

PURATION, INC.

New Products and Untapped International Opportunity Drive New Price Target to \$0.35

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PURATION, INC. (OTC – PURA – \$0.082)

New Price Target: \$0.35

Rating: Speculative Buy

COMPANY SNAPSHOT

Puration, Inc. is a leading Texas-based, CBD-infused beverage provider. The Company's flagship product, *EVERx*, which was introduced in 2017, targets the sports nutrition market. Puration plans to introduce new beverages as well as grow its product portfolio organically and through targeted acquisitions. The Company has spun off its cannabis cultivation segment to focus its efforts exclusively on its high-growth core CBD-infused beverage business. As part of the spin-off, the acquirer, NOUV, is set to provide a stock dividend to PURA shareholders in the near future.

KEY STATISTICS

Price as of 9/24/19	\$0.082
52 Week High – Low	\$0.25 - \$0.0286
Est. Shares Outstanding	602.4M
Market Capitalization	\$55.1M
Average Volume	3,424,073
Exchange	OTCPK

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

The Bottom Line: PURA's PPS doubled since the release of our interim survey results a week ago. Looking ahead, industry and company trends/catalysts have prompted us to raise our target to \$0.35, up from \$0.25.

New Products: PURA has just launched *TranquiliTeaCBD*, and we believe it will be a big hit. Interim results of our CBD user survey showed that CBD users preferred CBD-infused tea above all CBD-infused beverages, Full results of the survey will be released in early October. Plus, the Company is slated to soon release new CBD-infused coffee and beer.

New Markets: Just this week, PURA introduced its offerings to key, large, European markets, opening up new sales channels which should generate meaningful sales next year.

An Untapped Opportunity. Most CBD analysts, companies, and investors are focused on the North American markets, and to some degree, Europe. However, a burgeoning untapped opportunity exists in the Caribbean markets. Countries such as Trinidad are set to legalize CBD and cannabis for the first time, creating an untapped, near-shore market opportunity.

Powerful Ally Presses Feds to Drive Hemp Business. Senator Mitch McConnell has put the pressure on the FDA to expedite the path for lawful marketing of hemp-derived CBD products. His efforts could help unlock the current handcuffs and drive industry sales higher.

With PURA It Is About "New and More". New markets, plus new products, plus new opportunities, plus favorable future FDA regulations equal what we believe could be a doubling of sales next year to the \$8M level. Thus, we raise our target price to \$0.35, which reflects a preliminary 30x multiple on 2020E EBITDA. We reiterate our Speculative Buy rating.

CBD IS THE PLACE TO BE: A PRIMER

There may be no industries that are as dynamic or offer as much upside potential as the CBD industry. As has been widely publicized, the Brightfield Group projects the hemp-derived CBD market will reach \$22 billion by 2024. The question is: What makes the CBD industry so special? Many of you are familiar with the basics but given that we tend to forget about the drivers, the characteristics, and the opportunities, we have provided this primer.

The Science

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 (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.

Certain cannabinoids are produced in the body and we all have 2 cannabinoid receptors: CB1 and CB2. CB1 receptors in the brain deal with emotions, mood, movement, and other functions while CB2, which is common in the immune systems can affect pain and inflammation. In many research studies, CBDs stimulates the body to use these cannabinoids.

As we have been able to ascertain first-hand via our CBD User Survey (whose final results will be released in early October), CBD-infused products including beverages, oils, edibles, topical solutions, etc. are consumed to treat anxiety, pain, inflammation, and has even demonstrated neuroprotective properties.

Hemp-Derived CBDs: The Lay of the Land

To be certain, hemp-derived and hemp-infused consumer products currently 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)

- The industry is highly fragmented with hundreds of companies with a presence in the hemp-derived CBD space.
- We have seen estimates of as many as 1500 different products tracked by industry observers
- This segment includes beverages, oils, tinctures, vapes, topicals, edibles, etc.
- The most popular product category is CBD oil/tinctures, but beverages and edibles are the fastest-growing categories—with beverages accounting for 20% of future CBD sales.
- According to Zenith Global, the U.S. CBD-filled drinks market will reach \$1.4 billion by 2023
- Reports commented that 65 million Americans have tried CBDs with well over 60% finding the products to be effective CBD Users range in age from 18-65, with the majority of users in the 18-34 group
- 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.
- Consumers view these offerings as executing their personal health, and fitness needs.

THE PURATION SENSATION

Today, Pura's EVERx is the leading CBD-infused sports nutrition beverage with over \$1 million in sales in 2018 and over \$1 million in sales in the first six months of 2019 and targeting \$4 million in sales by 2019 year end. PURA recently entered into a select number of partnerships with third party producers of beer, coffee and tea with the intention of producing CBD versions of all three. As a result of the survey results, which indicated consumers' primary interest in consuming CBD was for the treatment of anxiety and that the preferred beverage for consuming infused CBD was tea, PURA has decided to lead with its new beverage announced yesterday, TranquiliTeaCBD. A CBD extract has already been developed and flavor profiles are also developed. A logo and label are in the works and expected to be complete within the next thirty days. TranquiliTeaCBD is on track to be available for sale to consumers by year end.

With the introduction of the new beverages, and tea, in particular, we believe that the additional offerings will drive sales not just in the U.S. but in new markets in Europe as well.

NEW OPPORTUNITIES, INDUSTRY TRENDS

New Markets

Most CBD analysts, companies, and investors are focused on the North American markets, and to some degree, Europe---and rightly so. However, a burgeoning untapped opportunity exists in the Caribbean region where only 3 markets have approved CBDs for legal use. Most investors relate the Caribbean with “fun in the sun”, the ubiquitous use of marijuana in Jamaica and naturally have assumed that this characteristic is prevalent throughout the region. Nothing could be further from the truth. Still, a number of the remaining two dozen markets are openly discussing legalization. For example, the Prime Minister of Trinidad, one of the largest and most prosperous markets in the region, has voiced his expectation that Trinidad will soon legalize CBD and cannabis for the first time, creating an untapped, near-shore market opportunity. Excluding Jamaica, the total underlying market in this area is well over 30 million in population---and that does not include the millions of Americans traveling there each year that would be potential consumers as well!

While we do not know if PURA leadership is considering this potential market opportunity, given its forward-looking management, it is possible that they could be one of the forerunners in this region, which would likely have little competition.

Regulation

Kentucky Senator Mitch McConnell, a chief proponent of hemp legalization and utilization, last week put the pressure on the FDA to expedite the path for lawful marketing of hemp-derived CBD products. McConnell's plan is to insert language into a congressional spending report that is asking the FDA to “issue a policy of enforcement discretion with regard to certain products containing CBD” within 120 days. This move would help companies, stakeholders, investors, and consumers clarify rules, which could prompt banks to take the next step in servicing CBD companies and broaden the reach and sales of CBD products in mainstream, leading bricks and mortar companies as well. With clear standards come greater business flow and industry growth.

Industry Trends

While our survey will provide more comprehensive information, what is clear is that CBD-infused beverages is one of the fastest-growing segments of CBD sales and tea is becoming one of the most popular---and all of these themes dovetail with PURA's mission and approach. Pending announced government standards will serve to boost the companies and their underlying stocks and, in our view, fix the one issue not discussed in this space: price. As sales grow for leading companies, prices will decline, or at least normalize, which will foster the type of direction the industry desires. Plus, it will prompt big retailers to join multi-national food and beverage companies in driving industry growth.

CONCLUSION

With new products and new markets, PURA is primed to be a sales leader and product innovator in this segment. At present, we preliminarily forecast a doubling of sales to \$8M in 2020. Given the type of industry-leading



operating margins in the space that we expect will continue, our new, higher price target of \$0.35 assumes a Price/EBITDA multiple of 30x. Thus, We reiterate our Speculative Buy rating.

RECENT TRADING HISTORY FOR PURATION, INC.

(Source: www.Stockta.com)



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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