

**WCVC**

October 4, 2019

**WEST COAST VENTURES  
GROUP CORP.**  
**(OTC – WCVC)**

Industry: Casual Restaurants

Price Target: \$0.17



# WEST COAST VENTURES GROUP CORP.

## The Only Restaurant CBD Stock Has Huge Upside Ahead WCVV Capitalizing on Industry's Fastest Growing Trends

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#### COMPANY SNAPSHOT

West Coast Ventures Group Corp. is America's first CBD restaurant stock under Illegal Brands and operates a number of contemporary restaurant concepts including the flagship Illegal Burger, a quick-casual burger + bar concept. Led by seasoned restaurant entrepreneurs, WCVV management is committed to scaling both modern sustainable concepts into national franchise models operating metro-styled restaurants serving only the finest and freshest natural ingredients.

#### KEY STATISTICS

Price as of 10/4/19	\$0.024
52 Week High – Low	\$0.2819- \$0.01
Est. Shares Outstanding	77.1M
Market Capitalization	\$1.85M
Average Volume	1,126,318
Exchange	OTC

#### COMPANY INFORMATION

**West Coast Ventures Group Corp.**  
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#### INVESTMENT HIGHLIGHTS

**WCVV is a contemporary restaurant chain that is marrying its core business with high-profile, and high-valuation, CBD-infused products.** The Company seeks to gain market share in the \$780 billion restaurant and \$23 billion hemp-based CBD market, respectively.

**WCVV's fast casual restaurants emphasize some of the industry's biggest trends.** These include including offering sustainable, healthy foods for health-conscious customers.

**Its restaurants include 5 Illegal Burger locations, a new Illegal Pizza location opened in 2019, and one Mexican restaurant.** The Company has generated \$1.8M in sales through 1H19 and could approach the \$4M mark, by year-end, and approach \$10M company-wide, next year.

**The Company's CBD products include CBD-infused flavored water, along with isolates (powder form).** Additional offerings and flavorings are in the cards.

**WCVV is leveraging its role as a trusted and preferred source of healthy products for its customers to generate recurring CBD sales in the restaurants, online through its website, and via delivery in key markets.**

**Our price target of \$0.17---a 7x increase from current levels, reflects current peer valuations for restaurant and CBD-infused product companies.** On the CBD side alone, \$5M in market value can be realized for every \$1M in sales.

## THE VIEW FROM 30,000 FEET

### *The Premise*

With few exceptions, the casual restaurant industry is going through a great deal of difficulty. In contrast, by leveraging its role as the first CBD restaurant stock, **West Coast Ventures Group Corp. (OTC – WCVG)** is uniquely positioned to take advantage of and help lead the industry's fastest growing trends. With an early mover advantage in the CBD space, and with a unique, invaluable distribution positioning, we believe that WCVG may be the only publicly traded pure play that has meaningful exposure to multiple trends. As a result, we proffer that the Company's shares are significantly undervalued and that the current market value does not reflect the potential, outsized gains that lie ahead.

### *Our Investment Thesis*

Wall Street has overlooked and thus undervalued the WCVG business model and its early successes. It is the only explanation for the Company's current \$1.85M market cap, when other CBD-related companies are trading at high Price/Revenue and Price/EBITDA multiples. Based upon recent news, preliminary projections and typical peer group valuations, we believe WCVG's shares could support a near term price target of \$0.17 that is seven times greater than its current share price.

### *The Business*



At its core, and true to its leadership, WCVG is a pioneer in the casual dining segment. Led by seasoned restaurant entrepreneurs, WCVG management is committed to scaling modern sustainable concepts into national franchise models operating metro-styled restaurants serving only the finest and freshest natural ingredients. Today, the Company develops, owns and operates 7 restaurants touting forward-looking, contemporary restaurant concepts in Colorado and Florida. These include 5 *Illegal Burger* locations, an upscale, fast-

casual, burger + bar concept, *El Señor Sol*, a full-service fresh Mexican restaurant, and *Illegal Pizza*, an all-natural pizza concept.

Each of the Company's restaurants offers a full menu and alcoholic beverages including liquor. The *Illegal Burger* (IB) restaurants offer consumers a practical alternative to the over-commercialized healthy dining craze by offering a variety of burgers made with all "never frozen, hormone-free beef", french fries, cheesy taters and adult and virgin milk shakes including Nutella, peanut butter, caramel, Oreo, vanilla, chocolate and strawberry as well as a full bar. The *El Señor Sol* restaurant offers Mexican food and a full bar including a tequila menu.



The new *Illegal Pizza* (IP) concept, which opened in June 2019, offers consumers a practical alternative to the over-commercialized healthy dining craze by offering a variety of pizzas made with all “never frozen, natural toppings.” Each of the *Illegal Burger* and *Illegal Pizza* restaurants offers a full bar.

The “Illegal” healthy, fresh concept locations are enjoying enviable growth and the new *Illegal Pizza*, along with one of the newer IB locations are each on track to generate at least \$700,000 in revenue in their first year.



Given the broad popularity of these concepts, the Company plans to continue opening new *Illegal Burger* and *Illegal Pizza* restaurants in existing and new markets. It should be noted that the Company completed its *Illegal Burger* Franchise Offering documents in May 2019. *Illegal Burger* Franchising has retained a marketing group to assist with the commencement of its franchise offering and to pre-qualify potential franchisees. The Company hopes to have its first franchise sales perhaps during 4Q19. WCVF began its operations in *Illegal Brands* in June 2019, offering its own branded CBD infused water and CBD powder packets, first through its restaurant locations, and now directly to consumers.

## KEY RESTAURANT INITIATIVES

### *Restaurant Sustainability*

According to a recent report by the National Restaurant Association, one of the fastest growing industry trends in the \$780 billion restaurant industry is sustainability, a hallmark of WCVF’s mission and its brands. To engage in sustainability drives patrons to the eateries; those who do not embrace it are negatively impacted. According to the report, half of consumers say that a restaurant’s efforts to recycle, donate food or reduce food waste can be factors in their dining choices. Thus, WCVF’s efforts in this approach are likely a key catalyst as to why revenue has enjoyed strong top-line growth in each of the first two (reported) quarters in 2019. As a corollary, the basis of the “Illegal” concept is largely founded on the fact that the food looks too decadent or too good to be true, yet it is delicious, fun, healthy, and sustainable—it checks all the boxes with a fury. This theme alone drives customers into WCVF’s restaurants while the food and the service bring them back for more.

### *Meatless Option*

One of the hallmarks of sustainable eating is the inclusion and promotion of a meatless or vegan option, which is offered at all IB locations. Plant-based burger companies such as Impossible Burger and **Beyond Meat (NASDAQ – BYND – NR)** cannot keep up with demand and many companies in this segment are enjoying sky-high valuations. In fact, BYND trades at 20x next year’s projected revenue of \$424 million. Although there are no plans to offer these or other plant-based burger options at this time, highlighting the vegan offerings are a critical component to the menu in its current and future, targeted markets and customers.

## *Franchising*

Franchising in this segment is almost as old as the fast-casual business itself and has been a tried and true method of location, sales, and margin expansion for many restaurant chains. Interestingly, one of the biggest trends in the space may drive WVCV franchise-related revenue greater than others just commencing this initiative. There has been a big rise in multi-location owner franchises in recent quarters---they account for an ever-increasing percentage of total stores owned. Given the Company's sustainability approach, clever theme, and incredibly unique CBD offering (more on this below), we would not be surprised to see multiple locations owned by new franchisees open in rapid succession, during 2020, driving top-line growth.

## **CBD: THE DIFFERENCE MAKER**

### *WVCV's Background*

The genesis behind offering CBD products to its customers in-store and via delivery is traced back to when one of the founders was diagnosed with Multiple Sclerosis diagnosis and prescribed painful therapies. After discovering CBDs and using them for several months while giving up the prescribed treatments, lesions and spots on the brain disappeared. To this day, he continues to use CBDs and is living a happy, pain-free life.

Thus, Illegal Brands' CBD business was formed to provide great health benefits to the Company's already health-driven restaurant concepts and its health-conscious customers. Clearly, since the use of CBD for personal health benefits hits close to home, Illegal Brands is not a situation of a company founded by opportunists seeking to sell CBD products. Much like the sustainability mission, leadership is committed to growing this healthy segment and offer CBD-infused products to a broad customer base, in conjunction with building out its restaurant line. In our view, this is a natural evolution and is positioned for great success as the happy customers are purchasing the CBD products on site and will do so via delivery and down the road, through other, retail outlets as well.

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.

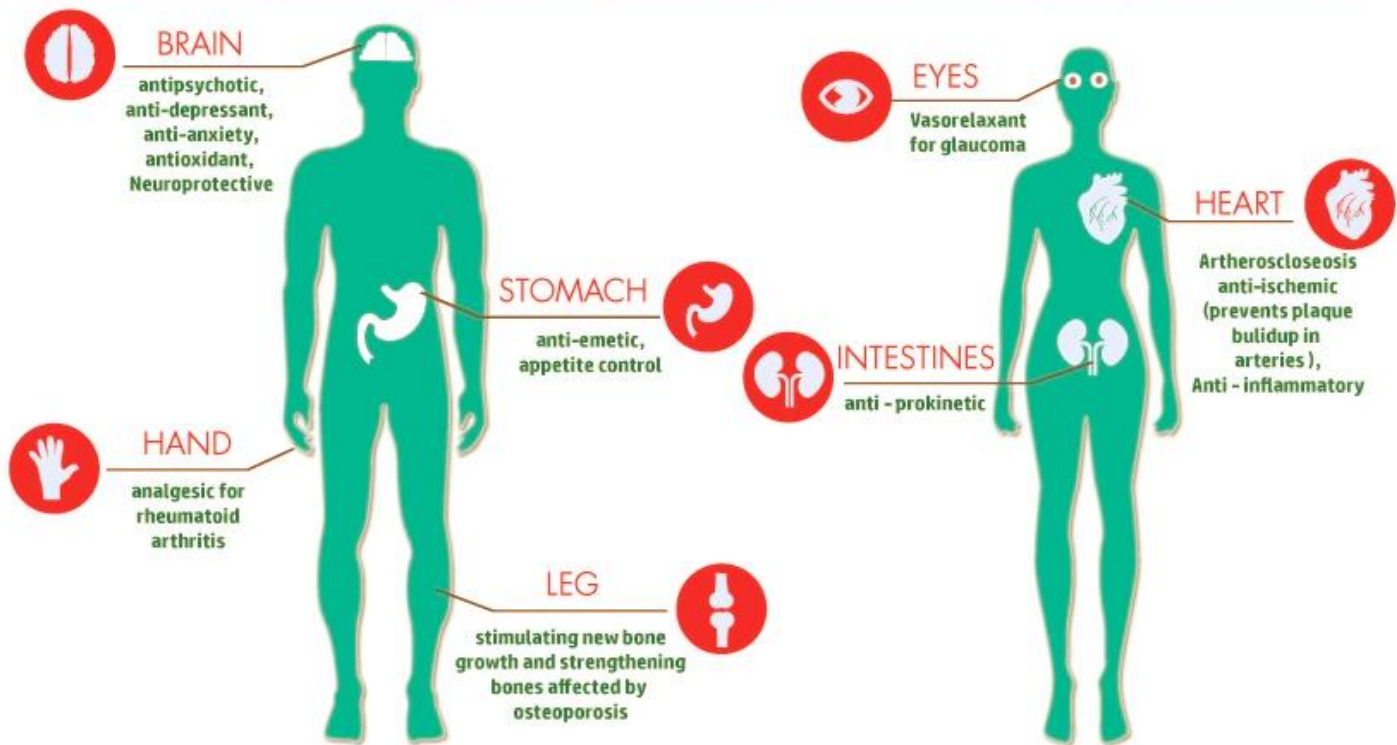
In early November 2017, the World Health Organization’s Expert Committee on Drug Dependence issued the following statement in its report:

*“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](http://www.who.int/medicines/access/controlled-substances/5.2_CBD.pdf) (updated)



## HOW HEMP CAN HELP YOUR BODY

### BENEFITS OF CANNABIDOL (CBD)



The National Institutes of Health (NIH) is a huge supporter of CBD research, with 281 projects funded to the tune of \$1111M 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 a result, 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 Products*

Through the Illegal Brands segment, the Company sells multiple flavors of CBD-infused water along with a nano CBD isolate. Offered in Mango Bergamot and Passion Fruit flavors, Illegal Brands CBD is positioned as the ultimate beverage for an alert and active lifestyle. Each bottle of the CBD water is infused with 30mg of microencapsulated organic Hemp Formula, which is the Company's proprietary formulation derived from the hemp plant. Hemp Formula displays a broad range of



potential health benefits and is non-psychoactive. Illegal Brands CBD water contains no THC. Each sachet in the isolate package contains 15mg of nano CBD. A tasteless and odorless product, the CBD isolate dissolves easily into beverages, food, and other products. The isolate is made into a nano CBD powder and the nanosized hemp oil droplets allow for maximum bioavailability and absorption making it the one of the most effective forms of CBD available on the market. Currently, CBD is largely used to treat anxiety, pain, inflammation, acne, sleep disorders and other conditions.

### *Distribution*

In our view, WVCV may be one of the best positioned companies in the entire CBD arena, as it relates to distribution, which is one of the key bottlenecks to consistent and high, top line growth. As a restaurant chain whose mission is to provide sustainable, fresh options to its health-conscious customers, WVCV is considered a trusted and preferred source of both food and new offerings such as the CBD line. Thus, CBD sales are expected to become an increasingly important part of the Company's future.

Today, the Illegal Brands line products can be purchased on-site of the IB and IP restaurant locations. To foster new sales and reorders, WVCV recently commenced direct-to-consumer sales of Illegal Brands CBD water and sachets via a number of Colorado delivery services, providing a new way for consumers to get a “taste” of the product and a direct impact of the health benefits. The Company is exploring plans to expand its product line significantly as well as increase its capacity to deliver to new locations. By offering Illegal Brands products directly through the website, WVCV is confident that it will be able to add a significant, recurring ancillary revenue source to its already solid financials.

Looking ahead, it is possible that leadership elects to combine its CBD products and infuse some of the restaurant dishes. This recent trend is all the rage in certain categories and may be best exemplified by the recent and high profile opening of a cannabis café that offers cannabis and CBD-infused dishes. While we do not have any insight as to management’s plan on this front, it is a natural evolution from its current standing and could even serve as a catalyst to sell even more of its CBD products and cement its standing as the only publicly traded pure CBD restaurant play.

## **FINANCIALS**

For an early stage company, WVCV boasts solid and ever-improving financials. For 2018, the Company generated \$3.05 million in total sales with an operating loss of just over \$900,000. It should be noted WVCV enjoyed a 10% annual growth rate and this growth excluded the new Illegal Pizza opening and the CBD product launch—both of which occurred in 2019. With the contribution of these new initiatives, WVCV has recorded sales growth of at least 26% for each of the first two quarters, totaling roughly \$1.8 million and a loss of just under \$800,000 in operating losses. It should be noted that the performance was likely much better but this figure included some non-cash compensation, which skewed the totals somewhat.

Based on the strength of the first half results, and current core business and CBD sales potential, we forecast \$3.9 million in revenue for 2019, although that figure could be higher, as CBD sales should have a strong seasonal fourth quarter. Plus, with the new website and delivery options, our current assessment is likely conservative. Investors should also have confidence in the core business as two locations (IB and the new IP)



are enjoying outsized growth rates. For 2020, we believe that additional CBD distribution streams will be launched, along with new IB and IP locations opened. Thus, we believe that sales could double next year and reach the \$8-9 million mark, and possibly approach \$10M, depending upon CBD's reach, new offerings, and recurring sales. By 2021, it is possible that the restaurant/CBD products mix could be at the 60/40 level, with revenue around \$25 million, and with meaningful operating profitability. It should be noted that the greater CBD is as a percentage of sales the lower the operating loss as this line carries significantly higher gross and associated operating margins.

Investors should relish the fact that the WVCV balance sheet is on more solid footing than most emerging restaurant stocks. Not only have total assets risen by \$1 million since a year ago (with the aid of funding) but the Company reduced long term debt by \$1.4 million.

## RISK FACTORS

With respect to the core business, traditional risks to fast casual dining stocks including shifting food and dining trends in cuisine, pricing, eat-in versus carry-out, and higher labor and food costs remain hurdles for WVCV and other companies in the space. Obtaining financing for new locations and delays in funding or permits, and slow sales/reputation builds can also negatively impact growth prospects. For CBD, the Company's biggest risks are related to the timing and sales momentum of the CBD-infused products, along with being able to differentiate its offerings from the competition. An overriding financial benefit is the favorable access to and the availability of capital to fund the product launches, consistent marketing campaigns and other initiatives, if necessary, given the availability of capital for this industry. Competitive risks include lower pricing, more effective sales/marketing, etc. from larger competitors or new entrants. Still, these risks are typical future concerns and are also consistent with firms of WVCV's size and standing.

Volatility and liquidity are typical concerns for microcap stocks that trade on the stock market. It is possible that the shares outstanding of this stock could increase due to potential capital needs. 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

In our view, the current valuation for WVCV's shares only reflect the core business revenue expectation for 2019. Looking ahead, we believe that considering the growth on that side, a 50% increase in market cap could be supported, right off the bat, as typical valuations tend to be 0.3x – 0.7x next year's revenue. However, clearly the major rise in future valuation will be the CBD business. A quick review of other non-profitable publicly traded CBD companies selling CBD-infused beverages and other products, demonstrates that companies tend to be afforded roughly \$5 million in valuation for every \$1 million projected over the next 12 months, or calendar year. Those firms operating profitably can carry high Price/EBITDA valuations. Given these factors, if WVCV sells \$2 million in CBD products in 2019, we proffer that the stock would be worth \$10 million, or \$0.13, with the restaurant business at \$7 million in sales worth \$3.5 million (the midpoint of the valuation metric), or \$0.04. Thus, our target price is \$0.17. Separately, we note that the stock hit a recent high and we believe all-time volume day which bodes well for liquidity and favorable prices ahead.

### RECENT TRADING HISTORY FOR WCVC

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





## SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 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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