

# Battleship Investing Blog

## CO2 GRO Update

June 13, 2019



### CO2 Gro Q1 Results |Talk with Management

CO2 Gro Inc. (GROW.V, BLONF) reported their full-year 2018 and Q1 2019 results recently. Neither reporting period provided much excitement but let's go through the highlights before I dig into the conversation I had with VP Sam Kanen.

[Click here for my initial analysis of CO2 Gro Inc.](#) I own shares of CO2 Gro Inc.

### Q1 Results

On May 31st, 2019, GROW reported [Q1 2019 results](#). The highlight of CO2 Gro Q1 results was the completion of the installation of their CO2 equipment with their first two growers under contract. GROW began collecting revenue from their first contract in late March while revenue

from their second contract will begin in June. While GROW only generated \$6650 in revenue in Q1, their first two contracts will generate \$240,000 per year.

Although this is not a huge amount of money, it is a base that GROW can continue to build upon. The contracts are long term, perpetual contracts as long as the systems are still in use.

In February GROW announced positive results from a trial of their dissolved CO2 spray on e.coli and powdery mildew. Their MD&A states that these positive results have lead to increased interested in GROW's technology from hemp growers in North America. This could be a distinct advantage for GROW. GROW's dissolved CO2 spray is organic and safe for the plant and humans while also enhancing plant growth.

GROW is now finally collecting revenue from their dissolved CO2 foliar spray technology. Once these growers start to collect harvests with increased yield and quality, the word should spread through the hemp and cannabis industry. GROW is operating at under a \$1 million burn rate as they only used \$183,000 of cash used in operating activities and investing activities in Q1. With no debt on the balance sheet, \$1.6 million in cash and \$240,000 in recurring revenue GROW is in a very good position to seek out new contracts.

### **Discussion with VP Sam Kanés**

On June 5th I was fortunate to get some time with VP Sam Kanés. He answered a bunch of my questions and also gave me an update on what might be coming next for GROW.

### **Management is Very Busy**

I caught Mr. Kanés right as he was entering a meeting and was able to talk to him for about half an hour once his meeting wrapped up. GROW has been very busy, but a good kind of busy.

CEO John Archibald and COO Aaron Archibald have been travelling extensively meeting growers and ag tech companies. CEO Archibald has been travelling all over the United States with New Mexico and Texas mentioned while COO Archibald has been travelling in the United States, Canada and Europe.

### **Technology Advancement**

Mr. Kanés briefly mentioned that GROW has developed generation one and generation two equipment. He didn't provide much detail on the new equipment but did say that the equipment is much more advanced and allows for 24/7 monitoring. A new video with Market One Media Group should be released soon.

GROW has stocked some additional equipment in preparation of new contracts being signed. This equipment will show up as inventory if not deployed during the Q2 reporting period. It took GROW approximately three months from commercial agreement to the installation of their equipment. Mr. Kanés told me that they are working to shorten this timeline to six weeks for future installations.

## **2019 Projection**

Mr. Kanes reiterated that he believes they can achieve a \$10 million revenue run rate by Q1 2020. This would equate to contracts of 1 million square feet of cannabis or 10 million square feet of produce.

The growers with the first two contracts were granted a discount for being the first growers to adapt their technology. Future contracts will not receive the same discounting.

## **Health Canada Regulations**

Mr. Kanes explained that the regulations surrounding their technology are still unclear. This is causing Canadian licensed producers to hesitate before adopting GROW's technology. Health Canada is introducing new language in October 2019 that Mr. Kanes said they are very supportive of.

With some additional clarification, Mr. Kanes believes that growers will be far less hesitant to adopt their technology. When it becomes clear that GROW's technology can be used on cannabis in Canada this will be a material change for their business. Being based out of Toronto Mr. Kanes said that they are within a forty-five-minute drive of numerous growers in Ontario.

In both my conversations with Mr. Kanes he was very confident in their technology and its safe use on plants and for the humans working in these environments. It seems like only a matter of time before dissolved CO2 foliar spray is approved for use in Canada.

## **Global Expansion**

On April 10th GROW announced that they had attended the GFIA Global Ag Tech Conference in Abu Dhabi. COO Aaron Archibald was fully booked with one-on-one meetings with potential customers.

The news release states that COO Archibald met with growers that are unable to use CO2 gassing due to excessive heat inside their greenhouses that must be vented. When the heat is vented the gas is also vented negating the positive growth effects. This is the type of "low hanging fruit" management has mentioned in the past. GROW's technology seems to be a perfect fit in these types of situations as they are the only option these growers have to gain the benefits of added CO2 to plant growth.

## **Additions to the Board**

I was able to ask Mr. Kanes how overseas expansion was going. He first mentioned that the two recent additions to their board, Dr. Gord Surgeoner and Rose Marie Gage, were brought on to assist with international expansion. Ms. Gage's press release is quite impressive with numerous achievements both as a CEO and Director. I especially like that she won the 2018 Outstanding Achievement in Governance Award (Directors' College). It's always a benefit to investors to have a strong Board of Directors working for them.

John Archibald, CEO stated “Her deep relationships with greenhouse plant growers, agriculture industrial companies and Government agriculture organizations will be of great benefit to GROW’s Board, strengthening its Agri-Tech expertise and ability to successfully move GROW’s Strategy going forward.”

Back to international expansion, Mr. Kanen explained that they would need to sign an agreement with an ag tech company or hire a bunch of new staff for international expansion to succeed. GROW stated in their GFIA press release that they were in talks with a European greenhouse manufacturer to partner with. Mr. Kanen told me that they expect to announce some new partnerships soon but explained that these types of partnerships take time to finalize.

## **Conclusion**

CO2 Gro Q1 results started to show revenue from their very first commercial installation. Although this revenue is small it is recurring. With a few more contracts GROW will be cash flow positive if they remain at their current low cash burn. Remember that management isn’t being paid a salary until GROW is cash flow positive.

With numerous catalysts on the horizon (Health Canada clarification, Ag tech partnership announcement, future contract announcements, and global expansion) GROW seems to have a lot of good things going for it. In order to meet their projected \$10 million revenue run rate by Q1 2020, they will need to get some more contracts signed and equipment installed. The interest appears to be there, hopefully, that interest is turned into revenue.

I continue to own shares of GROW.V and plan to add to my position as management executes.

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