

Recommendation

"Diego Pellicer", Potentially the "Starbucks" of Cannabis Industry

By Michael Markowski, May 3, 2016

From my research on the business model of Diego Pellicer Worldwide Inc. (DPWW:$0.80), and on the Diego Pellicer brand (Diego Pellicer), my conclusion is that Diego Pellicer has the potential to be the Cannabis industry's most visible and valuable brand. With the model and the already visible brand DPWW is in the position to become recognized as the Starbucks of the Cannabis Industry by October of 2016. Based on the DPWW's Diego Pellicer brand, low market cap, low risk and highly scalable business and revenue model, it is capable of delivering exponential growth and its share price has the potential to increase significantly.

The Diego Pellicer name has a rich heritage. At the turn of the 20th century the namesake for the brand — a colonial Vice Governor of the Philippines — was the largest grower of hemp in the world. In 2013 Diego Pellicer, Inc. (predecessor company to DPWW) made headline news from the recruitment of former President of Mexico, Vincente Fox, as a spokesperson and key ally. Dozens of local television stations throughout the U.S., and Wolf Blitzer of CNN interviewed President Fox and the CEO of the company. Additionally, Alan

Valdes, the Chairman of DPWW has also been interviewed by CNN (http://www.cnn.com/videos/world/2014/01/02/commercial-cannabis-market-interview.cnn). Millions of television viewers have become acquainted with the Diego Pellicer name or brand since 2013.

The original business model for the company was to produce and sell cannabis. In 2013 DPWW changed its strategy to develop a national cannabis retail store chain and forgo the production or selling of cannabis. To have stores in multiple U.S. states required that the company develop a methodical plan and begin to implement the plan in 2013. See May 2013 *International Business Times* "Marijuana Retail Chain Coming? Former Microsoft Exec Wants To Launch The Starbucks Of Pot With 'Diego Pellicer' (http://www.ibtimes.com/marijuana-retail-chain-coming-former-microsoft-exec-wants-launch-starbucks-pot-diego-1286667)." To date, a national chain of cannabis stores is yet to emerge. Developing a chain has been extremely challenging for the following reasons:

1. States have different laws pertaining to producing and retailing of cannabis.
2. Municipalities have zoning laws that make it difficult to find store locations.
3. Federal laws prohibit the transporting of cannabis and any products that include cannabis in them across State lines.

The change in strategy and the two years DPWW invested in developing its concept of proprietary multi-state cannabis retail stores enables the company to better leverage the Diego Pellicer brand. It will also enable the company to become recognized as the "first national cannabis retail store chain" by October 2016. The company's strategy to develop its chain is brilliantly simple and elegant:

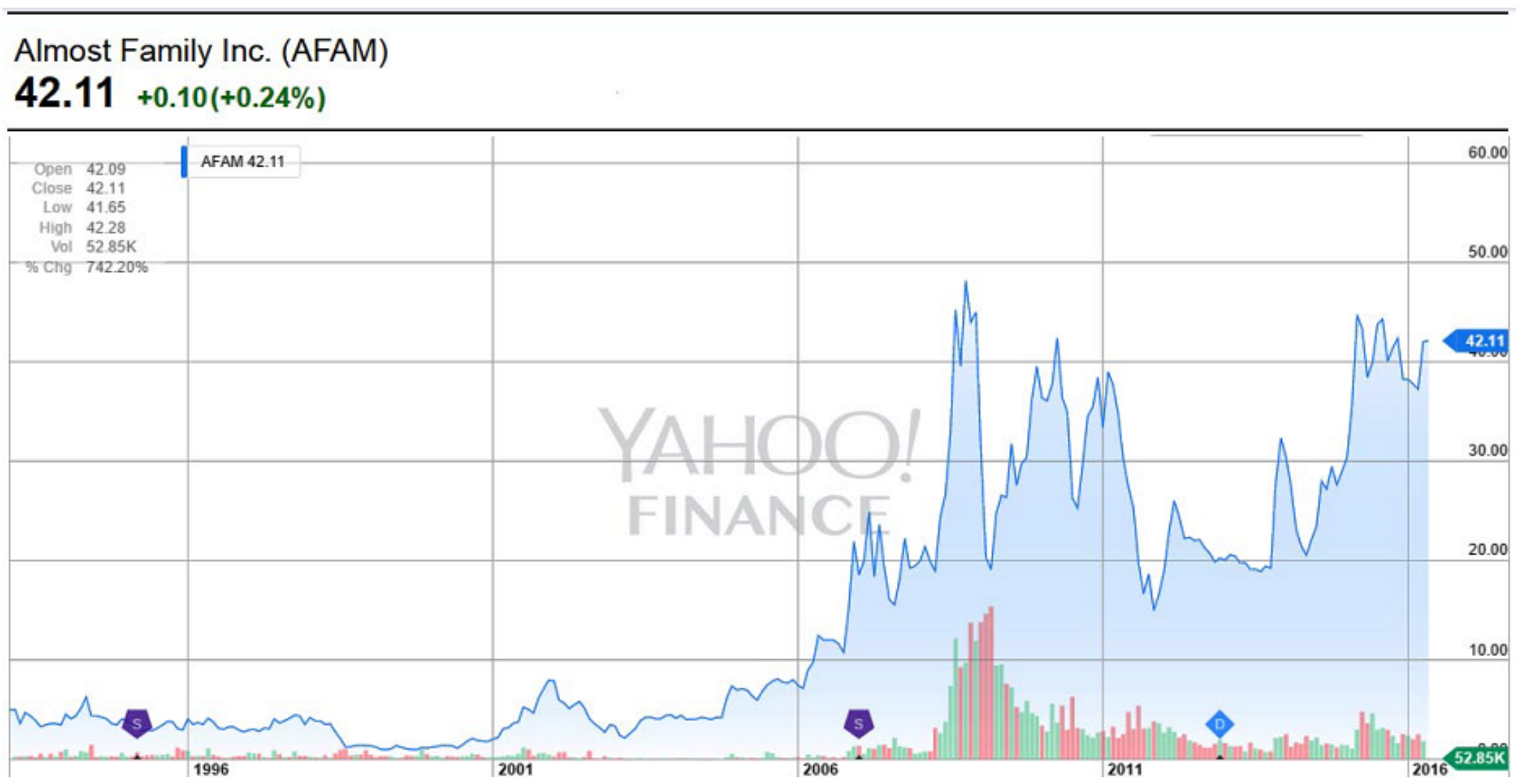
- Build and lease high-end Diego Pellicer retail cannabis superstores to cannabis licensed, proven operators, who agree to participate in a pre-arranged exit strategy to sell the stores back to the company.
- Leverage the already very visible Diego Pellicer by utilizing it for the branding and packaging of the products that are sold in the stores that are required to contain only the cannabis that is grown and produced in the particular state in which the store operates.

This strategy enables the company to establish one of the first national cannabis retail store brands without having to take any legal risks from being a grower or a direct seller of cannabis. It's a win-win situation for both the company and the operators. The operators are motivated to grow the revenue and profits of the stores. Thus, the operators are incentivized to maximize their equity and the price multiples of the shares for all of the company's shareholders.

To capitalize from publicity received for Diego Pellicer and the business plan, DPWW has recruited some of the world's foremost experts to develop cannabis and non-cannabis related products to leverage the Diego Pellicer brand. The experts who are also members of its advisory board include award-winning master chocolatier Jean Marie Aubon, who is creating a line of exquisite Diego Pellicer cannabis chocolates. Another of the advisory board members is Greg Quist. He developed the branding for Tommy Bahama apparel and other products that are sold in the Tommy Bahama retail chain. DPWW will generate revenue directly from the sales of non-cannabis Diego Pellicer branded products including apparel, ancillary products and paraphernalia in the stores and on the company's Web site.

One of the first things that I do when analyzing a company is to examine its business and revenue model. Before wasting any time pouring over financials and projections, I must have a keen understanding of how the model works. In my examination of DPWW I was able to quickly determine that the company's model is very similar to Blockbuster and Starbucks. What Blockbuster and Starbucks had in common is that they were able to nationalize products that had only been available previously through small or "mom-and-pop" operators. Prior to Starbucks there was not a national coffee shop brand. Blockbuster was able to corral the highly fragmented video industry in the 1980s by using precisely the same strategy as that of Starbucks.

To further explain how vision can be utilized to produce multiple returns on investment please see 12/17/87 "Senior Service Purchase Recommendation" (http://www.dynastywealth.com/resources/Reports/Senior%20Svcs%201987.pdf). Senior Service, a start-up company for which I underwrote an IPO. When I discovered the company it had less than $1 million in revenue. My decision to finance and recommend Senior Service when it was in its development or in its proof of concept stage was because its business and revenue model was very similar to that of KinderCare, which had been very successful. From conducting research on KinderCare in 1984, I had discovered that both its share price and revenue multiplied by more than 10 times from 1974 to 1983. Senior Service subsequently changed its name to Almost Family and the company has steadily grown to recent annualized revenue of $500 million. The shares trade on NASDAQ under the symbol AFAM and have increased by more than 1,000% since I launched its IPO. SCN's Jane King conducted a 2 minute and 57 second video interview with me entitled, "Markowski Visionary Analyst 2 of 5". The video appears at the bottom of this report, and provides details on my discovery and recommendation of Senior Service (Almost Family).



The second thing that I examine is the quality of a company's management team. DPWW's is exceptional. Ron Throgmartin, (https://www.sec.gov/Archives/edgar/data/1559172/000121390015001895/f8k031115_diegopellicer.htm)CEO, who is the perfect leader to establish DPWW as the dominant national cannabis retail store leads the management team. Over a 20-year period his commercial development company developed more than 3 million square feet of commercial projects for some of the leading retail chains including Lowes, Home Depot, HH Gregg, Staples, McDonalds and Steak-n-Shake. He worked in operations and new store development for H.H. Gregg, the publicly held electronics retailer with $2.4 billion in annual sales that was founded by his family. DPWW has three additional officers/directors having more than 90 years of aggregate experience in the capital markets:

Douglas Anderson, Founder, Vice-Chairman, Sr. VP Strategic Vision, 28 years capital markets experience.

- *CEO of Wall Street Capital Partners*
- *Advisory Board member of U.N. & U.S. Veteran Cemetery*

Alan Valdes, Chairman, 35 years of capital markets experience

- Director of Floor trading for NYSE member co.
- Chairman of Wall Street Capital Partners

- Expert commentator of CNN, CNBC and CCTV

Steve Norris, Director, 30 years of capital markets experience

- Co-founder and former President of Carlyle (U.S.' largest private equity firm)
- Appointed by President Bush to $68 billion Federal Retirement Thrift Investment Board

The third and final thing that I examine is the company's Financial Statements. I waste no time on these activities until a company's revenue and business model and management have passed muster. What I always have found for development stage companies is that their financial statements are gruesome and they have upside down Balance Sheets. In all of my 40 years in the capital markets I can-not recall a single instance of a development stage company having anything close to pristine financial statements. The utilization of financial statements as the primary screen to find development stage companies is an oxymoron. Further, I much prefer a company having negative financial statements and especially losses and a negative net worth or book value over one that has neither. Its because there is great value in an entrepreneur already having made mistakes.

DPWW's financial statements are no different than a majority of the previous that I have examined. To a casual observer it would appear that DPWW is on the verge of going out of business based on the financials that they filed with the SEC for their year ended December 31, 2015. The company reported a loss of $16.5 million. However, the loss is greatly exaggerated since $13.9 million of it was a paper loss attributed to equity compensation. The company's negative cash flow from operations (CFFO) was approximately $2.6 million, approximately the same as 2014. The company's balance sheet indicated a negative net-worth or book value of a minus $1.6 million as of 12/31/15. This negative book value will be offset by a positive $1.57 million during the company's second quarter ending June 30, 2016 since the company issued 1,900,000 shares to its CEO during April of 2016 for monies owed to him will reduce the company's outstanding liabilities by same amount. The bottom line is the following:

- Cash burn rate is not out of the ordinary for a development stage public company.
- Cash flow from operations (CFFO) will increase for 2016 since DPWW will begin to generate steady and increasing monthly revenue upon having two stores operational by September 30th at the latest.
- Losses will decline significantly since the company's having to issue stock as compensation will decline significantly due to its no longer being a development stage company.
- The CEO's conversion of monies owed during April of 2016 at a price of $0.83 per share which occurred at the market price for the shares speaks volumes for the integrity of the CEO and the company. What it tells me is that the CEO and the board members are doing their utmost to be fair to shareholders.

Based on the company's experienced management and the significant advantages below, DPWW is presently my odds-on favorite to become the Blockbuster or the Starbucks (SBUX) of the cannabis retail store industry:

- Diego Pellicer brand — The stores and DPWW products having the same name is very synergistic. The brand can be licensed and the branded products potentially sold in other retail locations.
- Well-conceived strategy — Potentially having the two largest cannabis retail stores in the U.S. in two major cities (Seattle and Denver) is brilliant.
- Real estate locations — Having the vision to secure leases on prime retail locations as they became available demonstrates forward-thinking wisdom evidencing company-wide strategy.
- Momentum — With the first superstore opening in Seattle during May 2016, and another opening in Denver by September 2016, DPWW will have established itself as the preeminent U.S. (and, perhaps global) cannabis retail chain. The Seattle store has the potential to become a smash hit. It has double the square footage as compared to Uncle Ike's, currently Seattle's largest retail cannabis store (with annualized revenue of $17 million (http://www.502data.com/license/414533)).

DPWW has a low risk Cannabis Infrastructure industry business model that is very scalable. Since the company's average store will be capable of producing $15 million per annum the aggregate revenue for the Diego Pellicer stores could climb to an annualized $100 million revenue run rate very quickly. Based on its most recent market cap of $32 million and share price of $0.80, DPWW's share price has the potential to outperform the stock market. The 52-week high for the shares is $3.05 and the low $0.40. I am recommending its shares for purchase at a price of up to $1.25, and am also adding DPWW to my *Trophy Investing* stock recommendation letter. From my observations of the price activity for cannabis shares over the last couple of years, I predict that the share price of DPWW will penetrate the $1.00 high by or before the Seattle store opens because of publicity and exposure surrounding the Seattle store's grand opening. (My current itinerary includes attending the grand opening.)

DPWW shares are fairly illiquid and trade on the OTCQB, an exchange that specializes in listing penny and small cap stocks. For this reason, I suggest that limit orders be utilized to purchase the shares. From my 40 years of experience in the financial markets I can unequivocally state that the best opportunities for an investor to make ten times their money over periods of 5 years, or less, can be found among those companies having shares trading on off-the-beaten-path exchanges.

The 4 minute and 43 second video below entitled, "Free Cash Flow Investing" reveals details about my simultaneously discovering and recommending two companies with share prices below $1 per share. The shares of both companies were very illiquid and were not trading on the NASDAQ or NYSE when I found them. Less than five years later the share prices of both companies multiplied by at least 20 times and their share volumes had increased exponentially.



The Cannabis Infrastructure Industry was the genesis for my founding of the Dynasty Wealth (DW) investing community in April 2014. The community specializes in finding and following publicly traded companies that have the potential to multiply by 10 times and private companies that have 100-times or more potential within five years. UBER is a good example of the type of private wealth opportunities that DW attempts to find. A $10,000 investment into UBER's 2010 private placement was valued for $105 million in 2015.

From my expertise that I had developed in crowdfunding during 2013, I had concluded that the crowdfunding infrastructure industry could spawn opportunities that could potentially generate returns 10- to 100-times within five years. After conducting research on the Cannabis Industry in early 2014, I realized that the

industry's infrastructure providers could generate similar returns. With two industries simultaneously demonstrating immediate and huge upside potential and spawning dozens of new exciting companies, I came to the realization that the decade ending 2020 would be recorded by history as the best ever for investors to produce "dynasty wealth" from a diversified portfolio.

Given that the Cannabis Infrastructure industry is integral to Dynasty Wealth I closely follow the developments for the Cannabis industry. I monitor share prices of publicly traded cannabis companies of interest. Over the past two years I elected not to produce research reports or publish cannabis recommendations because there had been a stampede into cannabis stocks in late 2013 and early 2014, which resulted in the share prices of all cannabis-related companies spiking to unreasonable valuations, then going to lower-lows over the ensuing two years.

To produce this report on DPWW, my first ever on a cannabis company, I performed an analysis of investor sentiment for the share prices of cannabis companies and was shocked by the dearth of cannabis companies trading above $1.00 per share. According to Wayne Duggan's April 19, 2016 article for *Benzinga* entitled, "6 Weed Stocks That Aren't Penny Stocks" there were only six cannabis companies " . . . that [are] maintaining share prices above $1.00." These six companies follow:

1. **GW Pharmaceuticals** (NASDAQ: GWPH)
2. **Zoned Properties, Inc.** (OTC: ZDPY (http://finance.yahoo.com/q?s=ZDPY))
3. **AeroGrow International, Inc.** (OTC: AERO (http://finance.yahoo.com/q?s=AERO))
4. **Cannabis Sativa, Inc.** (OTC: CBDS (http://finance.yahoo.com/q?s=CBDS))
5. **CANOPY GROWTH CORP COM NPV** (OTC: TWMJF (http://finance.yahoo.com/q?s=TWMJF))
6. **General Cannabis Corp.** (OTC: CANN (http://finance.yahoo.com/q?s=CANN))

It was very surprising to me that the vast majority of the cannabis companies that I searched had share prices that were below a nickel per share. In the table below are share prices of some of the cannabis companies that I have monitored for the last two years. Despite all of their share prices being below a nickel they continue to trade very heavy volume.

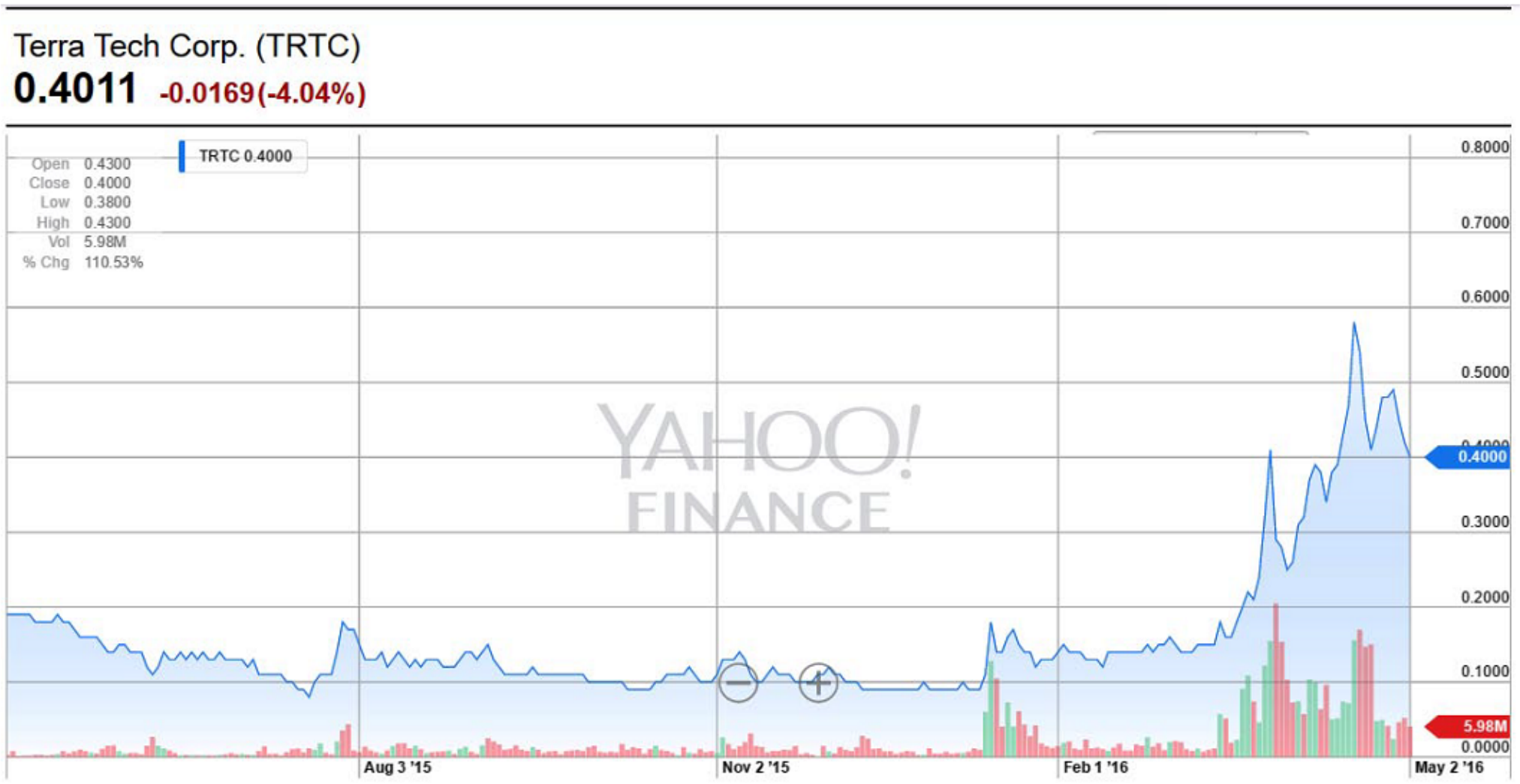
Visible Cannabis Stocks Trading for Under a Nickel per Share — Continue to Trade Heavy Volume

Company	Symbol	Price @ 05/02/16	2014 High
Cannabis Sciences	CBIS	$0.02	$0.30
Medical Marijuana	MJNA	$0.04	$0.48
Growlife	PHOT	$0.02	$0.78
Hemp, Inc.	HEMP	$0.04	$3.40

It is not uncommon for shares trading on obscure exchanges, including the OTCBB, OTCQB and pink sheets, to be trading at below $1.00. However, I found cannabis companies trading on major exchanges that were also trading at depressed prices. The shares of 22nd Century Group, Inc. (XXII), were recently trading at under $1.00. The share price for this NYSE-listed company peaked at just above $5.00 in February 2014, which is also when most of the shares of all the cannabis stocks peaked.

From the technical price charts that I have analyzed the share prices of many of the cannabis companies have finally bottomed, and based on my analysis of technical price charts, the timing to invest in cannabis public companies is currently better than at any other time over the last two years. Terra Tech (TRTC) is a

good example. After Terra's shares peaked in 2014 at $1.40 the share price fell to as low as $0.08 in the middle of 2015 and subsequently traded in a narrow range and at an average of $0.10 per share through January of 2016. The share price broke out technically in January and traded to a one-year high of $0.20 in late March. During April the shares traded as high as $0.58. The price chart patterns of a majority of the cannabis companies I have recently examined are very similar to Terra's one-year chart below.



The market for cannabis stocks has the potential to become red-hot at the end of 2016. Marijuana legislation is a hot-button issue in California, and with a proposition on the November 2016 ballot, is expected to generate record voter turnout to legalize recreational use of cannabis in the largest state in the U.S. Should it pass, I would anticipate a repeat stock performance comparable to that of early 2014 when Colorado became the first state to legalize recreational marijuana. Timing is also excellent for DPWW. With the probability being high that it will soon be the seventh cannabis company to have shares trading above $1.00, it is well positioned to become a key showcase company for the entire Cannabis Industry. The industry desperately needs winners that it can showcase to attract investment capital. DPWW is the ideal trophy. Its business and revenue model will produce the consistent growth that most of the publicly traded cannabis companies have not yet been able to produce. DPWW is already very visible within the media, including CNN.

There is a plethora of non-promotional videos supporting my prediction that the decade ending 2020 will be recorded by historians as the best ever for investors to build dynasty wealth. They are available at www.michaelmarkowski.net (http://www.michaelmarkowski.net/) and have an average run time of 5 minutes. The videos cover Cannabis, Crowdfunding and the new industries emerging from the rapidly growing digital economy that are providing dynasty wealth investment opportunities. The video entitled, "Digital Disruptors" describes how a $10,000 investment into UBER in 2010 became valued for $105 million in 2015.

Below is the 2 minute and 57 second video below entitled, "Markowski, Visionary Analyst 2 of 5" which covers Senior Services/Almost Family and visionary investing. "Markowski, Visionary Analyst 1 of 5 (http://www.dynastywealth.com/Visionary-Analyst.php)" with a run time of 3 minutes and 59 seconds is another interview about roots planted in 1977 that led to my becoming a visionary analyst. Finally, the 15 minute and 46 second video "Markowski, Visionary Analyst" covers discoveries and predictions that I have made from 1977 through 2016. The master video (http://www.michaelmarkowski.net/visionary-analyst.php) contains all five of the "Markowski, Visionary Analyst" videos (1 through 5).



With the publishing of this report, DPWW has been added to the Trophy Investing Letter's recommended list. The Trophy Investing Letter specializes in discovering small cap and low price investment opportunities that have the potential to multiply in price within 5 years or less for its subscribers. Additional information and videos about Dynasty Wealth, Trophy Investing and my history are available at www.michaelmarkowski.net (http://www.michaelmarkowski.net/). I nor any of my family members have positions in DPWW and do not intend to have positions in DPWW in the future.

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