

Action Summary – 25 August 2023

Analyst Theodore R. O'Neill – Exceeds estimates for 1H23 – Reiterate Buy rating and \$4.00 PT

- **Exceeding expectations.** UCASU reported 1H23 income of \$1.9MM and EPS of \$0.06. We were looking for revenue of \$1.2MM and EPS of \$0.04. There is no consensus. The favorable EPS variance was due to higher sales and lower expenses, partially offset by lower margins due to mix (Figure 2).
- **Adjustment to estimates.** We are raising our 2023 income estimates to \$2.9MM from \$2.2MM and our EPS to \$0.08 from \$0.07. We believe our original gross margin assumptions of 50% are somewhat inconsistent with the current economy, so we have lowered them for 2H23 and all of 2024 and slightly increased income. The result for 2024 is revenue going to \$1.3MM from \$0.9MM and EPS going from \$0.02 to breakeven. As the company continues to execute on its new opportunities, we expect our estimates could prove conservative.
- **Cannabis expansion opportunity and private capital.** The company is expanding its portfolio in cannabis-related properties, particularly greenhouses, to make it a major part of its portfolio. Growers need capital for capital expenditures, but, under Federal law, cannabis industry participants do not have access to the U.S. banking system, public capital markets or other traditional sources of financing.
- **Attractive Valuation.** Based on our discounted future earnings model, the value of all future earnings is \$4/unit. The units are trading at a 22% - 68% discount to their peers.

8/24 Unit price: \$1.00 USD	Market cap: \$5.5 million	Multiple of book: 0.7x	EV/2024 Sales: 1.7
Units outstanding: 5.5 million	Insider ownership: 3%	3-mo avg. daily trading volume: <1,000	Dividend 2023 /Yield: NA but has paid a dividend in the past

GAAP estimates (EPS in USD – Revenue in USD millions)

Period	EPS	Revenue	Net Income Margin
1H22A	(\$0.15)	\$0.01	
2H22A	(\$0.05)	\$0.00	
FY22A	(\$0.21)	\$0.01	NME
1H23A	\$0.06	\$1.89	
2H23E	\$0.02	\$1.00	
FY23E	\$0.08	\$2.89	15.3%
1H24E	\$0.00	\$0.65	
2H24E	\$0.00	\$0.65	
FY24E	\$0.00	\$1.30	0.7%

Note: Numbers may not add due to rounding or change in unit count. See our full model at the back of this report.

Cash balance (in USD millions)

• 2021A	• \$2.1
• 2022A	• \$0.3
• 2023E	• \$1.0
• 2024E	• \$2.6

LT Borrowings (in USD millions)

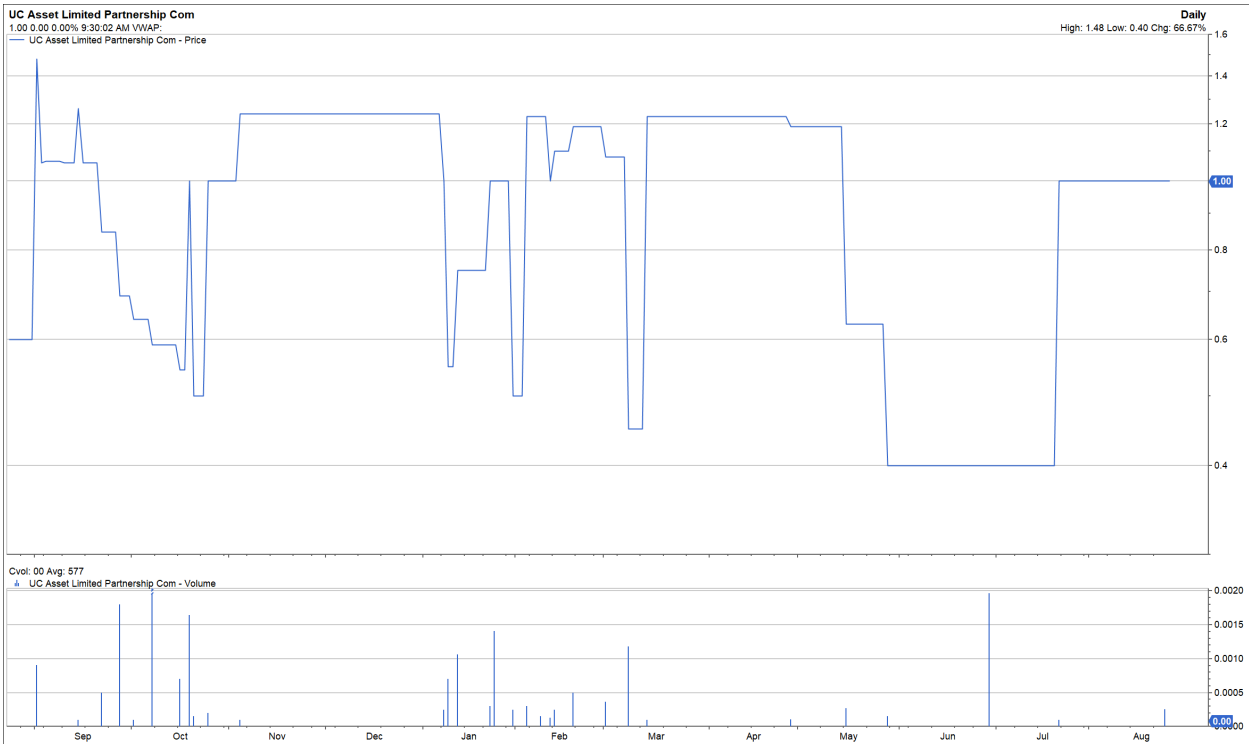
• 2021A	• \$0.4
• 2022A	• \$0.4
• 2023E	• \$0.0
• 2024E	• \$0.0

Risks/Valuation

- Risks: competitive marketplace, regulatory issues involved with the new business
- Our \$4 price target is derived from our discounted future earnings model

Company description: UC Asset is a master limited partnership (MLP) investing in and managing to grow a property portfolio for the cultivation of medical plants, with a strategy to balance near-term profitability and long-term sustainability

Figure 1 – UC Asset LP – One-Year Trading snapshot



Source: FactSet

Quarterly Results

Exceeding expectations. UCASU reported 1H23 income of \$1.9MM and EPS of \$0.06. We were looking for revenue of \$1.2MM and EPS of \$0.04. There is no consensus. The favorable EPS variance was due to higher sales and lower expenses, partially offset by lower margins due to mix (Figure 2).

Figure 2 – UC Asset LP – Quarterly Variance

	2023 1H23E	2023 1H23A	Better/(worse) than forecast
Income Statement			
Total Revenue	\$1,200	\$1,887	\$687
Total cost of revenue	<u>700</u>	<u>1,350</u>	<u>(650)</u>
Total Gross Profit	500	537	37
Operating expenses:			
Administrative Expense	90	50	40
Finance costs, net	100	71	<u>29</u>
Total Expenses	<u>215</u>	<u>175</u>	<u>40</u>
Earnings (loss) from Operations	285	362	77
Total Other income/(expense)	<u>(50)</u>	<u>(19)</u>	<u>31</u>
Earnings before taxes	235	343	108
Tax expense/(benefit)	<u>35</u>	<u>0</u>	<u>35</u>
Net Income	<u>\$200</u>	<u>\$343</u>	<u>\$143</u>
Diluted EPS	\$0.04	\$0.06	\$0.03
Average units outstanding	5,500	5,485	(15)

Source: Company filings and Litchfield Hills Research

Valuation and Price Target

Valuation Methodology

We believe UCASU is undervalued, and we support that belief with two valuation techniques. For the purpose of determining our price target we use a discounted future earnings model, which we then compare to its valuation relative to peers.

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$4 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings on a GAAP basis and discount them at 9%. We assume earnings growth picks up in 2025 as more properties are added to the portfolio. Our valuation model is shown in Figure 3 below. Note, this model understates future new services and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied unit price is \$4.05, which we round to \$4.00.

Figure 3 – UC Asset LP – Price Target Calculation

Discounted Earnings		\$4.05
Year 1 is Forecast	Discounted	
2023	EPS	EPS
1	0.08	\$0.08
2	0.00	\$0.00
3	0.10	\$0.08
4	0.20	\$0.14
5	0.30	\$0.19
Terminal		
Value		\$3.55

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Figure 4 is a summary of our UCASU peer comparison. The units are trading at a 22% - 68% discount to their peers. These broadly confirm our view that, along with our discounted earnings model, the units are undervalued.

Figure 4 – UC Asset LP – Valuation of Peers

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2024 Consensus Multiples (Except book multiple)		
					Market Cap / Sales	EV /Sales	Price to Book
IIPR-US	Innovative Industrial Properties Inc	\$78.14	2,191	2,357	7.12	7.65	1.46
CURA-CA	Curaleaf Holdings, Inc.	\$2.85	1,801	3,185	1.43	2.18	2.41
TLRY-US	Tilray Brands, Inc.	\$2.49	1,751	1,695	1.97	1.92	0.33
GTII-CA	Green Thumb Industries Inc.	\$6.84	1,435	2,034	1.47	1.82	1.25
CRON-CA	Cronos Group Inc	\$1.75	666	(175)	6.40		0.84
SNDL-US	SNDL Inc.	\$1.72	448	418			0.51
WEED-CA	Canopy Growth Corporation	\$0.41	296	648	0.85	1.84	
NLCP-US	NewLake Capital Partners, Inc.	\$12.69	270	245			0.81
AFCG-US	AFC Gamma, Inc.	\$12.95	265	269	3.75	3.81	0.94
ACB-US	Aurora Cannabis Inc.	\$0.48	175	148	0.82	0.64	0.67
OGI-CA	OrganiGram Holdings Inc	\$1.45	116	78	0.92	0.61	0.88
MAPS-US	WM Technology, Inc. Class A	\$1.14	106	218	0.81	1.04	6.95
IHL-AU	Incanex Healthcare Limited	\$0.06	96	57	NMF	NMF	7.56
INCR-US	InterCure Ltd.	\$1.55	69	96			1.10
FFNT-CA	4Front Ventures Corp.	\$0.10	62	298	0.47	2.20	5.22
MYMD-US	MyMD Pharmaceuticals, Inc.	\$1.11	50	34			3.12
BYND-CA	BYND Cannasoft Enterprises, Inc.	\$1.03	41	39			3.78
CWEB-CA	Charlotte's Web Holdings, Inc.	\$0.21	33	30	0.39	0.35	1.06
PW-US	Power REIT	\$1.09	4	46			0.38
AVERAGE					<u>2.20</u>	<u>2.19</u>	<u>2.18</u>
UCASU-US	UC Asset Limited Partnership Com	\$1.00	5	7	1.37	1.70	0.70
UCASU-US Discount to peers:					-38%	-22%	-68%

Source: Litchfield Hills Research LLC and FactSet

Figure 5 – UC Asset LP – Income Statement (\$000 except per unit)

December year-end	2022A		2022E	2023E		2023E	2024E		2024E
	1H22A	2H22A	Year	1H23A	2H23E	Year	1H24E	2H24E	Year
Total revenue	\$8	\$0	\$8	\$1,887	\$1,000	\$2,887	\$650	\$650	\$1,300
Cost of Goods	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,350</u>	<u>700</u>	<u>2,050</u>	<u>455</u>	<u>455</u>	<u>910</u>
Gross Profit	8	0	8	537	300	837	195	195	390
Gross Margin	NMF	NMF	NMF	28.5%	30.0%	29.0%	30.0%	30.0%	30.0%
Management Fees	90	90	180	50	50	100	55	55	110
Professional Fees	100	100	200	71	75	146	75	75	150
Other G&A	<u>180</u>	<u>50</u>	<u>230</u>	<u>54</u>	<u>50</u>	<u>104</u>	<u>50</u>	<u>50</u>	<u>100</u>
Total Expenses	<u>370</u>	<u>240</u>	<u>610</u>	<u>175</u>	<u>175</u>	<u>350</u>	<u>180</u>	<u>180</u>	<u>360</u>
Earnings (loss) from Operations	(363)	(240)	(603)	362	125	487	15	15	30
Operating Margin	NMF	NMF	NMF	19.2%	12.5%	16.9%	2.3%	2.3%	2.3%
Other Expense	(482)	(50)	(532)	(19)	(10)	(29)	(10)	(10)	(20)
Pre-Tax Income	(844)	(290)	(1,134)	343	115	458	5	5	10
Pre-Tax Margin	NMF	NMF	NMF	18.2%	11.5%	15.9%	0.8%	0.8%	0.8%
Taxes (benefit)	0	0	0	0	17	17	1	1	2
Tax Rate	0.0%		0.0%	0.0%	15.0%	3.8%	15.0%	15.0%	15.0%
Net Income (loss)	(\$844)	(\$290)	(\$1,134)	\$343	\$98	\$441	\$4	\$4	\$9
Net Margin	NMF	NMF	NMF	18.2%	9.8%	15.3%	0.7%	0.7%	0.7%
Earnings per unit	(\$0.15)	(\$0.05)	(\$0.21)	\$0.06	\$0.02	\$0.08	\$0.00	\$0.00	\$0.00
Average units outstanding	5,485	5,500	5,493	5,485	5,500	5,493	5,500	5,500	5,500

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – UC Asset LP – Balance Sheet (\$000)

December year-end	FY2024E	FY2023E	FY2022A
Balance sheet			
Current Assets			
Cash and S.T.I.	\$2,648	\$967	\$269
Accounts receivable	500	339	1,645
Inventories	0	0	0
Other assets	500	791	1,372
Total Current Assets	3,648	2,098	3,286
Net PP&E	2,000	2,878	2,311
Other non-current assets	2,000	2,662	1
Total Assets	\$7,648	\$7,638	\$5,599
Current Liabilities			
AP and Accrued	\$10	\$8	\$1
Other current liabilities	0	0	208
Total current liabilities	10	8	209
Interest bearing borrowings	0	0	400
Other Liabilities	0	0	0
Total Liabilities	10	8	609
Stockholders' Equity			
Preferred and minority interest	2,200	2,200	0
Share Capital	5,438	5,430	4,989
Additional paid-in-capital	0	0	0
Retained earnings	0	0	0
Cum. Other comp and treasury stock	0	0	0
Total stockholders' equity	7,638	7,630	4,989
Total Liabilities and equity	\$7,648	\$7,638	\$5,599

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110, the analyst is registered with FINRA and the report has been reviewed by a Supervisory Analyst.

MiFID II Compliant Research Report

Our research is classified as minor non-monetary benefit under MiFID II. This applies to all forms of transmission, including email, website and financial platforms such as Bloomberg, FactSet, S&P Global, Refinitiv and 13 others. We do not seek payment from the asset management community and do not have any execution function. Investors can continue to receive our research under the MiFID II regime without the need for a contract for services to be put in place. This applies to all forms of transmission, including email, website and financial platforms.

Litchfield Hills Research LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Other Disclosures

Litchfield Hills Research, LLC ("LHR") is not a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission nor a member of Financial Industry Regulatory Authority. The principal of LHR and publisher of this report, Theodore R. O'Neill, is a registered representative of Ascendant Capital Markets, LLC ("Ascendant"), a registered broker-dealer and FINRA member firm. Ascendant considers Mr. O'Neill's association with LHR to be an "outside business activity" and is disclosed as such with FINRA. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LHR or any divisions, subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LHR and the subject company. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted, copied, or distributed to any other party, without the prior express written permission of LHR or the subject company. All trademarks, service marks and logos used in this report are trademarks, service marks, registered trademarks, or service marks of LHR or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. LHR may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable, appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. LHR does not offer advice on the tax consequences of investment, and you are advised to contact an independent tax adviser. LHR believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in this report were obtained or derived from sources LHR believes are reliable, but LHR makes no representations as to their accuracy or completeness.

Ownership and Material Conflicts of Interest

The analyst owns no units of the subject company. The analyst and his family have no known material conflicts of interest in authoring this report. No employees of Ascendant Capital Markets, LLC own any material amount of UCASU stock or have any influence on the UCASU Board of Directors.

Investment Banking and Fees for Services

Litchfield Hills Research has not received compensation for advisory or investment banking services from the Company in the past 12 months. Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the Company in the past 12 months. Litchfield Hills Research LLC has received compensation from the subject company for distribution and investor targeting services. Ascendant Capital Markets, LLC has not received compensation for non-investment banking services from the Company in the past 12 months.

Market Making

Neither Litchfield Hills Research, LLC nor Ascendant Capital Markets, LLC makes a market in the subject company's securities.



UC Asset LP

UCASU-US - Buy \$4 PT

Additional information is available upon request. LHR accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to LHR. This report is not to be relied upon in substitution for the exercise of independent judgment.