CHARLIE'S HOLDINGS INC

April 13, 2023

CHARLIE'S HOLDINGS, INC.

(OTCQB – CHUC)

Sector: Consumer Disc

6-9 Mo. Price Target: $0.32

Publishing Sponsored Research Since 2009

Dynamic | Emerging | Opportunities

Investment and Company Research
Opportunity Research
COMPANY REPORT

CHARLIE'S HOLDINGS, INC.
High Growth Segment Leader Set to Reach New Highs

Rob Goldman
rob@goldmanresearch.com

April 13, 2023

CHARLIE'S HOLDINGS INC. (OTCQB – CHUC - $0.10)	
Sector: Consumer Discretionary	6-9 Mo. Price Target: $0.32

KEY STATISTICS

Price as of 4/12/23:	$0.10	
52-Week Range:	$0.30 - $0.0617	
Est. Shares Out:	224M	
Mkt Cap ($, mil):	$22.4M	
Avg. Volume:	43,031	
Exchange:	OTCQB	
BV Per Share:	$0.016	
Inst Own:	N/A	
Public Float:	55.8M	23%
Rev (mil)	**2022E**	**2023E**
CY:	$26,500	$44,000
CY P/Rev:	1.2x	0.5x
Oper Mgn:	N/A	6.60%
Net Inc.	**2022E**	**2023E**
CY:	($0.640)	$3,202
CY P/Net Inc:	N/A	7.0x
Future Rev & Net	2024E	
	$75,000	$12,079

COMPANY INFORMATION

Charlie's Holdings, Inc.
107 Brioso Drive
Costa Mesa CA 92627
Web: www.CharliesHoldings.com
Email: ir@charliesholdings.com
Phone : 949.570.0691

INVESTMENT HIGHLIGHTS

Charlie's Holdings Inc. (OTCQB: CHUC) is a segment leader in three broad product categories: (i) non-combustible nicotine-related products, (ii) alternative alkaloid vapor products, and (iii) hemp-derived vapor and edible products. The Company offers an award-winning family of e-liquids, vape cartridges, and a variety of hemp-derived products.

The underlying markets are huge and CHUC sells products in more than 80 countries and via 3,000 distributors and 350 specialty chains. The US Vapor market is expected to reach $6.6B in 2023 and the global CBD oil and CBD wellness products are projected to reach $127B in market size in 2027.

In our view, CHUC stock is very undervalued relative to its revenue success. This is likely due in large part to investors that have overlooked current growth and new initiatives and focused on the potential of an FDA marketing approval for flavored e-cigs.

Our forecasts call for $26.5M in sales for 2022, $44M for 2023 and $75M in 2024, a whopping 41% CAGR. Plus, CHUC is poised to generate meaningful operating income beginning in 2023.

Based on a discount to the price/sales afforded its peer group, our 6–9-month price target is $0.32. Looking ahead, we envision a 12–18-month target of $0.87, based on this price/sales metric. In addition, a series of valuation upside catalysts exist, including a likely stock up-list to a national exchange.

COMPANY OVERVIEW

The View from 30,000 Feet

In our view, **Charlie's Holdings, Inc. (OTCQB: CHUC)** is positioned as the segment leader in the production and sales of alternative products to combustible cigarettes targeting a global market representing hundreds of millions of potential customers. CHUC's popular, diverse offering includes non-combustible nicotine-related products, alternative alkaloid vapor products, and hemp-derived vapor and edible products. The Company's products are sold in nearly 100 countries around the world to select distributors, specialty retailers, and third-party online resellers.

CHUC is in the early innings of a major growth phase that we believe will result in enviable top-line growth, market share, as well as operating and net income profitability. At present, we believe the Company's shares are very undervalued relative to the Company's projected revenue growth rate and peer group multiples. Moreover, a series of valuation upside catalysts exists. These catalysts include new, forward-thinking initiatives which could ultimately position CHUC as an important player in multiple, large-scale consumer product segments.

The Markets, The Products

According to E-cig Intelligence, the US Vapor market alone is projected to rise from a low of $4.9B in 2020 due to in part to the Covid pandemic to $6.6B in 2023. Meanwhile, a report by Grandview Research estimates that the total global CBD consumer health market will reach $123B by 2027.

Sold under Charlie's Chalk Dust, *PACHA Disposables™,* are the Company's fastest-selling product in the United States. PACHA Disposables represents a $100+ million revenue opportunity for Charlie's and likely generates the majority of the Company's current sales. PACHA comes in multiple flavors and a clear form. CHUC also offers multiple forms of products in its hemp-derived vapor and edible products line. These include the newly released *PINWHEEL line*, a 100% hemp-derived product line with great flavors and names.

CHUC boasts more than 3,000 specialty retailers around the globe and more than 300 distributors. These figures, along with potentially tighter partnerships, could occur in the coming quarters, given CHUC's brand name recognition and diverse, award-winning products. We believe this is especially the case for its channels outside of the US.

The Numbers

CHUC's 2021 revenue of $21.5M was dominated by e-liquids. We project record revenue of $26.5M for 2022, or a 23% annual jump. During 2022, we believe the commencement of a likely, meaningful future revenue shift toward its nicotine-related disposable products and hemp-derived vapor products may have occurred. This shift will likely help drive major top-line growth in 2023 and 2024, with estimated sales of $44M and $75M, respectively. Our forecasts also include net income of $3.2M and $12.1M in 2023 and 2024. These huge revenue growth estimates reflect the major demand for the Company's products and affirm its leadership standing.

View the Pending FDA Decision as Bonus Not Key Valuation Feature…

In our view, the current low price/sales multiple assigned CHUC by the Street reflects CHUC as a poorly understood story. Once the proper lens is placed on CHUC, it is our contention that a substantial rise in the shares is set to occur. Here's the backstory:

In 2020, the FDA issued an enforcement policy effectively banning the sale of flavored nicotine vapor and e-cigarette products marketed primarily by large manufacturers without prior authorization from the FDA. Any ban of the sale of flavored e-cigarettes directly limits the markets in which the Company may sell its products. In addition, in June 2022, the FDA announced a plan to reduce nicotine levels in cigarettes to minimally or non-addictive levels.

In response, CHUC spent more than $5MM on a very substantial Premarket Tobacco Application ("PMTA") to the FDA for the Company's e-liquids that contain plant-derived nicotine. Further, in 2022,, multiple additional PMTAs were submitted to the FDA's Center for Tobacco Products – for both the Company's synthetic nicotine e-liquid and disposable products.

Importantly, Charlie's is one of only a select group of companies that submitted its PMTA in advance of the September 9, 2020, FDA deadline. The FDA's Center for Tobacco Products subsequently informed the Company that Charlie's PMTA had received a valid Submission Tracking Number ("STN"), passed the FDA's filing review phase, and entered "Substantive Review." These milestones represent a considerable competitive advantage because most industry competitors do not have the resources necessary to submit robust PMTA applications required for regulatory approval.

Since the Company spent so much money, time, and effort to emerge as one of a small number of companies still legally allowed to operate in the flavored nicotine product space, investors have been waiting on comments from the FDA, or a marketing order, and the stock has reflected this "limbo status." Clearly, a marketing order designation could result in a considerable increase in sales, profits, and market share for the Company. However, in our view, such an FDA action is ***not*** the be-all-end-all. Moreover, the Company's new prioritization/evolution toward hemp-derived products looks like a brilliant management move. Hemp-derived CBD products do not have the same type of FDA regulatory review and oversight as tobacco alternatives, and represents a potentially larger, even faster-growing market.

…Focus on the Potential Event Overlooks the Obvious Near-Term, Valuation-Drivers

The FDA is notorious for taking its time with key industry decisions. Still, CHUC could end up a winner and receive a marketing order. However, given the unclear timing of a conclusion to this situation for the Company and the industry, we view favorable news as a *bonus* and not a direct reason to buy the stock. On the contrary, we believe investor focus on this aspect does management and the Company a disservice. Despite having attention taken away, and substantial funds spent for years, management has grown the business, entered into new markets, and launched new innovative initiatives whose value could have a major impact on the Company. In fact, the current sales growth indicates the *de facto* win for CHUC, aided in party by pivoting into other verticals such as hemp-derived vapor and edible products.

Aside from the entrance into the Hemp/CBD space, the Company's latest new product initiative revolves around the development of a patented "age-gating" technology. The concept is based on the introduction of a controlled e-cigarette device that is made operable only upon activation by an age-verified adult consumer. It is possible that successful development of such a device could aid in CHUC's objective of receiving the aforementioned FDA marketing order. Such an event could thereby result in the Company's PACHA™ disposable vape products standing among the select few - *or the only* - flavored nicotine disposables able to be sold legally in the United States. Perhaps other licensing opportunities for the technology in the e-cig or other verticals could exist as well. In addition, management could partner with 3-4 competitor-allies to co-brand new disposable vape and e-liquid product lines. Such an arrangement could result in higher sales, greater market share, and possibly a reduction in future PMTA submission costs as well.

Valuation

While this age-gating initiative could be a game changer and aid in the granting of an FDA marketing order, it is early in the process and we believe that other valuation upside catalysts should serve as drivers in the next few quarters. For example, as illustrated in Table III, CHUC currently trades at a paltry 0.5x projected FY23E revenue, versus the 3.4x multiple afforded its peer group---despite the huge growth rates for CHUC versus slow growth for the peer group. Thus, our 6–9-month target price of $0.32 represents only a conservative 1.8x projected 2023E revenue multiple on our $44M forecast. As a corollary, at this level, the stock would also trade roughly 25x FY23E EPS, a reasonable multiple. Based on these metrics, it is possible the Company's shares could reach 2$0.87 in 12-18 months, which currently reflects 3.2x FY24E forecasted revenue---still a discount to the peer group. The P/E on this target would reflect 21x EPS, again a very reasonable figure in our estimation.

We maintain that upside to our targets exist due to the following reasons:

- Our forecasts could prove to be conservative due to distribution relationships
- Price/Sales, Price/Earnings Multiple could rise w/sales increases
- Product mix shift to Hemp-derived/CBD-related sales and co-opetition deals with rivals
- CHUC has stated plans to up-list to a national securities exchange which would immediately increase the liquidity of the stock and could drive multiples significantly higher

This near-term valuation outlook should *not* indicate that we do not have confidence in the successful granting of a marketing order. It could occur sooner rather than later and would be a gigantic shot in the arm for CHUC, taking the Company to “the top of the hill” and to new valuation highs. We merely believe that if investors focus on tangible business execution and the likely resultant valuation increases, CHUC could emerge as a major 2023 winner.

CHUC: EVER-EVOLVING BUSINESS

The Company is ever-evolving and is in the early innings of focusing on building a steady and growing stream of business via the sales of alternative cannabis products over nicotine products and, on a secondary basis, increasing direct-to-retail sales (versus purely distributor sales), and sales to/through the independent convenience store channel.

Indeed, Charlie’s is on track to become a significant leader in the rapidly growing, global e-cigarette and e-liquid segments of the broader nicotine related products industry and has evolved into a broader firm with offerings in the hemp-derived CBD industry. Through wholly owned subsidiary Charlie’s Chalk Dust, the Company formulates, markets and distributes premium, nicotine-based vapor products. Charlie’s products are produced by the Company’s contract manufacturers for sale through select distributors, specialty retailers and third-party online resellers throughout the United States, and in more than 80 countries worldwide. Charlie’s primary international markets include the United Kingdom, Italy, Spain, New Zealand, Australia, and Canada.

Through the Don Polly entity, CHUC launched the PINWEEL product line. PINWEEL is Charlie’s alternative cannabis brand that contains only cannabinoids derived from the hemp plant. Since the PINWEEL product line contains only cannabinoids made from 100% hemp extract, the Company is able to legally manufacture, distribute and sell to consumers in the United States. As a result of the Agriculture Improvement Act (the “*Farm Bill*”), ratified and signed into law in December 2018, cannabis containing less than 0.3% Delta 9-THC is legally classified as hemp and is thus legal under federal law.

Accordingly, products offered in this segment mitigate the current PMTA regulatory risk that is related to the Company’s nicotine products. Because CHUC’s alternative cannabis products contain only cannabinoids that are derived from the hemp plant, they are indeed legal throughout most of the United States. Further, alternative cannabis products are not currently subject to FDA review. With the objective of developing an array of new purpose-driven alternative cannabis products that offer adult consumers an enjoyable alternative to alcohol and traditional cannabis products, the Company continues to develop new PINWEEL vapor products, edibles, and other novel products.

This large, fast-growing category represents a unique opportunity for CHUC to market to a broader swath of adult consumer and sell directly to them. Separately, CHUC has enjoyed increasing interest and growth in international markets for its e-liquid and other vapor products. Presently, approximately 15% of vapor product sales come from international markets. To meet this demand, the Company intends to launch proprietary new disposables, along with e-liquids, both of which have been specially formulated for the European and Middle East markets. In partnership with its international distributors, Charlie's will sell the Company's products in target markets where more than 20% of the population consumes nicotine in some format.

Management is continuing with its plan to seek and obtain marketing authorization for certain of its nicotine-based vapor products through the submission of the Company's September 2020 Premarket Tobacco Applications ("PMTAs"). CHUC has allocated further resources and new personnel to support our research and development initiatives in order to submit additional PMTAs, including the May 13, 2022, submissions pertaining to the Company's synthetically derived nicotine Pacha product line.

Obtaining a marketing order from the United States Food and Drug Administration ("FDA") would, management believes, advance the Company's position as a trusted, industry leader committed to full regulatory compliance. This is especially the case since it is likely that many of CHUC's competitors will not have the necessary resources and/or expertise to complete the extensive and costly PMTA process and that, once authorized by the FDA, Charlie's will benefit significantly by emerging as one of a select group of companies able to continue operating in the nicotine vapor products space.

The Products

To serve the many millions of adults around the world who seek better technologies and more responsible ways to enjoy nicotine, Charlie's has developed an extensive portfolio of compact, easy-to-use disposable vaping devices. *PACHA Disposables™* represents CHUC's first-ever entrant into the rapidly expanding U.S. disposable e-cigarette market and are the fastest-selling new product in the Company's history. Containing 100% tobacco-free nicotine, *PACHA Disposables* feature some of the industry's most distinctive flavors. Available in 1,500, 3,000 and 4,500-puff counts, *PACHA Disposables* represent a $100+ million revenue opportunity for Charlie's and are expected to have generated the majority of the Company's 2022 sales.

Over the past several years, five states and more than 345 localities have enacted e-cigarette “flavor bans” prompting Charlie’s to create a disposable smooth flavored product: *PACHA Clear***.** Available in two puff counts; 1,500 & 3,000, *PACHA Clear* products are an integral part of the Company’s 2022 Synthetic Nicotine PMTA submission.

PINWEEL

In November 2022, CHUC executed its national launch of PINWEEL, an alternative cannabis brand derived from 100% hemp extract. Incorporating proprietary live resin blends, this product category has grown rapidly, as it offers consumers a range of benefits across varying potencies and product formats. Alternative cannabis products contain only cannabinoids that are derived from the hemp plant, are not subject to the Controlled Substances Act and are legal throughout most of the United States. Further, alternative cannabis products are not currently subject to FDA review. Initial flavors included "Peanut Butter & Jesus" and "Grand Daddy Purp". These are currently available in consumer-preferred 3-gram disposable and 2-gram cartridge formats. PINWEEL alternative cannabis products include proprietary live resin blends in three primary varieties:

Mild & Mellow: Comparable to a sativa cannabis strain

Light & Lit: Comparable to a hybrid strain.

Heavy & Heady: Comparable to an indica cannabis strain

Management plans to introduce additional PINWEEL blends and flavors in 2023.

Future Initiatives

Aside from the entrance into the burgeoning "alternative cannabis" market for products containing live resin blends of hemp-derived cannabinoids, the Company's latest new product development initiative revolves around the development of a patented "age-gating" technology. The concept is based on the introduction of a controlled nicotine disposable device that is made operable only upon activation by an age-verified adult consumer. It is possible that successful development of such a device could aid in CHUC's objective of receiving the aforementioned FDA PMTA marketing order. Such an event could thereby result in the Company's PACHA™ disposable vape products standing among the select few - *or the only* - flavored e-cigarettes able to be sold legally in the United States. Perhaps other licensing opportunities for the technology in the e-cig or other verticals could exist as well. In addition, management could partner with 3-4 competitor-allies to co-brand new disposable vape and e-liquid product lines. Such an arrangement could result in higher sales, greater market share, and possibly reduced future PMTA submission costs as well.

CHARLIE'S HOLDINGS LEADERSHIP TEAM

Ryan Stump, Chief Operating Officer, Director

Mr. Stump was appointed as the Company's Chief Operating Officer on April 26, 2019, in connection with the Share Exchange. Mr. Stump has served as the Chief Operating Officer of Charlie's since 2014, during which time he has been responsible for all global operations of Charlie's. Prior to joining Charlie's, Mr. Stump worked as an Associate Territory Manager and then as a Territory Manager for ConMed, a medical sales device company, from 2010 to 2013. Mr. Stump also co-founded and continues to be engaged with multiple companies, including The Ohio House since 2011, the Buckeye Recovery Network since 2017, and The Mend California since 2018. Mr. Stump earned a B.S. and B.A. in Sports Marketing and Marketing from Duquesne University.

Henry Sicignano III, President

Mr. Sicignano was appointed as the Company's President on April 1, 2021. Mr. Sicignano brings more than 20 years experience as a senior executive of various consumer products companies. He served as Chief Executive Officer of 22nd Century Group, Inc. (NYSE American: XXII), a plant-based biotechnology company that is focused on tobacco harm reduction, very low nicotine content tobacco, and hemp/cannabis research, from March 3, 2015, through July 26, 2019; as President from January 25, 2011, through July 26, 2019; and as a Director from January 25, 2011, through July 26, 2019. Mr. Sicignano served on the Board of Directors of Anandia Laboratories, Inc., a cannabis-focused science company, from December 2014 through August 2018 when the company was sold to Aurora Cannabis (NYSE: ACB). From August 2005 to April 2009, Mr. Sicignano served as a General Manager and as the Director of Corporate Marketing for NOCO Energy Corp., a petroleum products company; and from March 2003 to July 2005, as Vice President of Kittinger Furniture Company, a fine furniture manufacturer. From February 1997 through July 2002, he served as Vice President and Marketing Director of

Santa Fe Natural Tobacco Company, a specialty tobacco company and parent to the Natural American Spirit cigarette brand, prior to the sale of Santa Fe Natural Tobacco Company to R.J. Reynolds Tobacco Company in 2002. Mr. Sicignano holds a B.A. Degree in Government from Harvard College and an M.B.A. Degree from Harvard University.

Matt Montesano, Chief Financial Officer

Since 2014, Mr. Montesano served as Chief Financial Officer of Charlie's Chalk Dust, LLC, the Company's largest and most profitable operating division. Beginning in 2019, he also began serving as the Chief Financial Officer of Don Polly, LLC, the Company's hemp-derived products division. Prior to joining the Company, Mr. Montesano worked for L'Oreal USA in a variety of corporate finance positions for the company's Professional Products and Salon Centric divisions. Prior to L'Oreal USA, Mr. Montesano worked for KeyBanc Capital Markets as an investment banker where he focused on debt, equity and merger and acquisitions transactions in the industrials space. Throughout his career, Mr. Montesano has invested in and consulted with businesses on a variety of matters including financial systems and reporting, as well as capital raising and other strategic alternatives. Mr. Montesano holds a bachelor's degree in finance from Ohio University.

Adam Mirkovich, Chief Information Officer

Mr. Mirkovich was appointed as the Company's Chief Information Officer on May 20, 2019. Mr. Mirkovich has over a decade of experience managing supply chains for consumer products. Mr. Mirkovich has served as an independent management consultant specializing in building and optimizing value chains for startups and growth stage companies in the beverage, nicotine vape, and nutritional supplements industries since 2013. Prior to joining the Company, Mr. Mirkovich served as the Chief Operating Officer of Orchid Ventures, Inc. (CSE:ORCD), a multi-state premium cannabis vape company, from September 2018 to April 2019. From December 2014 to February 2016, Mr. Mirkovich served as the Director of Supply Chain and Operations at Space Jam Juice, LLC, a distributor of premium vapor products. From November 2010 to April 2013, Mr. Mirkovich served as the Product Lifecycle Management (" PLM ") Program Manager for Niagara Bottling, LLC, a leading bottled water manufacturer. While there, he led the product revision, introduction, and discontinuance practices for customers' private labeled water, flavored, and carbonated beverages. Prior to his role in PLM Management, Mr. Mirkovich served as a member of the Supply Chain Logistics team at Niagara Bottling, providing strategic support of company expansion activities and tactical support of purchasing, production planning, and multi-region logistics in North American operations. Mr. Mirkovich earned a Bachelor of Science degree in Business Administration and Economics from Chapman University.

<u>Non-Executive Directors</u>

Edward Carmines, Ph.D., Independent Board Member

Dr. Carmines is an accomplished scientist and regulatory affairs expert with extensive experience working with the Center for Tobacco Products at the U.S. Food and Drug Administration. In addition to an extraordinary record of success with Premarket Tobacco Applications, Modified Risk Tobacco Product Applications, and Substantial Equivalence and Exemptions Requests with the FDA, Dr. Carmines maintains collaborative relationships with tobacco industry executives and public health advocates around the globe.

Dr. Carmines is currently Chief Scientific Officer of Chemular, Inc., where he designs and directs scientific and regulatory programs for PMTAs for a host of contract clients across a wide range of tobacco product categories. He also currently serves as an Advisory Board Member of Sparq Life, Inc, focusing on the science of inhalation of non-tobacco products, and Principal for Carmines Consulting, LLC, where Dr. Carmines consults to the regulated tobacco industry in the field of toxicology and regulatory affairs. Previously, Dr. Carmines managed the safety of novel and oral tobacco products as a scientist with R.J. Reynolds Tobacco Co. From 1996-2009, Dr. Carmines served as a principal scientist for Philip Morris USA (Altria Client Services, Inc.), where he developed guidelines for safely testing cigarette ingredients and components based on the FDA Red Book. Dr. Carmines received a B.S. degree in Chemistry and a Ph.D. degree in Toxicology from the Medical College of Virginia (Virginia Commonwealth University).

Scot Cohen, Independent Board Member

Mr. Cohen was appointed to the Board in March 2013 and is the Founder and Managing Partner of V3 Capital Partners, a private investment firm focused on early-stage companies primarily in the consumer products industry, and Co-Manager of Red Fortune Fund, a private equity fund based in Hong Kong. Mr. Cohen also is the Founder of Petro River Oil, LLC and Chairman of Petro River Oil Corp. (OTCBB: PTRC), a publicly traded oil and gas producer with assets in Kansas and Oklahoma, and Petro Spring, a global oil and gas technology solutions provider. Prior to creating V3 Capital Partners, Mr. Cohen was the Founder and Managing Partner at Iroquois Capital Opportunity Fund, a special situations private equity investment fund, and a Co-Founder of Iroquois Capital, a hedge fund with investments in small and micro-cap private and public companies. Mr. Cohen currently serves as a director on the Board of Directors of Wrap Technologies, Inc. (NASDAQ: WRTC), and is active in philanthropic activities with numerous charities including the Jewish Enrichment Council. Mr. Cohen received a Bachelor of Science degree from Ohio University in 1991.

Jeffrey Fox, Independent Board Member

Mr. Fox has been a leading business strategist, brand marketing authority and general management executive for some of the world's largest restaurant and consumer companies including roles as Chief Brand & Concept Officer for Pizza Hut, Co-founder of Collider LLC, a cultural marketing strategy firm, Managing Director of the California office of advertising agency Foote, Cone and Belding (FCB), various positions with the Yum! Brands and within Sony's interactive and PlayStation video game divisions, and Hill & Knowlton Public Relations. Jeff is currently a member of two board of directors -- Cici’s Pizza and Flix Brewhouse. Jeff holds a bachelor’s degree in journalism from San Diego State University and received a master’s degree in mass communications from California State University, Northridge.

FINANCIALS SNAPSHOT

For 2022, our model assumes revenue of $26.5M and an operating loss of ($1.3M), a 23.5% jump in revenue. We believe that meaningful hemp-derived product sales began to occur in 2H22 with solid margins as well. Plus, we believe that new channels were added due to the release of this broad and growing product family. While the full year income statement and balance sheet will be released shortly, we believe that the Company's balance sheet remains strong—with minimal long-term debt. Frankly, the Company's balance sheet could operate with few or no issues if a debt facility were added to meet working capital and inventory needs to ensure top-line objectives can be achieved. This situation is likely why last week the Company is now authorized to increase indebtedness to $6M, up from $2.5M.

Our future pro forma forecasts include 2023E revenue of $44M, a whopping 66% jump, with operating profit of $2.9M, a 6.6% margin. Net profit for the year is forecasted to be $3.2M. We plan to update our full forecasts after 1Q23 with respect to product category sales and other line items, include those below the operating line. For 2024E, we project revenue of $75M, an enviable 70.4% rise, with operating profit of $11.7M, or a healthy 15.6% margin. These huge revenue growth estimates reflect the major demand for the Company's products and affirm its leadership standing.

As noted above, our revenue and gross margin (in the low 40% range) forecasts could be low given the Company's marketing reach and product introductions and evolution. We note that it is possible that in conjunction with an up-list, a modest financing could occur and our estimated outstanding shares reflect such an event.

Table I. Charlie's Holdings, Inc.
Pro Forma Proj Inc State Snapshot
($,000)

	FY22E	FY23E	FY24P
Product revenue, net	$26,500	$44,000	$75,000
TOTAL REVENUE	**$26,500**	**$44,000**	**$75,000**
Cost of Sales	$15,635	$25,520	$42,000
Gross Profit	**$10,865**	**$18,480**	**$33,000**
Gross Margin	*41%*	*42%*	*44%*
Operating Expenses			
General and Administrative	$8,480	$10,770	$14,539
Sales & Marketing	$2,862	$3,721	$5,209
Research and Development	$848	$1,102	$1,543
Total Operating Expenses	**$12,190**	**$15,593**	**$21,291**
Operating Income (Loss)	**($1,325)**	**$2,887**	**$11,709**
Operating Margin	*N/A*	*6.6%*	*15.6%*

Sources: CHUC, OTC Markets, GSCR

RISK FACTORS

In our view, investment risks into CHUC can be divided into three categories: regulatory, business, and capital markets. The most obvious and greatest risk factor remains the regulatory one. As we have seen in recent years, the FDA has a bullseye on flavored vape products, which seems to be related to issues related to youth initiation/use of the adult-targeted products. Still, management has implemented several strategies to counter this concern, including the introduction of a “clear” tobacco-flavored disposable vape product, as well as entrance into the burgeoning “alternative cannabis” hemp-derived product category. Moreover, the Company’s new proprietary “age-gating” technology initiative appears to be a novel approach designed specifically to counter youth access to flavored or other vape products. Thus, we believe management has done everything it can in this arena and will maintain a leadership standing in the category.

Business risks could come in the form of slower industry sales or the closing of specialty stores or distributors due to economic issues. A migration toward different but related product offering styles that become more popular or trendy, or perhaps simply a lower price point for similar offerings could also negatively impact CHUC. The aforementioned risks could come from larger competitors, existing firms, or new entrants. Still, these future concerns are consistent with firms of CHUC's size and standing. Moreover, we believe that CHUC's seasoned management team is prepared to overcome these hurdles and to generate significant top-line growth and consistent social media management implementations.

Volatility and liquidity are typical concerns for microcap stocks that trade on the over the counter (OTC) stock market. Although the number of shares outstanding has been little changed in recent quarters, management may seek to raise funds in conjunction with the Company's planned up-listing to a national securities exchange. Additional debt to address working capital is likely to occur given the huge, expected top-line growth, reflecting big demand for CHUC's products. An overriding financial benefit as a public company is the favorable access to and the availability of capital to fund product launches, consistent marketing campaigns and other initiatives. Since the proceeds of any future financing would be used in large part to advance major business development and sales, we believe that any dilutive effect from such a funding would be offset by related increases in market value.

VALUATION AND CONCLUSION

While the Company's age-gating initiative could be a game changer and aid in the granting of an FDA marketing order, it is early in the process and we believe that other valuation upside catalysts should serve as drivers in the next few quarters. For example, as illustrated in Table III, CHUC currently trades at a paltry 0.5x projected FY23E revenue, versus the 3.4x multiple afforded its peer group---despite the huge growth rates for CHUC versus slow growth for the peer group. Thus, our 6–9-month target price of $0.32 represents a conservative 1.8x projected 2023E revenue multiple on our $44M forecast. As a corollary, at this level, the stock would also trade roughly 25x FY23E EPS, a reasonable multiple. Based on these metrics, it is possible the Company's shares could reach at least $0.87 in 12-18 months, which currently reflects 3.2x FY24E forecasted revenue---still a discount to the peer group. The P/E on this target would reflect 21x EPS, again a very reasonable figure in our estimation.

We maintain that upside to our targets exist due to the following reasons:

- Our forecasts could prove to be conservative due to distribution relationships
- Price/Sales, Price/Earnings Multiple could rise w/sales and earnings increases
- Product mix shift to Hemp-derived/CBD-related sales, and co-opetition deals with rivals
- CHUC has stated plans to up-list to a national securities exchange which would immediately increase the liquidity of the stock and could drive multiples significantly higher

This near-term valuation outlook should ***not*** indicate that we do not have confidence in the successful granting of an FDA marketing order. It could occur sooner rather than later and would be a gigantic shot in the arm for CHUC, taking the Company to "the top of the hill" and driving valuation to new levels. We merely believe that if investors focus on tangible business execution and the likely resultant valuation increases, CHUC could emerge as a major 2023 winner.

Table II. CHUC Publicly-Traded Peer Group

Company Name	Symbol	Price (4/12/23)	Mkt Cap (mil)	FY22A Revs (mil)	FY23E Revs (mil)	FY24E Revs (mil)	23E - 24E Revs Growth	2023E Price/Revs	2024E Price/Revs
British American Tob	BTI	$35.45	$79,264	$27,655	$28,623	$29,768	4.0%	2.8	2.7
Altria	MO	$44.83	$80,073	$20,688	$21,000	$21,300	1.4%	3.8	3.8
Philip Morris	PM	$98.79	$153,337	$31,762	$35,710	$37,900	6.1%	4.3	4.0
VPR Brands	VPRB	$0.15	$14	$4	$5	$6	20.0%	2.6	2.2
Average			$78,172	$20,027	$21,335	$22,244	8%	*3.4*	*3.2*
Charlie's Hold	*CHUC*	*$0.10*	*$23*	*$27*	*$44*	*$75*	*66.0%*	*0.5*	*0.3*
Charlie's Hold	***CHUC***	***$0.32***	***$80***	***$27***	***$44***	***$75***	***66.0%***	***1.8***	***1.1***
Charlie's Hold	***CHUC***	***$0.87***	***$233***	***$27***	***$44***	***$75***	***70.5%***	***5.3***	***3.1***

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

Table III. Charlie's Holdings, Inc.
Pro Forma Projected Income Statement
($,000)

	FY22E	FY23E	FY24E
Product revenue, net	$26,500	$44,000	$75,000
TOTAL REVENUE	**$26,500**	**$44,000**	**$75,000**
Cost of Sales	$15,635	$25,520	$42,000
Gross Profit	**$10,865**	**$18,480**	**$33,000**
Gross Margin	*41%*	*42%*	*44%*
Operating Expenses			
General and Administrative	$8,480	$10,770	$14,539
Sales & Marketing	$2,862	$3,721	$5,209
Research and Development	$848	$1,102	$1,543
Total Operating Expenses	**$12,190**	**$15,593**	**$21,291**
Operating Income (Loss)	**($1,325)**	**$2,887**	**$11,709**
Operating Margin	*N/A*	*6.6%*	*15.6%*
Total Other Inc (Exp)			
Interest expense	($110)	($200)	($250)
Change in fair value deriv liab	$800	$500	$600
Gain on debt exting	$0	$0	$0
Loss on disposal fixed assets	($13)	$0	$0
Other income	$8	$15	$20
Total Other Inc (Exp)	$685	$315	$370
Pretax income	$680	$3,202	$12,079
Income taxes	N/A	N/A	$2,416
Net Income (Loss)	**($640)**	**$3,202**	**$12,079**
NET INC (LOSS) PER SHARE	**($0.00)**	**$0.00**	**$0.00**
Net Margin	*N/A*	*7%*	*16%*
Est. Avg Shares Outstanding	250,000,000	275,000,000	300,000,000

Sources: CHUC, OTC Markets, GSCR

Table IV. Charlie's Holdings, Inc.
Balance Sheet: 9/30/22
($, 000)

Current Assets	
Cash	$466
Accts receivable, net	$1,600
Inventories, net	$5,129
Prepaid expenses, other curr assets	$950
Total Current Assets	**$8,145**
Non-Current Assets	
Property and Equip, net	$352
Right-of-use asset	$886
Other assets	$88
Total Non Current Assets	**$1,326**
TOTAL ASSETS	**$9,471**
Current Liabilities	
Accts payable, accrued exp	$3,061
Note payable	$1,000
Note payable, net-related party	$298
Deriv liability	$301
Lease liabilities	$361
Deferred revenue	$245
Total Current Liabilities	**$5,266**
Non-current Liabilites	
Notes payable, net curr portion	**$150**
Lease liab, net curr portion	**$526**
Total Non-current Liabilities	**$676**
TOTAL LIABILITIES	**$5,942**
SHAREHOLDER'S DEFICIT	
Conv Pref. Series A, B, & Common	218
Add'l paid-in capital	7,855
Accumulated deficit	($4,544)
Shareholder's Equity	$3,529
TOTAL LIABILITIES & EQUITY	**$9,471**

Sources: CHUC and Goldman Small Cap Research

RECENT TRADING HISTORY FOR CHUC

(Source: www.StockCharts.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.

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 the Company in the amount of $5,000 for research report production, including a press release. 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