

June 29, 2021

RESONATE BLENDS INC. (KOAN: OTCQB)

BUSINESS DESCRIPTION

Based in Calabasas, California, Resonate Blends Inc. is a cannabis holding company that utilizes advanced science as well as a deep understanding of cannabis, its components, and their interactions. The company has formulated and recently commercially launched a series of lifestyle and wellness-enhancing products that it says offer specific, controllable, and repeatable beneficial effects. The company believes the creation of value-added brands will drive enhanced value in the cannabis industry.

Resonate Blends is led by a team that has worked together over a long period of time, and the company has invested in the development of value-driving properties across its business to support its commercial launch strategy. These initiatives span technology and product development, quality control, marketing and branding, manufacturing and distribution supply chain resources, as well as rigorous financial performance, investment banking and investor relations. In our view, this breadth of core competencies should help Resonate avoid some of the missteps that have hampered other companies during the continued evolution of the cannabis industry.

The Resonate System is designed to help demystify cannabis, make it understandable and accessible, and support the lifestyles of cannabis users. The basis of the Resonate System is a deep understanding of plant science, and the intricate interconnections between the components and their physiological and emotional properties. This research is the foundation for a series of products designed to provide cannabis users with a consistent and reliable effect with every use, and to match its customers' desired experience. The testing has spanned multiple demographics and cannabis usage histories in order to fine-tune product properties and experiences. As well, Resonate Blends uses only plant-derived ingredients, including cannabinoids, terpenes, and other medicinal herbs. There are no additives and, as a result, all components have an FDA "GRAS" designation.

Resonate's first commercial release is a patent-pending family of six precisely targeted effect blends called Koan Cordials. Koan Cordials are emulsified, water-soluble formulas that are individually bottled in artistically designed packaging. Each dose can be used as a tincture, shot, or mixed in a drink. The six Koan products contain a different mix

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KEY STATISTICS

Key Stock Statistics

Recent price (6/28/21)	\$0.48
52 week high/low	\$0.93-\$0.05
Shares outstanding (M)	44
Market cap (M)	21.1
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Consumer Discretionary
Sector % of S&P 500	12.1%

Financials (\$M)

Cash & Mkt Securities	1.8
Debt	1.6
Working Capital (\$M)	-0.7
Current Ratio	0.7
Total Debt/Equity (%)	NM
Payout ratio	NM
Revenue (M) TTM	NM
Net Income (M) TTM	NM
Net Margin	NM

Risk

Beta	0.94
Inst. ownership	0%

Valuation

P/E forward EPS	NA
Price/Sales (TTM)	NA
Price/Book (TTM)	NA

Top Holders

NA
NA
NA

Management

CEO	Mr. Geoff Selzer
COO	Ms. Pam Kerwin
CIO	Mr. David Thielen
Company website	www.resonateblends.com

PRICE CHART



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of ingredients to elicit a certain and reliable experience, ranging from the Calm product (which contains 1 milligram of THC, and is below the psychoactive threshold) to the Wonder product (which contains 9 milligrams of THC). In between these dosages are products labeled as Balance, Create, Play, and Delight. Similarly, products for Sleep and Love are also in late-stage development.

In May 2021, the company officially launched the product line at the WEEDCon industry convention, and Resonate Blends anticipates initial sales during the second quarter of 2021. Its initial market will be in California, which is the United States' largest adult-use cannabis market. The state accounted for more than 25% of all cannabis sales in the U.S. in 2020, and experienced 57% growth that same year. Over the long-term, we see considerable opportunity for expansion; licensing opportunities have already emerged and the infrastructure to support product manufacturing and distribution is transportable. As of early 2021, some 15 states and three U.S. territories have approved adult-use cannabis. Among these, states including New York and New Jersey have approved adult-use cannabis, though we expect it to take some time for these states to build infrastructure and commence commercial sales.

Resonate Blends has established a comprehensive brand-awareness and education marketing program that will be available across its various distribution channels. These materials, which consist of in-store printed brochures, as well as web-based app-style and webinar events, will introduce the company, its philosophy, and its products to consumers and are designed to drive ecommerce traffic and ordering.

The company's products are designed to appeal to multiple consumer demographics, and its core targeted customers range from the curious to previous users who are coming back to the market. Typically, they are educable and seeking alternatives to smoking. Resonate also targets wellness practitioners who are looking for solutions to improve conditions including pain, insomnia, anxiety, and performance enhancement. Occasional users and heavy users are secondary target groups.

Resonate Blends' distribution strategy consists of building a retail presence with boutique dispensaries, and teaming with Good People as its sales partners to plan promotional events and train bud-tenders, among other initiatives. In addition, the company is building an infrastructure to support e-commerce and home delivery sales, which should better enable control over product messaging, offer the potential for higher profit margins, and enhance customer loyalty.

COMPETITIVE ADVANTAGE

During the second quarter of 2021, Resonate Blends introduced the Koan family of cordials to its target market of California, the largest market in the United States for adult-use cannabis. In our view, California's adult-use market has far exceeded expectations since sales began in early 2018. In 2020, sales increased by 57% to \$4.4 billion,

according to MJ Biz's Industry Factbook. California accounted for more than 25% of adult-use cannabis sales in the United States that same year.

In 2020, the commercial market for cannabis was boosted by the COVID-19 pandemic, as California declared cannabis an essential service amid widespread industry lockdowns. As a result, regulations were loosened, which resulted in increased use among a broader base of customers. In our view, this helped ease the long-existing stigma over cannabis use. As such, we believe that Resonate Blends is well positioned to enter the California market with a unique product line during a period of high consumer demand.

Resonate's business model is a key competitive advantage, as it is not subject to the myriad of regulatory challenges as well as the supply/demand and pricing dynamics that affect cannabis growers and extractors. The company strategically avoided commoditized services in establishing its model, and focused on the value-add of innovative product and brand development.

Resonate Blends has established a multi-channel distribution strategy to support a successful introduction to the market. The Koan product line will be sold in boutique dispensaries throughout California, which the company expects will drive brand awareness as budtenders provide personalized education and service to consumers. Resonate believes it can serve this niche with a small sales team that can utilize in-store and printed/web-based materials to "educate the educators" and form individual relationships with budtenders.

In addition to establishing the brand among physical dispensaries, Resonate Blends is operating as a digital native company, in developing ecommerce and home-delivery service capabilities. This strategy should allow the company to better control its messaging to and education of its consumers, and also support its goal to market an entire line of Koan products. In addition, digital distribution carries better margins and reflect the migration of cannabis purchasing away from storefronts into delivery-based models, which should facilitate a national expansion strategy over time. During 2020, more than 400,000 Californians received deliveries of cannabis products, largely driven by COVID-19 concerns. Customers showed clear evidence of comfort ordering online, compared with going into a dispensary (which tends to be a more-stressful experience). As such, we expect Resonate Blends to be able to service this key segment and capitalize on clear trends in the market.

Underlying the favorable commercial prospects, the Resonate System is supported further by extensive plant science and component studies that allow for a consistent experience in every dose. The company's studies explored various emulsification regimens so as to ensure the proper ratio of THC, CBD, terpenes, and other compo-

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PEER COMPARISON											
Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
RESONATE BLENDS	OTC: KOAN	0.48	0.93	0.05	21	357	NM	NM	NM	0.94	NA
LOWELL FARMS INC	CNSX: LOWL	1.58*	2.73*	0.64*	97*	126	15	NM	NM	2.03	NA
HARVEST ONE CANNABIS	TSXV: HVT	0.10*	0.58*	0.05*	27*	11	40	NM	NM	2.05	NA
PLUS PRODUCTS	CNSX: PLUS	0.48*	1.44*	0.45*	23*	-28	15	NM	NM	2.15	NA
CHARLOTTE'S WEB HOLDINGS	TSX: CWEB	4.62*	8.88*	3.08*	666*	-15	1	NM	NM	2.15	NM

* Stock Statistics in Canadian Dollars (CAD)

nents to reach target levels with precision. In doing so, the company believes has been able to master the art of experience for consumers by capturing and calibrating highly precise measures including time to onset, peak impact, and downramping, further enabling customers to make confident, informed and intentional decisions related to the use and timing of the products. In beta testing, positive engagement from subjects exceeded 90%.

As it builds a product ecosystem and portfolio around Koan Cordials, Resonate Blends has aligned itself with industry thought leaders to expand its knowledge base and presence across the industry. In determining the ideal emulsification profile for Koan, Resonate partnered with Vertosa, an emerging leader in that field. More recently, in June 2021, Resonate announced a relationship with Colleen Quinn, an internationally renowned clinical aromatherapist, cosmetic chemist, researcher, and educator who specializes in cannabis research, formulations and education. Ms. Quinn will work with Resonate's product development team to develop new cutting-edge cannabis plant-based products. She will also serve on the company's advisory board. Resonate also has engaged with leading cannabis industry influencer Gaynell Rogers, who is aligned with activist and advocate Steve DeAngelo (dubbed the "father of the legal cannabis industry").

As mentioned above, many aspects of the growing and extracting processes of the cannabis industry have become commoditized. This supports Resonate Blends' strategy of focusing on value-added brands. We believe the company will be able to develop a robust intellectual property strategy around its advanced technologies. In our view, its work on emulsification of the components that comprise the Resonate System, including the ratios that make up each product, could represent a key knowledge moat. To that end, Resonate Blends has filed a Provisional Patent Application with the U.S. Patent & Trademark Office (USPTO) covering the methods and formulations, including a combination of cannabinoids and terpenes calculated and specifically formulated to achieve a targeted, specific and repeatable user experience. We see such initiatives around its science separating the company from industry peers.

ANALYST COMMENTARY: EARNINGS

Resonate Blends shares trade on the OTCQB, under the ticker KOAN. The company anticipates initial sales from the Koan Cordials launch during the second quarter of 2021. As of March 31, 2021, Resonate had \$1.7 million in cash and cash equivalents on its balance sheet, compared with \$114,000 at the end of 2020. Importantly, the company has fully allocated funding for initial product manufacturing, commercial launch, and marketing-related costs.

As of March 31, 2021, the company had \$1.6 million in convertible notes on its balance sheet, which it raised in a private placement among accredited investors. The current note will be converted into equity ultimately, leaving the company debt-free.

We view management's commitment to strict discipline on its share structure and debt control favorably, as compared with many other failed or underperforming companies across the cannabis industry. We are encouraged by the recent addition of Albert Richards as an investment advisor. Mr. Richards has 20-years of financial services expertise, notably as the founder of Alambic Investment Management, where he developed and deployed systematic stock selection strategies, as well as a sell-side analyst and head of research within two large global investment banks, where he focused on the identification and quantification of the key drivers of equity valuation and company quality.

With approximately 44 million shares outstanding, Resonate Blends should be able to consider equity-based financing to help fund future growth and expansion initiatives, while still building value and confidence from its shareholders. We view positively the company's recognition of its investors as key stakeholders, akin to its customer base.

We expect Resonate Blends to expand its capabilities, both organically and by acquisition. The company has identified several categories for their potential to support long-term growth, including new technologies to support precision dosing and experiences, new product formulations, and enhanced distribution.

Lastly, we note that a successful Koan product launch likely would result in Resonate Blends' valuation trading more inline with the group average from a basket of medicinal and botanical product companies (which recently traded at trailing multiples near 4-times EV/sales and a price-to-earnings ratio over 26-times). Based on Resonate's current market capitalization of \$20 million, we see significant upside potential for the shares as investors become aware of the company and are able to assess the commercial launch and sales trajectory.

MANAGEMENT

Geoff Selzer founded Resonate Blends in 2018 and serves as CEO & chairman. Previously, Mr. Selzer was a consultant to New American Blends, a medicinal cannabis company, where he helped to rebrand, formulate, and source product; organize development; and create long-term strategic plans. Prior to entering the cannabis industry, Mr. Selzer established a record of founding, leading, and growing companies across a variety of digital media entities, including Luminous Publishing (Founder/CEO), Emergent Game Technologies (CEO/Chairman), and Disney's Interactive Division (VP of Creative Development and Production). Prior to his work in media, Mr. Selzer worked in investment banking, with an emphasis on mergers and acquisitions.

RECENT DEVELOPMENTS

Resonate Blends announced the full-scale production of its Koan Cordials in March 2021. It officially launched the line to the retail channel at WEEDCon, an education and networking event for more than 200 California dispensary buyers in May 2021. Resonate has selected Good People LLC as their statewide Koan sales team.

Steve Silver

INCOME STATEMENT

Growth Analysis (\$MIL)	2019	2020	Q1 2021
Revenue	0.0	0.0	0.0
Gross Profit	0.0	0.0	0.0
G&A	3.2	1.8	0.8
R&D	0.0	0.0	0.0
Operating Income	-3.2	-1.8	-0.8
Interest Expense	0.2	0.1	0.0
Pretax Income	-3.4	-1.9	-1.1
Tax Rate (%)	NA	NA	NA
Net income	-3.7	-1.9	-1.1
Diluted Shares	11.2	25.4	31.1
EPS	-0.31	-0.08	-0.03
Dividend	NA	NA	NA

Growth Rates (%)

Revenue	NA	NA	NA
Operating Income	NA	NA	NA
Net Income	NA	NA	NA
EPS	NA	NA	NA

Valuation Analysis

Price (\$): High	0.70	0.27	NA
Price (\$):Low	0.07	0.03	NA
PE: High	NA	NA	NA
PE: Low	NA	NA	NA
PS: High	NA	NA	NA
PS: Low	NA	NA	NA
Yield: High	NA	NA	NA
Yield: Low	NA	NA	NA

Financial & Risk Analysis (\$MIL)

Cash	0.0	0.1	1.6
Working Capital	-0.6	-1.1	-0.9
Current Ratio	0.1	0.1	0.6
LTDebt/Equity (%)	NM	NM	NM
Total Debt/Equity (%)	NM	NM	NM

Ratio Analysis

Gross Profit Margin	NM	NM	NM
Operating Margin	NM	NM	NM
Net Margin	NM	NM	NM
Return on Assets (%)	NA	NA	NA
Return on Equity (%)	NA	NA	NA
Op Inc/Int Exp	NA	NA	NA
Div Payout	NA	NA	NA

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