u>TENS</u>

One of the drivers of neuromodulation use for chronic pain in the OTC market is a technology called TENS. With a near ubiquity of availability of this offering produced by many firms, TENS units are often bought in pharmacies and other retail locations to treat chronic pain. TENS, or transcutaneous electric nerve stimulation stimulates a body's nerve system as part of electrotherapy. The purpose is to reduce pain. Many chronic pain patients and athletes are able to get swift relief through this type of treatment.

The units are small, portable and are often attached to the skin's surface through two or more electrodes. Their small form factors are key as the recent designs are intended for home use. This non-invasive therapy can reduce the amount of prescription drugs needed to treat chronic pain in many patients by blocking the nerve signals that are producing the feeling of pain. Back, neck, and shoulder pain are just some of the spots on the body that are targeted by the portable TENS unit. (See: AURACIS below.)

Figure 1: Sample TENS

Cefaly

Cefaly is an external trigeminal nerve stimulation (eTNS) unit, although the FDA categorized the Cefaly as a transcutaneous electrical nerve stimulation (TENS) unit. The premise of the Cefaly device is similar to that of other neurostimulators being tested for migraine treatment. Since the trigeminal nerve is involved in migraine, it is theorized that stimulation of it can help with migraine prevention.

The device is available by prescription only and at this point is an out-of-pocket expense for patients. The cost of the device is $299 and $25 for a set of 3 reusable electrodes (each electrode is intended to be used 20 times). The device looks like a headband that is worn across the forehead with an electrode contacting the forehead. The device is intended to be worn for a 20-minute session, once per day, every day as a preventive treatment.

It should be noted that the FDA approval was based upon two studies that showed safety and tolerability of the device, with the smaller of the two studies showing only a modest benefit in the reduction of days per month with migraine and less migraine medication usage than those who were using the placebo device. In fact, just 54% of participants in the studies said they were satisfied with the device and were willing to purchase it. (*Analyst's Note: Our work with Tivic Health, which has developed a handheld device to treat chronic sinus pain uses neuromodulation and a form of TENS in its approach and the trigeminal nerve is also involved in this treatment. In their study, 82% of participants reported it was better than their current treatment, demonstrating what we believe is a low efficacy rate for Cefaly.)*

electroCore (NASDAQ – ECOR – NR) is a firm that went public six months ago and recently received FDA clearance for their handheld device to treat migraines and cluster headaches. ECOR uses a non-invasive vagus nerve stimulation therapy. ECOR believes the market opportunity is $4B annually and its devices, much like Cefaly, are available by prescription. It should be noted that the recent market cap for ECOR, which has virtually no sales to date, is $184M and trades more than 15x projected 2019E sales of $13M.

eNeura just recently received approval for its biomagnetic device to treat migraines. eNeura's device utilizes transcranial magnetic stimulation for migraine treatment with a single, continuous pulse during each at-home treatment. It is theorized this pulse interrupts the signals that cause migraines. eNeura has raised over $70M to date including $17M to fund marketing and commercialization.

During our due diligence we found other publicly traded comps for this segment of ADHC, including those companies that offer invasive and non-invasive forms of neuromodulation and neurostimulation. The average market cap of the subgroup that includes ECOR and **Helius (NASDAQ – HSDT – NR)**, that also has little to no revenue, is roughly $200M, and a P/S ratio on next year's projected sales of nearly 16x.

The CBD Beverage Space

A great deal is written about the cannabis space and cannabis companies but there are some key distinctions between hemp and marijuana, which are both part of the cannabis family. Cannabis plants contain unique compounds known as cannabinoids (CBDs)---these plants have nearly 100 active varieties of cannabinoids, including THC, which is the psychoactive chemical associated with "getting high". Unlike marijuana, which

contains meaningful amounts of THC, hemp may only contain a trace amount of THC (0.3% of chemical), which a critical differentiator (more on that below.)

Interestingly, both marijuana and hemp contain a cannabinoid known as *Cannabidiol*, CBD, which makes up 40% of the plant's extract. As confirmed by major organizations such as the NIH and WHO, CBDs have demonstrated to be useful to treat major diseases and serious conditions while simultaneously been found to be safe for use by consumers.

In early November 2017, the World Health Organization's Expert Committee on Drug Dependence issued the following statement in its report:

"CBD has been demonstrated as an effective treatment of epilepsy in several clinical trials, with one pure CBD product (Epidiolex®) currently in Phase III trials. There is also evidence that CBD may be a useful treatment for a number of other medical conditions…The range of conditions for which CBD has been assessed is diverse, consistent with its neuroprotective, antiepileptic, hypoxia-ischemia, anxiolytic, antipsychotic, analgesic, anti-inflammatory, anti-asthmatic, and antitumor properties." *http://www.who.int/medicines/access/controlled-substances/5.2_CBD.pdf*

The National Institutes of Health (NIH) is a huge supporter of CBD research, with 281 projects funded to the tune of $111M in 2015 alone, and a new one slated to begin the funding phase at year-end 2017. Against this backdrop, the proliferation of CBD-based products has ballooned of late and huge growth is expected in the coming years. Hemp Business Journal projects total CBD product sales will leap from $820 million in 2016 to $1.9 billion in 2022, a 34% CAGR.

Since CBDs are far more abundant in hemp products than marijuana-derived CBDs, hemp-derived CBD is the preferred source for CBDs.

Hemp-Derived CBDs: The Lay of the Land

To be certain, hemp-derived and hemp-infused consumer products represent a market in the hundreds of millions annually that will enjoy outsized growth. However, given the potent effects of CBDs, we believe that the CBD-dominant segment will outshine the traditional hemp consumer products arena.

By the Numbers: (courtesy of Hemp Business Journal, Brightfield Group, GSCR)

- Over 200 companies have a presence in the hemp-derived CBD space.
- This segment includes beverages, oils, tinctures, vapes, topicals, edibles, etc.
- The natural products and sports nutrition retail channel is set to drive sales.
- 75% of users are in the 26-64 age bracket.
- Consumers procure products to treat anxiety, insomnia, and joint pain/inflammation.
- 50% say they are more effective than OTC products.
- 84% of users proclaim they are very or extremely effective.
- Two-thirds of users prefer 10mg or less CBD per dose.
- Consumers view these offerings as executing their personal nutrition and fitness needs.

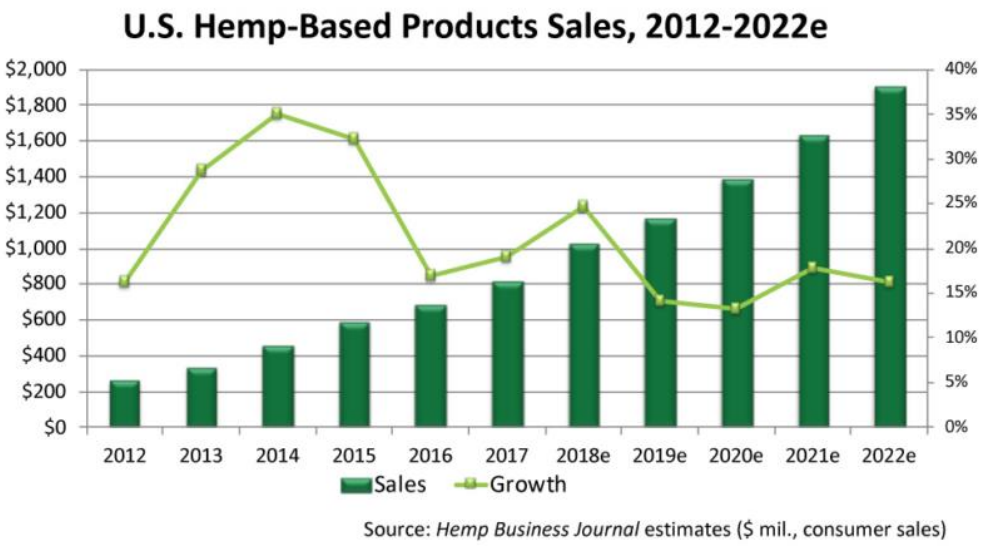

Figure 1: Historical and Projected Channel Sales

The Lay of the Land: A Snapshot

The hemp-derived CBD space is heavily fragmented with a handful of players accounting for a combined 15-20% market share of a future multi-billion-dollar market. Half of these firms are publicly traded while the other half are private. It is interesting to note that some of the early revenue leaders are not pure-play, hemp-derived CBD product companies.

For example, **Medical Marijuana Inc. (OTC – MJNA - NR)** one of the market cap leaders in the space is a diversified company within the cannabis arena and its HempMeds unit, while controlling a share of this segment, represents just a small portion of the company's overall sales. **CV Sciences (OTC – CVSI - NR)** has a very diverse product offering, is highly rated, and has made significant headway into the retail channel. However, this business line is secondary to clinical trials for a prospective tobacco and other addiction treatments. Conversely, **Potnetwork (OTC – POTN – NR)** appears to generate most of its sales through its Diamond CBD and other brands. **Rocky Mountain High Brands (OTC - RMHB – Speculative Buy)** is a well-known brand in the space as a hemp-based beverage provider who in early 2018 launched a CBD-infused portfolio of products. **Puration (OTC – PURA – Speculative Buy)** will generate an estimated $1M in sales already this year. **Tinley Beverage (OTC – TNYBF – NR)**, which has minimal sales to date is focused on THC-infused alcohol beverages. Other notable private companies in the beverage category include CBD Living Water and Epiq Water.

Interestingly, top tier beverage companies have already made their first foray into the space or are contemplating it. Given the "me too" approach in this industry at the top level, as one or two members of "Big Beverage" make a mark on the product development side, many others will fall in line and will seek partners or outright acquisitions, as they will look to separate out these entities structurally, from their core, for regulatory reasons. Here is an excerpt from a recent Bloomberg article:

"Coke's possible foray into the marijuana sector comes as beverage makers are trying to add cannabis as a trendy ingredient while their traditional businesses slow. Last month, Corona beer brewer Constellation Brands Inc.announced it will spend $3.8 billion to increase its stake in Canopy Growth Corp., the Canadian marijuana producer with a value that exceeds C$13 billion ($10 billion).

Molson Coors Brewing Co. is starting a joint venture with Quebec's Hexo's Corp., formerly known as Hydropothecary Corp., to develop cannabis drinks in Canada. Diageo PLC, maker of Guinness beer, is holding discussions with at least three Canadian cannabis producers about a possible deal, BNN Bloomberg reported last month. Heineken NV's Lagunitas craft-brewing label has launched a brand specializing in non-alcoholic drinks infused with THC, marijuana's active ingredient."

With so much attention on this space, as ADHC moves forward on the sales and distribution side, and other initiatives, additional value will be allocated to the Company' stock, making it ripe for a potential spin-off.

THE ADHC BUSINESS LINES

AURACIS: The Genesis

The AURACIS technology was originally developed by Dr. Ioannis Skaribas, MD a Houston, Texas board-certified anesthesiologist and pain surgeon. Dr. Skaribas has treated thousands of severe migraine patients using the OMEGA surgical procedure with effective results including a reported 80% success rate. This procedure uses electrodes implanted under the skin in the head. Dr. Skaribas envisioned a less invasive device to treat less severe migraine patients using a TENS headband to stimulate the cranial nerves and block migraine pain. Thus, AURACIS was born.

AURACIS is a patented wearable headband device using TENS (transcutaneous electric nerve stimulation) to alleviate the symptoms and prevent migraine headaches. ADHC has licensed the patented technology from Brazos Biomedical LLC and has retained the Brazos scientific staff to assist in the development of the technology. AURACIS is intended for patients who suffer from migraine with or without aura particularly when drug consumption needs to be reduced.

Auracis™ Artist Rendition

Transcutaneous electrical nerve stimulation (TENS) therapy uses low voltage electric impulses to relieve pain. A primary effect of TENS therapy may include "blockade" or "scrambling" of pain signals to the brain. Another suggested effect of TENS is the release of endorphins (naturally produced painkillers). The electrical current used in TENS therapy is extremely low and can be modulated or finely tuned based upon the intended target.

AURACIS is designed as an alternative to lower efficacious drugs and opioids that carry side effects and could lead to dangerous dependency. Moreover, since it is based on a non-invasive form of the highly successful OMEGA procedure yet utilizes the ubiquitous TENS method for chronic pain, we believe it could emerge as a first-line treatment and more effective therapy than other devices outlined above.

What's Next

It is management's goal to begin engineering and development in the coming weeks. The $1.5M estimated budget includes the completion of all prototype development and FDA compliant market image product development clinical use with the path to FDA 510(k) clearance in roughly two years. Management has met with medical device engineering firms and have completed an exhaustive analysis of the AURACIS TENS Migraine therapy system including all of the patents and patent applications in the U.S. and abroad, patent license agreement, technical engineering schematics, FDA plans, patient study information and other related assets. The ADHC team is currently meeting with institutional investors to devise a financing strategy to successfully bring the AURACIS product to market.

CBD-Infused Products

ADHC's subsidiary American Cannabis Holdings, Inc. recently entered into an agreement to distribute CBD infused tea to the US consumer markets. ADHC is in the process of development an ecommerce site TheCBDKlub.com where consumers can purchase CBD infused tea for direct shipment which will launch on December 13, 2018. Each cup of tea will contain 5 mg of CBD (the optimum amount) and will be sold in 18-unit packages at very competitive prices.

The tea comes in multiple flavors, including: CBD Chamomile Blend, CBD Matcha Green Tea, CBD Peppermint, and CBD Turmeric and Ginger Tea. These teas are crafted using nano-sized particles of water-soluble CBD. The innovative process ensures the CBD actually ends up in the tea and can be extracted into the hot water unlike oil-soluble CBD.

Other products include coffee, energy drinks, gummies, and pain spray. ADHC is actively seeking additional agreement involving Cannabis infused coffee and energy drinks.

The ADHC management team is meeting with the Groupon marketing team in the next week to finalize details of the product offering and pricing. Groupon boasts over 50 million customers world-wide with over 1.5 billion Groupons sold. ADHC's CBD products are especially attractive to Groupon customers as they can be easily shipped nationwide. ADHC will using multiple sales channels to offer CBD products to consumers. ADHC will be selling products direct to consumers, partner will ecommerce companies that have an established presence on the internet and other creative and novel approaches such as Groupon.

We expect more clarity regarding the Company's distribution model later this quarter.

FINANCIALS

To date, ADHC has not recorded material financial results. However, we preliminarily project that upon approval, ADHC could record $1M in sales in its first year and approach $10M in its second year of commercialization. We base these forecasts on the actual revenue results and projections for the AURACIS peer group. In a similar vein, and based on other publicly traded CBD beverage companies, we believe that ADHC could generate between $500,000 - $1,000,000 in sales in 2019 and approach $4M in 2020. With a very

clean balance sheet and tremendous prospects on both tracks, ADHC should easily raise funds necessary for product development and eventual deployment at favorable valuations, in our view.

THE AURACIS LEADERSHIP TEAM

David Foster, Ph.D., J.D.

Dr. Foster has over 19 years of experience in the development and commercialization of healthcare products. He works with a number of biotech start-ups. Dr. Foster is co-founder and active Board member of BioNorth Texas. In addition, Dr. Foster is co-founder and partner of the boutique law firm, Roberts Foster LLP, focused on providing legal services for emerging technology companies. Prior to that, Dr. Foster spent several years in private legal practice providing IP strategy for a number of emerging biotechnology companies. In addition, Dr. Foster served as a patent counsel at Medarex, Inc. where he was an integral member of project teams developing novel checkpoint inhibitor protein biotherapeutics. At Medarex, Dr. Foster provided counsel on IP due diligence and strategic patent prosecution matters that contributed to expansion of the IP portfolio as well as in-licensing of key molecules. Dr. Foster received his BS in Biology from the University of North Texas, his Ph.D. in Cell Regulation from the University of Texas Southwestern Medical Center at Dallas and his JD from Golden Gate University School of Law in San Francisco, CA. Dr. Foster is a member of the patent bar as well as Ca and Texas state bars.

Kurt L. Berens

Mr. Berens has over twenty-five years of experience in the development and commercialization of biopharmaceutical and medical device products. Mr. Berens has been part of development teams that received registration and marketing approval for two ethical drug products (Argatroban® [US], Thelin® [EMEA]) and one medical device (Galileo® System centering catheter and intracoronary brachytherapy system). Mr. Berens conducted research and development on novel drug dosage forms and delivery technology for NASA and served as the Manager for Cellular and Biomedical Section in the Bioastronautics Group at Johnson Space Center in Houston, TX. Mr. Berens has also served as Senior Project Manager at Texas Biotechnology Corporation, as Vice President, Product Development, at CytoGenix, Inc. and is currently Chief Operating Officer of Tuevol Therapeutics, Inc. Mr. Berens received his BA from the University of Minnesota with post-graduate training in Pharmaceutics at the University of Houston. Mr. Berens is a co-author on over twenty-five articles published in peer-reviewed scientific journals.

Ioannis Skaribas, M.D.

Dr. Ioannis Skaribas earned his medical degree at Aristotelian University of Thessaloniki Medical School in Greece. He completed a 4-year Anesthesiology residency in Athens, Greece and obtained board certification before moving to the US. In Houston, he completed an internship in anesthesiology and a residency in Anesthesiology at Baylor College of Medicine. During his residency, he received the “Intern of the Year” award. After his residency he completed an ACGME accredited interventional fellowship in pain medicine at Baylor College of Medicine.

Double Board certified in Anesthesiology and Pain Medicine, Dr. Skaribas specializes in Interventional Pain therapies. His clinical interests include spinal cord stimulation, and neuromodulation as well as intraspinal interventional therapies and treatment of intractable Headaches.

Dr. Skaribas has an appointment as a clinical assistant professor in pain medicine at The University of Texas Health Science Center at Houston and serves on the board of directors of the Memorial Hermann Sugar Land Surgery Center. He has served as an assistant professor of anesthesiology at BCM. Until March of 2018 he has been a partner physician and shareholder with US Anesthesia Partners. He has served as the medical director of the Pain Management branch of USAP.

In 2018 he founded Expert Pain P.A., a consortium for advanced pain management interventions and where he serves as the medical director and CEO.

The author of several textbook chapters and journal manuscripts, Dr. Skaribas is a member of local, national and international professional medical societies including the Texas Pain Society, Harris County Medical Society, International Neuromodulation Society, American Board of Anesthesiology and American Society of Interventional Pain Physicians.

RISK FACTORS

Companies of ADHC's size and status typically carry approval, financial, funding, and sales/adoption risks.

AURACIS

Approval

Regulatory stumbling blocks are a risk for any medical device and the greatest risk ahead for ADHC centers on the receipt of FDA 510(k) clearance for its flagship product, AURACIS. Other related risks could include delays in receiving such clearance or perhaps being awarded approval with unusual device labeling requirements. With expected strong efficacy in its clinical data and a very favorable safety profile, we deem these outcomes as unlikely.

Adoption

Patient adoption may be slow and uneven as an education process is borne by the public. However, with a TENS unit for migraine relief already on the market, we believe ADHC will successfully mitigate this risk. Finally, competition from new entrants or existing players with similar or greater efficacy could prompt changes or delays in achieving its objectives. Nonetheless, these are all typical future concerns consistent with firms of ADHC's size and standing.

Funding/Exit

We believe that the unique nature of the platform, including the depth of its IP, differentiated approach to treatment and marketing, and strength of the management team, should prove to be an advantage in obtaining FDA clearance, favorable funding and a swift exit through acquisition or IPO.

CBD

In our view, the Company's biggest risks are related to the timing and sales momentum of the CBD-infused products. A related risk is regulatory given that hemp is still classified as a Schedule I drug (slated to change shortly via a vote in Congress). An overriding financial benefit is the favorable access to and the availability of capital to fund the product launch, consistent marketing campaigns and other initiatives.

Volatility and liquidity are typical concerns for microcap stocks that trade on the over the counter market and especially those that are not generating meaningful revenue. Finally, the shares outstanding of this stock could increase due to potential capital needs cited above or to execute future acquisitions. However, since the proceeds of any future funding would likely be used in large part to fund its marketing or product development activities, we believe that any dilutive effect from such a funding would be nullified by a related increase in overall market value. Moreover, it is our opinion that management will do everything in its power to limit dilution. In our view, these risks are consistent with firms of similar standing and status to ADHC. Finally, management may contemplate a spin-off or spin-offs of underlying businesses which may or may not increase the value of shareholders' investments.

VALUATION AND CONCLUSION

ADHC is poised to generate major sales and market share in two multi-billion-dollar health care segments: migraine therapy and CBD-infused beverages. Migraine sufferers number 37M in the U.S. alone with direct and indirect costs totaling $36B each year. CBD-infused products, which carry meaningful health properties is one of the fastest-growing segments in the market today.

The patent-pending, alternative migraine therapy has demonstrated high efficacy via its current approach and ADHC will be launching a 2-year effort to receive FDA 510(k) clearance for a wearable, OTC-available, non-invasive form of the original therapy, called AURACIS. Management estimates the development costs at only $1.5M.

ADHC's cannabis efforts are presently focused on the introduction of a broad-based CBD-infused product line. Sold through an ecommerce platform, we believe that meaningful sales will occur, beginning in 2019.

Our current forecast for AURACIS sales is roughly $1M in Year 1, following approval and as much as $10M in Year 2.

Our $0.15 target price represents reflects FDA clearance for AURACIS yet is still a roughly 50% discount to ADHC's peer subgroup. This target is based on the current valuations afforded its publicly traded peer group and fundings for privately-held peers. We should note that the average valuation of the peer sub-group is around $200M while our target reflects around $100M, to reflect the two-year timetable to reach FDA clearance. However, as near-term milestones are reached, we believe that the shares can garner greater trading activity and approach the $0.05 level.

While there is meaningful value to be unlocked in the CBD-infused beverage segment, we have elected to take a conservative approach to our overall price target valuation. Thus, our $0.15 target reflects an FDA-cleared

AURACIS only, which means investors are getting the CBD business, which on its own could be worth $10M in two years, for free. If reached, this return is huge considering the current market cap for ADHC is roughly $2.6M. We rate these shares Speculative Buy.

Table I. Auracis Publicly-Traded Peer Group

Company Name	Symbol	Price (12/7/18)	Mkt Cap (mil)	FY18E Revs (mil)	FY19E Revs (mil)	18E - 19E Revs Growth	2018E Price/Revs	2019E Price/Revs
Axonics	AXNX	$15.01	$400	$0	$7	3400.0%	2,000.0	57.1
electroCore	**ECOR**	**$5.31**	**$156**	**$1**	**$12**	**1100.0%**	**156.0**	**13.0**
Helius	**HSDT**	**$9.10**	**$232**	**$1**	**$13**	**1200.0%**	**232.0**	**17.8**
Inspire Med	INSP	$37.08	$794	$48	$63	31.3%	16.5	12.6
Intersect	XENT	$29.94	$914	$107	$128	19.6%	8.5	7.1
Nuvectra	NVTR	$17.90	$315	$52	$73	40.4%	6.1	4.3
Average			**$469**	**$35**	**$49**	**965%**	**403.2**	**18.7**

Bold denotes members of peer subgroup

Sources: www.Yahoo!Finance.com, Company websites, Goldman Small Cap Research

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.

DISCLAIMER

This *Opportunity Research* report was prepared for informational purposes only.

Goldman Small Cap Research, (a division of Two Triangle Consulting Group, LLC) produces research via two formats: *Goldman Select Research* and *Goldman Opportunity Research.* The *Select* format reflects the Firm's internally generated stock ideas along with economic and stock market outlooks. *Opportunity Research* reports, updates and Microcap Hot Topics articles reflect sponsored (paid) research but can also include non-sponsored micro-cap research ideas that typically carry greater risks than those stocks covered in the *Select Research* category. It is important to note that while we may track performance separately, we utilize many of the same coverage criteria in determining coverage of all stocks in both research formats. Research reports on profiled stocks in the *Opportunity Research* format typically have a higher risk profile and may offer greater upside. *Goldman Small Cap Research* was compensated by a third party in the amount of $4000 for a research subscription service. All information contained in this report was provided by the Company via filings, press releases or its website, or through our own due diligence. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence. Analysts are compensated on a per report basis and not on the basis of his/her recommendations.

Goldman Small Cap Research is not affiliated in any way with Goldman Sachs & Co.

Separate from the factual content of our articles about the Company, we may from time to time include our own opinions about the Company, its business, markets and opportunities. Any opinions we may offer about the Company are solely our own and are made in reliance upon our rights under the First Amendment to the U.S. Constitution, and are provided solely for the general opinionated discussion of our readers. Our opinions should not be considered to be complete, precise, accurate, or current investment advice. Such information and the opinions expressed are subject to change without notice.

The information used and statements of fact made have been obtained from sources considered reliable but we neither guarantee nor represent the completeness or accuracy. *Goldman Small Cap Research* did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company, or other firms. *Goldman Small Cap Research* relied solely upon information provided by the Company through its filings, press releases, presentations, and through its own internal due diligence for accuracy and completeness. Such information and the opinions expressed are subject to change without notice. A *Goldman*

Small Cap Research report or note is not intended as an offering, recommendation, or a solicitation of an offer to buy or sell the securities mentioned or discussed. This report does not take into account the investment objectives, financial situation, or particular needs of any particular person. This report does not provide all information material to an investor's decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Neither *Goldman Small Cap Research*, nor its parent, is registered as a securities broker-dealer or an investment adviser with FINRA, the U.S. Securities and Exchange Commission or with any state securities regulatory authority.

ALL INFORMATION IN THIS REPORT IS PROVIDED "AS IS" WITHOUT WARRANTIES, EXPRESSED OR IMPLIED, OR REPRESENTATIONS OF ANY KIND. TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, *TWO TRIANGLE* CONSULTING GROUP, LLC WILL NOT BE LIABLE FOR THE QUALITY, ACCURACY, COMPLETENESS, RELIABILITY OR TIMELINESS OF THIS INFORMATION, OR FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES THAT MAY ARISE OUT OF THE USE OF THIS INFORMATION BY YOU OR ANYONE ELSE (INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF OPPORTUNITIES, TRADING LOSSES, AND DAMAGES THAT MAY RESULT FROM ANY INACCURACY OR INCOMPLETENESS OF THIS INFORMATION). TO THE FULLEST EXTENT PERMITTED BY LAW, *TWO TRIANGLE CONSULTING GROUP*, LLC WILL NOT BE LIABLE TO YOU OR ANYONE ELSE UNDER ANY TORT, CONTRACT, NEGLIGENCE, STRICT LIABILITY, PRODUCTS LIABILITY, OR OTHER THEORY WITH RESPECT TO THIS PRESENTATION OF INFORMATION.

For more information, visit our Disclaimer: www.goldmanresearch.com