

MMJ Group Holdings Ltd

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MMJ Group releases latest portfolio valuation as it plans further investments

- **MMJ's main investment is the listed company Harvest One which has a book value of A\$25.2 million.**
- **A recent investment in the listed company WeedMD now has a book value of A\$6.8 million.**
- **The company's portfolio had an A\$72.3 million book value at the end of September, with A\$12.8 million of the sum being cash holdings.**
- **MMJ's market capitalisation was A\$55 million at the time.**
- **The company's board is making progress in reversing a trend for its securities to trade at a discount to its net tangible asset backing.**
- **Acquisitions and on-market share buybacks are part of the board's value accretion strategy to turn things around so it can trade at a premium to NTAB.**

The 2019 financial year was a significant year of transformation for MMJ (as it cemented its place as the only Australian-listed company that specialises in managing a portfolio of investments along the cannabis value-chain.

MMJ Group non-executive chairman Peter Wall

What does MMJ Group do?

MMJ Group Holdings Ltd (ASX:MMJ) (FRA:2P9) (OTCMKTS:MMJJF) is an investment company focused on cannabis and hemp opportunities along the cannabis supply chain.

The Sydney company is dual-listed on the Australian and Frankfurt stock exchanges and has its securities traded over-the-counter in the US.

MMJ's approach to portfolio management is to source private investments not "practically" available to retail and institutional investors based in Australia.

The group's target geographic markets for investments extend outside Australia to the progressive cannabis market of Canada.

MMJ's investments span a variety of geographic markets, including North America and Australia, and includes investments listed and unlisted entities.

The sectors or industries the group's investment companies participate in include healthcare, technology, processing, cultivation and retail.

MMJ hopes to experience upside as its investments are the subject of an expected increase in mergers and acquisition activity in the cannabis sector.

The company's approach is to reinvest or continue to invest capital in its

Price: 0.11

Market Cap: \$25.29 m

1 Year Share Price Graph



Share Information

Code: MMJ

Listing: ASX

52 week High Low
0.21 0.062

Sector: Cannabis

Website: www.mmjgh.com.au

Company Synopsis:

MMJ Group Holdings Ltd (ASX:MMJ), formerly known as MMJ Phytotech Ltd, owns a portfolio of minority investments and aims to invest across the full range of emerging cannabis-related sectors. The company is listed on the Australian Securities Exchange.

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investments so it can continue to experience benefits from their uplifts in value.

It plans to make further acquisitions or investments in cannabis companies in a declining market where the market capitalisation or valuations of cannabis companies has shrunk.

Who leads MMJ Group?

The Phillip Street company is led by non-executive chairman Peter Wall, a corporate lawyer with more than 20 years' experience.

Wall has capital markets experience and has been a partner at Perth-based law firm Steinepreis Paganin for the past 14 years.

He has experience of the medicinal cannabis sector, along with the oil & gas and resources industries.

Wall is joined on the MMJ board by a number of non-executive directors, including accountant Winton Willesee, long-time chief financial officer and chief executive officer Doug Halley and Canada cannabis sector executive and former investment banker Michael Curtis.

Curtis is the chief operating officer of MMJ investment Embark Health and was corporate finance vice-president of former MMJ investment Dosecann before its divestment last year.

MMJ's senior management team includes chief financial officer and company secretary Jim Hallam.

Hallam has 20 years of investment management experience and has previously worked with alternative asset fund managers in Australia and key players overseas, including Hastings Funds Management and Annuity Australia.

What are MMJ Group's valuations?

MMJ's public holdings had a book value of A\$37.2 million on September 30, 2019, and made up 51% of its portfolio on the date.

Unlisted investments had a A\$22.2 million book value and were 31% of the book value, while A\$12.8 million in cash reserves were 18% of total book value.

The company's listed investments included key asset Harvest One Inc (CVE:HVT), which had a A\$25.2 million book value in the portfolio and made up its largest holding with a 35% weighting.

Recent investment WeedMD Inc (CVE:WMD) was A\$6.8 million (9%) while Medipharm Labs Inc (CVE:LABS) was A\$3.4 million (5%), Fire & Flower Holdings (CVE:FAF) was \$1.4 million (2%) and BevCanna (BEV) was A\$500,000 (1%).

Key investment Harvest One's decline in value over the September financial

quarter reflected a downturn in the Canadian market, however, it encouragingly declined at a lesser rate than MMJ's investment benchmark the Alternative Harvest ETF (MJ).

MJ declined 34% during the September quarter while MMJ shrank by a lesser 22%, meaning it outperformed its benchmark measure by 11.8%.

MMJ has mostly liquid assets and a net tangible asset backing (NTAB) of 30.03 Australian cents a share, according to its latest monthly update issued last Friday, October 11, 2019.

The company's portfolio is worth A\$72.3 million, including A\$12.8 million cash, according to the September 30, 2019, book value calculations.

MMJ's market capitalisation on the date was A\$55 million, at an Australian 24.5-cent share price.

The total portfolio was worth A\$59.5 million excluding cash or \$49.8 million if only listed companies and cash were included in a valuation.

MMJ's portfolio also includes nine unlisted investments given a \$22.2 million book value, including Embark Ventures subsidiary Embark Health which has a A\$3.3 million value and is 5% of the portfolio.

The other investments are: Weed Me (A\$7.8 million book value and 11% of portfolio); Sequoia Cannabis Inc (A\$3.3 million, 5%); Volero (A\$2.8 million, 4%); VitaGenne (A\$1.5 million, 2%); Cannabis Access (A\$1.1 million, 1%); Hemple (A\$1 million, 1%); Bien (A\$800,000, 1%); and Martha Jane Medical (A\$600,000, 1%).

MMJ's net return to investors since the company first listed in January 2015 has been 3% a year.

What is MMJ Group's value accretion strategy?

The company is seeking to trade at a premium to its net tangible asset backing (NTAB) with the help of its portfolio manager of five months Embark Ventures.

Embark and MMJ kicked off their capital management campaign in June 2019 seeking to buy back up to 10 million ordinary MMJ shares on the market over the next 12 months.

The company board has a goal to turn things around and believes the realisation of a Harvest One business plan and cash investments in depressed Canadian cannabis stocks will have an impact as the company reduces shares on issue with on-market buybacks.

MMJ shared its North American market sentiment on October 11, 2019, saying: "Our view is that investors are critically examining the capacity of Canadian and US companies to generate sales and earnings growth during the next 12 to 18 months with concern that some companies will need to raise cash to continue the rollout of their business plans."

Portfolio manager Embark believes about a third of cannabis companies will not be around in 12-18 months, viewing cannabis market conditions as an opportunity where surviving entities can take advantage of long-term growth.

By yesterday, MMJ's share buybacks totalled 5,470,181 shares, with yesterday's buybacks of 60,000 shares changing hands for 22.5 cents apiece.

The company's board considers the buybacks are likely to be "value accretive" and is funding the effort with cash reserves.

Acquisitions will also be paid for with cash holdings.

From the end of this financial year, the company plans to distribute 20% of its annual profit after tax, excluding unrealised gains and investment losses, as a dividend.

It expects to make available the franking credits it holds as part of the dividends.

Inflection points

- Appreciation in investment company values and associated improvements in net tangible asset backing
- Cash returns from choice exits from Canadian and Australian investments
- Further shrinking of the discount its shares trade at when compared to net tangible asset backing
- Continued cancellation of shares on issue
- Progress towards expressed goal of trading at a premium to NTAB
- Net tangible asset backing appreciation per share
- Director and senior manager-level appointments and continued involvement of key figures

MMJ will hold its annual general meeting at the offices of Automic Group at 126 Phillip Street, Sydney at 2pm EST on November 28, 2019.

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