

The Financial Passage Maker



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CO2 GRO - A Few Thoughts about Risk

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In a previous post, I identified some potential risks:

GROW has great potential. However, there could be challenges:

- *Difficulties with measures to protect its intellectual property*
- *The potential emergence of competitive technologies and applications*
- *Failure to secure regulatory approval for the use of CO2 Foliar Spray on cannabis plants in Canada - not a game ender as the technology can be used in other jurisdictions and for application on other high value crops*

Another consideration: There are indications that we may be in for a recession. I think that GROW has the potential to be relatively recession proof for the three reasons:

- *It occupies a strategic sweet spot in an industry which is expanding rapidly.*

- *During "hard times" people are likely to continue with drinking and smoking weed.*
- *The medical use of cannabis is very likely to expand significantly.*

Last night I decided to do some creative dreaming and set as an agenda item, GROW's risks. Here is what emerged.

Not all risks are equal. I will start from least to most.

Failure to Secure Regulatory Approval from Health Canada for the use of CO2 Foliar Spray on Cannabis Plants

It is not possible to predict when/if approval will be given because it is not possible to ascertain with precision, the factors which may influence decision-making in Health Canada. As a former civil servant I was bemused on many occasions by decisions which come out of nowhere and which were created along logic paths foreign to most people.

However, continued inaction or a negative decision on the part of Health Canada is not a game changer. Fortunately, GROW has full rein to employ its technology in grow operations throughout the rest of the world: the market in Canada is a dime bag in comparison with the global market which marches along the lines of 100 kg bales.

Further, there is the great potential of Foliar Spray for high value leaf crops. I have a theory that controlled climate farming will become more important for a variety of reasons: reduced transportation and handling costs as production centres will be closer to markets; the reliability of output as compared to weather prone field production; the trend to lower operating costs given more efficient and cheaper inputs such as power and lighting.

Emergence of Competitive Technologies and Applications

There is no end to human ingenuity. Likely as not, there will be significant regulatory barriers to some innovations such as genetic engineering to enhance production and certain attributes, especially for foodstuffs. Other technologies such as root feeding and the like may involve higher costs or be more difficult to integrate with existing systems. All new technology will take time to diffuse

within potential markets in the event that they are viable in certain circumstances.

I think that GROW's technology has an advantage in this scenario in that the range of potential applications for Foliar Spray is so diverse. It is very possible that a competitive technology will emerge that provides greater advantages to growers in certain scenarios and that it will outcompete GROW. However, GROW has a buffer in that it has exposure to many diverse markets (e.g. greenhouse produce and flowers, operations in shade shelters, hemp in open field operations etc.

Market Risk

Here I mean the combination of potentially adverse conditions in the demand for and revenue flows from GROW's technology and the reaction to these circumstances in the stock market. I don't worry much about this given that the technology will enhance the ability of growers to survive in tough times (e.g. the low risk contract offered by GROW). Further, during recessions, people generally don't leave their glasses on the table top. My bet is that the consumption of cannabis will not diminish either. I think that this stock is fairly recession resistant, especially if cash from new contracts starts to roll through the door.

Intellectual Property Theft

In my view, this is the greatest threat. There are jurisdictions where the rule of law does not prevail (e.g. China) in the sense that it is practiced elsewhere. There is every incentive for large companies in climate-challenged countries to poach technology with the potential to satisfy government apparatchiks and generate profits. (Again, China is a key concern.)

Further, GROW is small and has limited resources to challenge patent infringements.

My hope is that full patent protection moves quickly but I don't pretend to know the ins and outs of protecting intellectual property.

This said, I think that one strategy for GROW to consider is signing a licensing agreement with a major multinational equipment manufacturer. An alliance of

major manufacturer(s) with skin in the game and GROW would increase the legal muscle to fight potential infringements.

Other Remarks

As noted before, it's all about people. GROW's management and members of the Board of Directors have been "there" before and have practical experience in managing the ins and outs of emerging companies. Further, there is every expectation that the cast of characters will be on stage for tomorrow's show and many performances thereafter. This stability is important at this critical time.

I don't sense any difficulty in securing additional financing for GROW. With luck, it will soon be able to pay for future operations from income.

In sum, there's no too much that keeps me awake at night with this company. Time now to sit back and watch things unfold.

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