



Investor Summary

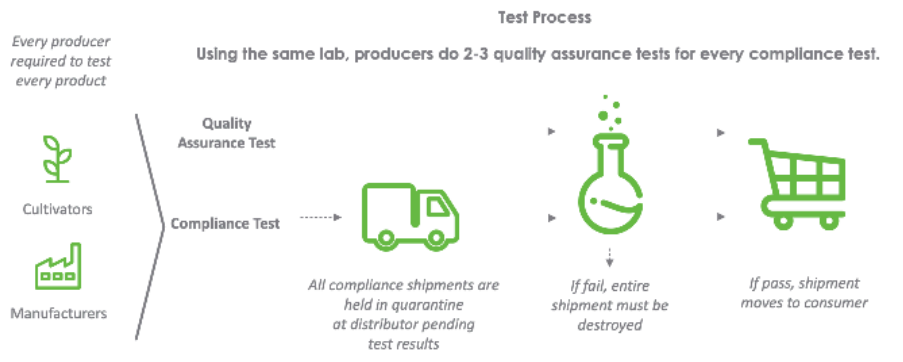
Executive Summary

Apricot Analytics (the DBA of RQC Holdings, Inc) is a product quality test lab serving the legal cannabis market in California. California is by far the largest cannabis market, valued at \$3.0B in 2019 growing to \$5.6B in 2022, and has an increasingly diverse range of new products including vape pens, beverages, food products, tinctures and topicals. By law, every product shipment must be tested for potency and purity by an independent licensed test lab. Mandatory testing creates an attractive investment opportunity. The rapidly growing market, combined with the challenging regulatory, technical, management and capital requirements to open a test lab, have resulted in an acute shortage of cannabis test capacity in California: 3,467 licensed producers and distributors served by only 38 licensed cannabis test labs. This presents a compelling opportunity with gross margins of 60%. Apricot Analytics' business plan is to build a highly profitable lab, establish a differentiated product offering, and become an attractive acquisition target.



How the Test Market Works

Cannabis producers (cultivators who grow the plant or manufacturers who process the plant into different products) have incentive to spend on lab testing. Every product shipment from every producer must pass state-mandated testing in order to reach the consumer. Failed testing can result in an entire shipment being destroyed, on camera, with the video record sent to the California Bureau of Cannabis Control. To ensure a successful compliance test, producers conduct 2-3 pre-compliance quality assurance tests for every compliance test. The average price of a compliance test is \$750 and the average price for all tests combined (average of most frequent QA tests and compliance test) is \$447 but the average cost to deliver all tests is \$82.



Test Economics

\$750
Average Price - Compliance Test
\$447
Average Price - All Tests
\$82
Average Cost - All Tests

Competition and Barriers

The cannabis testing business in California is large, growing and highly profitable, so why is there a lack of lab capacity? The barriers to entry for cannabis testing are formidable:

Regulatory Barriers

- Prohibition from the rest of the industry - lab license holders cannot hold a license in any other part of the cannabis industry.
- Finding a municipality - most prohibit cannabis businesses
- Finding a green zone location - cannabis companies are allowed only in limited green zones of a municipality
- Securing a lease - few friendly landlords
- Securing local permits and state license

Expertise Barriers

- Production Lab Expertise - understanding how to run an analytical lab at high volumes
- Cannabis Expertise - a deep understanding of a diverse population of producers and rapidly expanding portfolio of products
- Start-up Management Expertise - nimbleness, customer focus, tight control of opex
- Regulatory Expertise - familiarity with navigating an evolving and unforgiving set of regulations

Our Team has Overcome the Barriers

We have secured a lease, are building out our first lab in Oakland and have assembled a core team with the required expertise. Our management team have proven track records in setting up and operating complex chemical and microbiological analytical laboratories and have sales/marketing expertise in several industries, including regulatory industries and cannabis. We have analyzed this market for two years, including working in an existing cannabis test lab, and have a deep understanding of what is needed for success.

Paul Connolly **Chief Executive Officer**

CEO, Seven Saints Superfoods
(cannabis edibles)
VP Sales & Marketing, C8 Medisensors,
(glucose monitoring)
Start-up experience: Dell, Cisco Systems, a
range of start-ups.

Ed Quattlebaum, PhD. **Chief Science Officer**

CEO, MetaMorphix (highest volume animal
genomics lab in the world)
CEO, Biosys (biological pesticides)
Director of Development, Union Carbide
Agricultural Products

Mike Klasner **Director of Lab Operations**

Founder, Explorer Analytical Services
(chemical analytical equipment)
Set up over 40 cannabis test labs
Wrote hundreds of cannabis test protocols
Achieved ISO certification for
cannabis labs.

Growth Strategy

A phased approach allows us to steadily expand our customer base, introduce differentiated products, and validate our model as we scale:

1. Build Customer Base (2020). Respond to the primary producer complaint of cannabis test labs: providing test results with a reliable turnaround time. We will use our extensive experience to establish a lab that consistently delivers accurate test results with competitive pricing and reliable turnaround times. Additionally, we will assess the challenges and pains of producers to identify new product opportunities that build on our lab testing product.
2. Differentiate (2021). Introduce new supply chain risk management and consumer marketing products that leverage test data to solve producer problems and expand our value proposition.
3. Scale (2022-2024). Having established a proven model, scale to increase share in California and expand beyond California.

Additional Growth Opportunities

We are exploring additional revenue opportunities, including the rapidly growing hemp market, legalized nationally by the 2018 Farm Bill and expected to be a \$22B market in the US by 2022. All hemp products must be tested for potency to prove the product has less than .3% THC. We also anticipate opportunities to extend the scope of offered tests further in the supply chain and to license or franchise our proven model for new labs, particularly after Federal legalization of cannabis.

Active Opportunity	Future Opportunity	
Hemp CBD Testing Opportunity: <ul style="list-style-type: none">• A rapidly emerging national market, growing to \$22B nationally by 2022• Legalized nationally by 2018 Federal Farm Bill• All products must be tested for potency (must be <.3% THC)• Mandatory purity testing is likely: 70% of hemp products are contaminated or have incorrect potency on label. Revenue Model: <ul style="list-style-type: none">• Test fees	Supply Chain Testing Opportunity: <ul style="list-style-type: none">• Expand test services to encompass complete producer supply chain, including soil, water and key ingredient testing Revenue Model: <ul style="list-style-type: none">• Test fees• Consulting fees	Licensing & Franchising Opportunity: <ul style="list-style-type: none">• Further monetize cannabis test lab expertise via packaged services for new lab operators. Revenue Model: <ul style="list-style-type: none">• Licensing fees• % of revenues

Exit Strategy

As the legal cannabis market has grown, established firms like national test labs and service companies have watched from the sidelines. As this market matures, short-term challenges like banking are removed and Federal legalization happens in some form, we expect to be an acquisition target for large national and international firms who want to enter the cannabis market, and for existing cannabis firms who want to scale quickly by acquisition.

Use of Proceeds

After two years researching and working in the test market industry, locating our first lab location and building our team, we are raising \$1M to fund the initial phase of operations. We expect to be operational and generating revenue by late 2019. We have already secured \$250K from founders and we seek \$750K to finish building and equipping the lab, hire additional key staff, and partially fund the first year of operation.

Financials

- Consistently high margins
- Based on conservative proforma:
 - Below market pricing
 - YoY declines in pricing
 - 60% capacity utilization

	Proforma Financials				
	Year 1	Year 2	Year 3	Year 4	Year 5
# Samples	5,313	17,000	26,250	31,500	36,750
Revenues	\$ 2,060,031	\$ 6,114,504	\$ 8,841,574	\$ 9,806,599	\$ 10,576,532
COGs	\$ 246,220	\$ 693,881	\$ 1,332,398	\$ 1,598,832	\$ 1,865,266
Gross Margin %	\$ 1,005,651 49%	\$ 4,126,680 67%	\$ 5,964,051 67%	\$ 6,489,480 66%	\$ 6,851,525 65%
Expenses	\$ 693,816	\$ 1,072,691	\$ 1,126,620	\$ 1,225,834	\$ 1,258,009
EBIT	\$ 311,835	\$ 3,053,989	\$ 4,837,431	\$ 5,263,645	\$ 5,593,517
Income	\$ 159,532	\$ 1,434,325	\$ 2,271,930	\$ 2,472,104	\$ 2,627,031
Net Margin %	8%	23%	26%	25%	25%

Summary

In the often blurry legal cannabis industry, nothing is clearer than the need for more test lab capacity and the financial opportunity for investors in those labs.

- One of the fastest growing industries in US
- Steep and predictable demand from state-mandated set of customers
- Large gross margins from repeat customer base
- Formidable barriers to entry, relatively few competitors
- Multiple additional growth opportunities
- Ability to scale in California and nationally

For more information, contact:

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