



May 29, 2019

Coverage Initiation

Industry: Hemp/Cannabis Cultivation

# NOUVEAU LIFE PHARMACEUTICALS, INC.

(OTC – NOUV - \$0.0006)

## A Pure Play Hemp and Cannabis Cultivation Opportunity

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### COMPANY SNAPSHOT

Nouveau Life Pharmaceuticals, Inc. (OTC – NOUV – NR) is one of the few publicly-traded, pure plays on cannabis cultivation, trading in US markets. The Company is an emerging cannabis cultivator concentrating on hemp cultivation within the United States and marijuana cultivation in Canada. The Company’s first large scale hemp cultivation is initiating in 2019 under the 2018 Farm Act.

### KEY STATISTICS

Price as of 5/28/19	\$0.0006
52 Week High – Low	\$0.0021 - \$0.0000
Est. Shares Outstanding	4.35B
Market Capitalization	\$2.6M
Average Volume	32,200,342
Exchange	OTC

### COMPANY INFORMATION

**Nouveau Life Pharmaceuticals, Inc.**  
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Farmers Branch TX 75244

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Phone: 800.861.1350

### INVESTMENT HIGHLIGHTS

**Nouveau Life Pharmaceuticals is in the early innings of successfully migrating from traditional nursery/greenhouse operations to the fast-growing hemp cultivation and extraction business.** Since the passing of the Farm Act of 2018 late last year, the hemp cultivation industry has undergone a transformation and is one of the fastest-growing industry segments.

**We believe Nouveau may be one of the only if not only publicly traded pure play hemp grower domiciled in the US that trades on US exchanges.** Thus, the Company is a great way to directly play the growth of the hemp cultivation business.

**The Company boasts key joint ventures leveraging its large property and 25 greenhouses, with additional initiatives in expected, going forward.** Today, management is engaged in a major cultivation and extraction venture with **Kali, Inc. (OTC – KALY – NR)**, which should bear fruit in the coming quarters.

**A series of near-term revenue and future business development milestones warrant a closer look at NOUV by investors.** For example, the Company could generate \$3 – 5 million in revenue through its Kali partnership alone. That excludes additional revenue from direct sales of mature hemp or hemp seedlings to other parties.

## COMPANY OVERVIEW

### *The View from 35,000 Feet*

Nouveau Life Pharmaceuticals, Inc. (OTC – NOUV – NR) dba/Nouveau, Inc. is one of the few publicly-traded, pure plays on cannabis cultivation, trading in US markets. The Company is an emerging cannabis cultivator



concentrating on hemp cultivation within the United States and marijuana cultivation in Canada. The Company's first large scale hemp cultivation is initiating in 2019 under the 2018 Farm Act. The Company's strategy in the United States is to sustain and grow greenhouse infrastructure with general

nursery operations and transition to hemp and marijuana cultivation as laws evolve and permit. The Company's strategy in Canada is to utilize an existing marijuana cultivation operation as the foundation of building a home grower product and services businesses.

Today, the Company currently operates 25 greenhouses in the US with existing pads and irrigation to rapidly expand to 400 greenhouses. Revenue is currently generated in the States through wholesale sales of general nursery products to retail nurseries. Leveraging relationships with its partners, enviable revenue gains this year and going forward will be driven by the business migration to the sale of mature hemp and potentially hemp seedlings. Clearly, the impact of the 2018 Farm Act has had a tremendous, positive effect on the hemp market, as noted in a May 24, 2019 CNBC report:

*"It won't get you high, but lots of people are high on hemp. Thanks to the passage of the [2018 Farm Bill](#) last December, hemp — marijuana's no-buzz cousin — is no longer a federally illegal controlled substance. A provision in the bill allows farmers and other cultivators to grow the leafy, lanky plant, *cannabis sativa L*, and sell its harvest to processors, who in turn extract and market raw materials to producers of hemp-based products, everything from foods, beverages and cosmetics to paper, clothing and [building materials](#)."*

*Another by-product of legal hemp will be tens of thousands of new jobs across multiple sectors in the very near future. Besides hiring workers in agriculture, processing and manufacturing, the still-budding industry — with \$1.1 billion in revenues 2018, estimated to more than double by 2022 to \$2.6 billion, according to [New Frontier Data](#)..... Total hemp acreage in the U.S. was at 78,176 acres, up from 25,713 in 2017, the advocacy group [Vote Hemp estimates](#), and the acreage should be considerably higher in the coming years."*

### *NOUV: Joint Ventures Are the Keys to Success*

Kali-Extracts, a division of **Kali, Inc. (OTC – KALY – NR)** and Nouveau recently announced an agreement to expand NOUV's current cultivation operations to include 100 adjacent acres dedicated to growing hemp under the new Farm Bill legalizing hemp farming just signed into law by President Trump. Kali-Extracts will construct a CBD extraction facility on site based on its proprietary and patented extraction process. In addition to the outdoor hemp cultivation, Nouveau will build a state-of-the-art greenhouse operation intended for the development of a proprietary hemp cultivar. The objective of the partnership is to develop a proprietary pharmaceutical grade hemp cultivar in addition to being a source of hemp supply for a myriad of industries in what both companies anticipate to be exploding demand in 2019.

Finally, the Company and Nouveau anticipate generating strong revenue performance from their hemp cultivation and extraction venture over the next 12 months. On the heels of the hemp legalization, industry sources suggest that hemp farming could yield \$50,000 per acre from the combination of CBD extraction and other uses of hemp. Thus, the 100-acre hemp cultivation operation could yield up to \$5 million over the next 12 months.

Nouveau has also taken some cultivation and extraction capabilities via its acquisition of the cannabis cultivation business owned by **Puration, Inc. (OTC – PURA – Spec Buy)**, in exchange for 120 million convertible Preferred shares to Puration and its holders, following the exchange of a \$1.2 million convertible note. This includes leveraging experience in migrating from seeds to seedlings to propagation and extraction. Such vertical integration of its grow operations with potential extraction could result in future wholesale product sales or for extraction business with other nurseries. In general, we expect that the Company will continue to engage in additional joint ventures to broaden its reach and industry footprint.

Looking ahead, the hemp-derived, CBD-infused product market is growing by leaps and bounds and serves as the proverbial straw that stirs the hemp drink. Considering that the primary end-use of Nouveau's products are for CBD-infused products (beverages, edibles, topical solutions, etc.), we have elected to provide a primer on the industry.

## **INDUSTRY OVERVIEW**

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®) that is FDA approved. 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](http://www.who.int/medicines/access/controlled-substances/5.2_CBD.pdf) (updated)

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. The Brightfield Group, in a report issued in late 2018 projected that Hemp-based CBD products will reach \$22 billion in 2022. Obviously, the recent legalization of hemp farming in the 2018 Farm Act just signed into law by President Trump has shined a light on the industry and provided it with a major boost.

**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

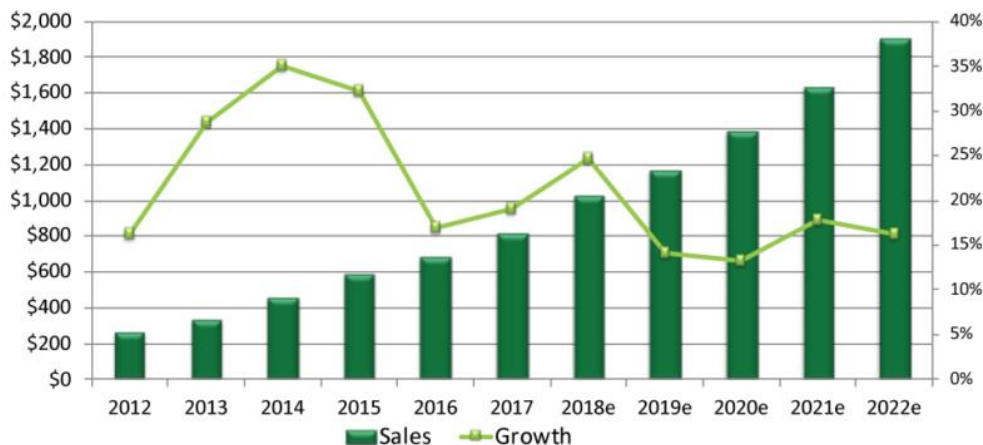
To be certain, hemp-derived and hemp-infused consumer products represent a market in the hundreds of millions annually that will enjoy outsized growth. However, given the potent effects of CBDs, we believe that the CBD-dominant segment will outshine the traditional hemp consumer products arena.

*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.



### U.S. Hemp-Based Products Sales, 2012-2022e



Source: Hemp Business Journal estimates (\$ mil., consumer sales)

Figure 1: Historical and Projected Channel Sales

#### CBD Beverage Market

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. 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 [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 Hydrothecary 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.”*

Kali-Extracts and Nouveau recently announced an agreement to expand NOUV’s current cultivation operations to include 100 adjacent acres dedicated to growing hemp under the new Farm Bill legalizing hemp farming just signed into law by President Trump. Kali-Extracts will construct a CBD extraction facility on site based on its proprietary and patented extraction process. In addition to the outdoor hemp cultivation, Nouveau will build a state-of-the-art greenhouse operation intended for the development of a proprietary hemp cultivar. Nouveau has a cannabis cultivation operation with facilities in the U.S. and Canada. The objective of the partnership is

to develop a proprietary pharmaceutical grade hemp cultivar in addition to being a source of hemp supply for a myriad of industries in what both companies anticipate to be exploding demand in 2019.

## RISK FACTORS

In our view, the Company's biggest risks are related to the timing length of time from planting to propagation in the grow operation, along with the potential delays with its partners or some of its future extraction initiatives. Other high level risks include the sales momentum of the industry's CBD-infused products given the attention given to some firms making outlandish health claims, and subsequent review of the space by the FTC. A separate risk is the series of revenue tie-ins between KALY, PURA and NOUV. A chain is only as strong as its weakest link and some of the business development potential outlined above may be contingent upon all parties succeeding and helping their partners as well as themselves. Any missteps or delays with one situation could have a negative effect on NOUV.

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. This is certainly the case with NOUV. The Company has recently updated all of its financial reports required by OTCMarkets to satisfy the OTCMarkets "current" filing standards and anticipates that the OTCMarkets site to soon reflect NOUV's "current" filing status. As of the report publication date, OTCMarkets has yet to update this status. It should be noted that all quotation information cited in the report was derived from Yahoo!Finance which reports Kali intraday trading activity and news and background information from the Company's disclosure-based website, [www.NOUV-Info.com](http://www.NOUV-Info.com).

Much like other companies in this nascent but fast-growing space, investors should expect stocks such as NOUV to be news-driven rather than valuation-driven which can exacerbate sharp swings.

Finally, the shares outstanding of this stock could increase due to potential capital needs cited above or to execute future acquisitions, such as the previously announced PURA deal. 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 NOUV. Finally, management may contemplate a spin-off or spin-offs of underlying businesses which may or may not increase the value of shareholders' investments.

## LOOKING AHEAD

We applaud the management team for the migration of business from staid nursery sales to engaging in a new, huge, fast-growing market. Clearly, near-term revenue is set to be driven by its current joint ventures. Still, given the state of the industry, we would not be surprised to see future initiatives could potentially bring in more business and prove to be worth more its existing partnerships. In the meantime, it appears that tangible, revenue streams are in the cards for NOUV this year while favorable news on the partnership front should be



considered key milestone events. In our view, for investors interested in the grow and extraction segment of the hemp industry, NOUV bears close watching.



## 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*.

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