



Indus Holdings Financing News Release & Corporate Update Conference Call

Indus Holdings, Inc. and Investor Group Led by Geronimo Capital Announce Bridge Financing and Terms for Total Financing of Up to US\$14.5 Million

Indus Holdings Inc - Conference Call Transcript

**March 16, 2020
4:30 p.m. ET**

Speakers:

**Bill Mitoulas (Investor Relations with Indus)
Robert Weakley (CEO & Co-Founder of Indus)
George Allen (Geronimo Capital, New Investor in Indus)**

OPERATOR: This is Conference # 8328627

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Indus Holding, Inc. conference call.

At this time, all participants are in the listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press "star" "1" on your telephone. Please be advised the today's conference is being recorded. If you require any further assistance, please press "star" "0."

I would now like to hand the call over to Bill Mitoulas, investor relations with the company. Thank you. Please go ahead, sir.

Bill Mitoulas: Thank you, (Erica), and good afternoon, everyone. Welcome to the Indus Holdings Incorporated conference call to discuss the details of the recently announced bridging financing news, which hit the wire earlier this morning, premarket open. Thank you all for joining us.

With us today are CEO and co-founder of Indus, Robert Weakley, and founder of Geronimo Capital, George Allen. Robert will begin with a brief commentary on the overall state of the California cannabis market followed by an update on corporate, strategic and operational initiatives underway at Indus, along with insights into the financing release announced earlier today.

We are delighted to also have Mr. George Allen on the conference call, who will provide us with his thoughts on the financing. For those of you who may happen to leave our call before its conclusion, please be advised that this conference call will be recorded and available for encore replay until April 15, 2020.

Encore dial-in details were also included in the release from earlier today. If you happen to have any questions, please do not hesitate to contact me directly. My email and telephone number are in the news release (bill@indusholdingco.com Tel: +1.416.4799547), or feel free to send us an email at our ir@indusholdingco.com.

Please note that this conference call may include forward-looking information, which is based on the number of assumptions, and actual results could differ materially. Please refer to our financial statements and MD&A reports for more information about the factors that could cause these different results and the assumptions that we have made.

With that, I'll turn the call over to Robert.

Robert Weakley: Thank you, Bill. And thank you all for joining us today for a very brief operational and funding update on Indus Holding, Inc.

As we all are deeply aware, the spread of the coronavirus, COVID-19 has unsettled the financial markets around the world and is understandably causing concern amongst investors. We would like to address our stakeholders that even before COVID-19, we had in place a robust health, safety and security protocol. We remain diligent, and we are following all recommendations from the federal and state health authorities. The company's business operations remained focused on executing our strategic

plan, and we have implemented additional measures to limit the disruption as much as possible.

In California, we've seen great escalation in enforcement over the last six months along with the implementation of metrics and multiple new dispensary openings. We are very optimistic on the California markets as we continue to see this enforcement and crackdown on the black market and the additional new dispensary openings.

Today's announcement is critical to our strategic plan. And we are very pleased with both our financing and progress at our cultivation. Some of the cultivation highlights, just to run through. Our greenhouse renovations are moving as planned, and we have stated before we are very focused on expanding our greenhouses in cultivation to meet the demand we have for our flower. We continue to now have enough supply to meet the demand with the dispensaries in California.

As all of you know, or have heard us talk before, we supply about 90 percent of all licensed dispensaries throughout California. And currently, we only offer about 30 percent of those dispensaries the option to even acquire our flower as we have a hard time even keeping them in stock.

We completed and planted two new rooms in Greenhouse 2 in the last two weeks, and with Greenhouse 1, we have completed and planted two new rooms, with another being planted tomorrow. We are on schedule to complete and plant a new room every week for the next eight weeks. That will bring us in Indus to 20 rooms and increase our flower production by a forecasted 200 percent going out of Q2.

The first rooms are expected to be harvested on April 20th. We plan to be ready to move into Greenhouse 3 and 4 at the same time in May. You've also heard us talk a lot about our flower packaging line and automating our flower packaging. Our packaging line has been installed; the space is in final prep, and we expect to be operational in April ready to go with our increased flower production moving forward.

A few minutes – a few comments to discuss on our new funding and partnership. Indus spent the last six months meeting and discussing funding options with multiple partners. We believe we've shown the – chosen the best possible partnership with Geronimo and Merida. We've been working with George Allen of Geronimo for a few months now, working through the due diligence and making sure this is the best partnership.

Geronimo and Merida not only bring the financial capital needed for the success of Indus but also a great wealth of knowledge and strategic partnerships in the cannabis space. As you saw in our press release this morning, we've already received a \$2.3 million bridge as of today to allow Indus to finish Greenhouse 1 and to continue with our working capital.

On the larger financing, the new funding is up to 14.5 million U.S. in equity or convertible note. This is a (two-year) note with a 4 percent (coupon). It's convertible at 20 cents U.S. along with a warrant at 28 cents U.S. This funding will allow us to finish our CapEx and continue to position Indus as a leader in California. Again, we could not be more excited about this partnership and one of these positions Indus in California to take on the opportunities that we believe the California market is going to show in 2020.

With that, I'd like to turn it over to George Allen, founder of Geronimo Capital, to talk a little bit about his findings and the financing. George?

George Allen: Thanks, Rob. I appreciate that. And thanks for inviting me to be on the call. I sincerely hope that everybody is safe and healthy at this – at this time.

Despite the market context, I'm really grateful for the opportunity to be involved with this – with this transaction, as I have great expectations for our collective success. I should say that today, I'm on a call as an individual and not as an agent of the company, and we hope to conclude this financing over the coming month.

I'll just spend a few minutes as to why we're here. We at Geronimo, we like California a lot. It's the birthplace of cannabis brands, and we think this business has a lot of capabilities and assets that we believe position it exceptionally well for California.

Additionally, the market backdrop for the broader cannabis market is pretty clear. There is going to be a shakeout. Survival will require execution and back to basics strategy and access to capital. This business is refreshingly simple. And even more simple is our business brand to return at the profitability, which I look forward to walking you through over the coming weeks.

You should assume that by investing in cannabis today my conviction is that challenges facing the cannabis profitability are not endemic but rather the result of a lack of focus. Our intent is to bring that focus. And I look forward to walking you through that shortly.

While the ride has been choppy, I am really pleased to see that the team here is extremely committed. And I look – I look forward to working closely with them. I'm happy to answer any questions that you may have now on the financing.

With that, I'm going to turn it back over to the operator.

Operator: As a reminder, to ask a question, you will need to press "star" "1" on your telephone. To withdraw your question, press the "pound" key. Please stand by while we – while we compile the Q&A roster. And your first question comes from Doug Cooper with Beacon Security.

Doug Cooper: Hi. Good afternoon. Congratulations on the financing, Rob and George. First of all, just on the capital structure, could we just sort of walk through where we're at assuming the 14-1/2 million financing gets done? So maybe, we start with shares outstanding prior to this probably. I think we're at around 35 million. Is that right?

Robert Weakley: Correct. Thirty-three.

Doug Cooper: Thirty-three. And this will add about 72-1/2.

Robert Weakley: Yes.

Doug Cooper: OK. So we're at just basic not including the warrants, 105 million, give or take.

Robert Weakley: Correct.

Doug Cooper: OK. Second, with the – that, the bridge loan today, so 2.3, there was another bridge outstanding prior to this. Right. So out of that, let's assume that the 14-1/2 million gets done. I guess the use of proceeds of that will – to pay back these two small bridge loans. And that will leave you with roughly 10 million. Is that ballpark?

Robert Weakley: Yes. This bridge loan will actually grow into, yes, the larger financing and will pay off the 1.5 to (Hadrants) in that.

Doug Cooper: OK. And what do the CapEx – well, maybe, what are the CapEx requirements out of that – out of that 10, that, the fourth or I guess the – guess that what I'm trying to get at is how much more capital will you need.

Robert Weakley: That's well in that – you know we believe this will fund us in the profitability and handle all of our CapEx. We're down to less than 500,000 left to finish Greenhouse 1 and 2. And that again brings us to the 20 grow rooms and considerable amount, more flower along with trim for our extraction facility.

With Greenhouse 3 and 4, Greenhouse 3 has roughly about 1.2 million to finish that. And Greenhouse 4 is little under a half a million dollars in there, so again roughly about another 1.7. And along with Greenhouse 1, you're sitting at about 2.3 million. And then there will be – the (head) house is a little bit rough on the installation of the flower packaging on it.

Doug Cooper: OK. So to finish the greenhouse, just to – just to conclude, was it 2.3 somebody said to finish all the greenhouses?

Robert Weakley: 2.3 to finish the greenhouses. And then roughly, as we move forward into additional dry rooms, there is roughly ..

Doug Cooper: Yes.

Robert Weakley: ... about 1.5 million in there.

Doug Cooper: OK. Any other CapEx or (acquire) at the – for the extraction or anything like that?

Robert Weakley: No. Actually, everything has been built out there. Equipment is – everything is up and running.

Doug Cooper: OK.

Robert Weakley: Think then the ...

Doug Cooper: Yes.

Robert Weakley: ... flower packaging line has been – has been paid for and installed ...

Doug Cooper: OK.

Robert Weakley: ... little bit of electrical. But that's kind of where we sit there.

Doug Cooper: OK. And in terms of workforce, have you had some workforce reductions or you've reduced the overhead of the company? So where are we at in terms of burn rate not looking at any revenue to us, just the absolute sort of burn rate of the – of the OPEX of the company right now on a quarterly basis?

Robert Weakley: So we've made quite a few cuts across the board over the last kind of four months reducing a lot of hourly along with salary management to make sure that we – we're operating as lean as possible. You know this call is not to update guidance or really get into cash flow and all of that. But you know we'll be going overall with that in April during our yearend and Q4 call. I just – I don't have all those numbers like – and it ...

Doug Cooper: OK.

Robert Weakley: ... gets there. I should hate to – yes. We'll let ...

Doug Cooper: Yes.

Robert Weakley: ... (Steve) walk through those.

Doug Cooper: OK. Maybe, once all the greenhouses are finished, what do you think is sort of just – remind us when do you think all the greenhouse will be finished.

Robert Weakley: In Q3.

Doug Cooper: Q3. So what are the run rate, the – in terms of production coming out of there whether it's in kgs or pounds or whatever?

Robert Weakley: Sure. We're anticipating approximately 250 pounds per room. And again, at that point, we'll have 30 rooms that will be harvesting roughly every eight weeks. So we figure out six turns a year per room, roughly 250 pounds per room there.

Doug Cooper: Each turn? 250 each turn?

Robert Weakley: Correct.

Doug Cooper: So ...

George Allen: Yes. So, Rob, I think you just give the – you just give the 45,000 pounds and annualized number is the right out of it yet.

Robert Weakley: Yes.

George Allen: When it ...

Robert Weakley: Exactly. That's what we're looking at in 2021 when everything is built completely and fully operational.

Doug Cooper: Yes. So in 2021, 45,000 pounds or exit in this year somewhere around 45,000 pounds.

Robert Weakley: 45,000 pounds fully built out.

Doug Cooper: Yes. OK. What – where we at in terms of pricing in California these days?

Robert Weakley: Pricing on flowers is staying very strong. We're actually seeing a bit of an increase in a lot of areas. So we hope sell our flower under Cyprus Cannabis at 1,600 a pound and have absolutely no price resistance currently at that.

Doug Cooper: OK. You're talking about there was an increase in the number of dispensaries being opened and then the crackdown on the illegal dispensaries. What is – what is the current dispensary count in California? Is it north of 500? Or is it – is it edging close to 6 or 700? Or where we at?

Robert Weakley: It's more around 600 term (one).

Doug Cooper: OK. And what – you know obviously the 45,000 pounds a bit of a drop in the bucket in the grand scheme of things in terms of the California. Is that why you're so confident you – you'll be able to sell this product, I guess? And what – like can you talk a little bit about the competitive landscape? I think George mentioned it on his speech about some of the companies. Maybe – the financial wherewithal maybe is not there. And especially presumably with this coronavirus, with some of shutdowns of businesses – and who knows what's going to happen – how – I mean, how many companies you think will be able to survive this?

Robert Weakley: Yes. I'll let George touch on it ...

George Allen: I know ...

Robert Weakley: ... briefly. But you know on that on –

George Allen: Yes. So, well, we look a lot of – we look a lot of businesses in California and across country. I – look. Nobody knows what the – that, the long-term impact of coronavirus is although I will say that we've seen good data so far ...

Robert Weakley: Yes.

George Allen: ... about demand generation. And you know I don't think we know yet whether at stockpiling or if it's – if it – if it's the behavior pattern change in the wake of people being home (work). So some can – some ...

Doug Cooper: Yes.

George Allen: ... can change. But I would generally say that like the capital markets – the capital markets are really shut right now for (10) visits. And obviously ...

Doug Cooper: Yes.

George Allen: ... nobody that – but – and in California, you have a couple of different classes. You've got a handful of service (stock) works, smaller operators who may or may not be able to survive this and just going deeper into their own pockets. But then you've got a fair amount of some early stage venture like funded businesses with an alphabet to cap structure. And those businesses that are still private, they are really struggling to raise money right now partly because it always takes a very long time for the existing investors to get comfortable with the kind of price correction that happens much quicker in the public markets.

Doug Cooper: Yes.

George Allen: And then you've got – then you've got then multistate operators who have had footprint in the California. And they are – they're just struggling to figure out where to put – where to put capital, the few checks that they kind of write, where to put them right now.

I would generally say like on those small part of our thesis as to why we're – why we think now is a good time to get into it is we think if only but for the commodity cycle and marketplace, we think California market underfunded for that demand side. And ...

Doug Cooper: Yes.

George Allen: And so if you – if all your – if all you're banking on is the commodity side, which of course I don't think long term we are, but if all you're banking on that, I think you've got a healthy – a healthy couple years. You're looking at just a result of limitations on capitalism.

Doug Cooper: Right. But you know just my back of the (ML), assuming you sell flower and don't do and move into any higher value products on the extraction side – 45,000 pounds times 1,600 pounds is 72 million – and post this, assuming that the financing gets done just on a basic not included in the warrants of market cap, post-financing market cap is 33 million, so about a half sales. Is that – is my math right?

Robert Weakley: I think your math's right about just our – that capacity of our cultivation facility. But, yes. That we include ...

Doug Cooper: OK.

Georg Allen: ... the other pieces when it comes to extraction in all the brands. Yes.

Doug Cooper: You're right. And then I guess, well, you all talk about breakeven revenue levels maybe on the next call. But – and just one final question for me. And maybe, George, if you can – the – this, the press release said that the financing, the 14-1/2 million financing dependent on completion of due diligence. Can you give us any more – any color of what's remaining on a due diligence side?

George Allen: Yes. And no problem. By the way, I just – just real quick, I think your numbers, a second ago, you were comparing sales worked for U.S. dollars and market cap that were Canadian dollars.

Doug Cooper: All right. Yes.

George Allen: Yes.

Doug Cooper: You're right – you're right. Yes. You're right.

George Allen: And – but – so aren't the terms of the financing – so, look, our objective is to get it wrapped up in the next month. We're finalizing. You know I think if we had to do it over again, we would have preferred just to get one transaction over the line and announce that once. But we've felt it necessary to get the bridge into the company in order to stabilize it and allow them to make the investments they need to make ...

Doug Cooper: Yes.

George Allen: ... while we – while we get the rest of it together. But our – you know my personal objective here is to get this done as (terms) of fast as possible because if you can be the – if you can be the operator who has access to working capital and capital for expansion when the market doesn't – you want

to take it then – you want to take advantage of that as much – as much as you can so to goal.

Doug Cooper: OK. Sorry. Just one final one, Rob. Just for the outstanding acquisitions in Nevada and shreddables and so forth, is there money still load on that? Or what – maybe, you can give us an update. And that 33 million shares as then, that include the shares that are due to those companies?

Robert Weakley: No. We've actually – we've cancelled the shreddables, contracting deal there and again still working through a lot of the Las Vegas or Nevada entity. And again, we'll go into that more on our quarterly call.

Doug Cooper: And was there anything due on the cancellation of the shreddables? Or you in – you're at the top of the walk ...

Robert Weakley: No. Nothing due. No shares or anything.

Doug Cooper: OK. Great. Congratulations at (determining) things.

Operator: And again, that is "star" "1" if you would like to ask a question at this time. And there are no further questions at this time. Mr. Weakley, I'll turn the call back over to you for closing remarks.

Robert Weakley: Just want to thank everybody for joining the call again today. I know it's hectic times. And you know that everybody at – in this is focused on the mission of becoming profitable and executing the plan. Again, we couldn't be more excited in the partnership and think that this will position in this really as the leader in California and moving along.

So again, thank you for the time. And I look forward to touching base here in April when we go over our Q4 and our yearend 2020 numbers. Have a great day.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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