

August 18, 2021

KAIVAL BRANDS INNOVATIONS GROUP, INC.

(NasdaqCM: KAVL)

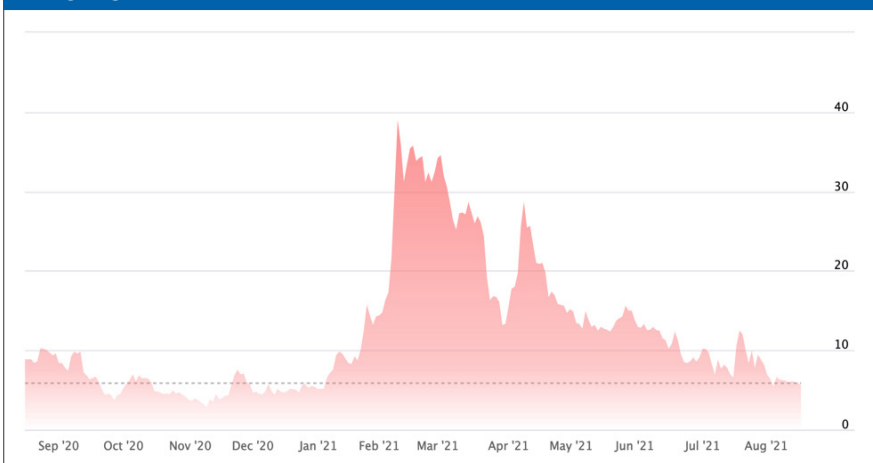
Kaival Brands Innovations Group, Inc. focuses on growing innovative products into dominant brands. The company is the exclusive distributor of all products manufactured by Bidi® Vapor, a leader in disposable electronic nicotine delivery systems (ENDS), and is poised to expand internationally. Bidi® Vapor's products include BIDI® Stick, a closed, tamper-resistant vaping product, and BIDI® Pouch, a tobacco-free nicotine formulation, which is set to launch in late 2021. Kaival Brands distributes BIDI® products to retailers, and sells directly to consumers through a partnership with Gopuff.com. Kaival Brands Innovation Group was founded in 2018 and is based in Grant, Florida.

COMPANY HIGHLIGHTS

- * KAVL: Innovative Vaping and Tobacco-Free Nicotine Delivery Solutions
- * In our view, Kaival Brands is well positioned to expand sales of BIDI® nicotine delivery products. The company launched the BIDI® Stick in the U.S. in early 2020 and plans to launch a second product, the BIDI® Pouch, in 4Q21. The company is also expanding internationally, particularly in China, and developing a line of CBD products.
- * Management believes that the BIDI® Stick is superior to competing products, as its housing provides users with feedback and gives them more control over the device. The BIDI® Stick features a heating component and a unique mouthpiece that deliver vapor at a safe and consistent temperature, prevent the inhalation of condensation, and provide a consistent experience for users. These features are covered by four U.S. patents (as of July 2021).
- * Kaival Brands/Bidi® Vapor are committed to ensuring the appropriate use of their products, including preventing sales to minors, and to selling only through retailers who are compliant with FDA regulations. The companies have also focused on environmentally friendly manufacturing. More than 85% of product components can be recycled, including the BIDI® Stick battery, which is ESC-compliant. The products also use recyclable packaging.
- * We expect the company to generate positive operating cash flow going forward. We also believe that the recent uplist of the stock to the NASDAQ will enhance the company's access to capital and help it to execute its expansion strategy.

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PRICE CHART



KEY STATISTICS

Key Stock Statistics

Recent price (8/16/21)	\$5.94
52 week high/low	\$43.80-\$2.74
Shares outstanding (M)	23.6
Market cap (M)	\$140
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Consumer Discretionary
Sector % of S&P 500	12.3%

Financials (\$M)

Cash & Mkt Securities	2.1
Debt	0.1
Working Capital (\$M)	9.2
Current Ratio	1.2
Total Debt/Equity (%)	NA
Payout ratio	NM
Revenue (M) TTM	97.3
Net Income (M) TTM	-1.3
Net Margin	NM

Risk

Beta	3.1
Inst. ownership	0%

Valuation

P/E forward EPS	NA
Price/Sales (TTM)	1.4
Price/Book (TTM)	15.3

Top Holders

NA
NA

Management

CEO/President	Mr. Nirajkumar Patel
COO	Mr. Eric Mosser
Company website	https://kaivalbrands.com

COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.

* We think that Kaival Brands' market cap near \$150 million does not adequately reflect prospects for the expanded market adoption and distribution of BIDI® products. Based on our analysis using EV/sales multiples, our fair value estimate for KAVL is \$22 per share, well above current levels.

INVESTMENT THESIS

Kaival Brands Innovations Group, Inc. is the exclusive global distributor of products manufactured by Bidi® Vapor, a privately held company founded and controlled by Kaival Brands' CEO Raj Patel. As a result, the companies are considered to be under common control, and Bidi® Vapor is considered a related party. Bidi®'s primary product, BIDI® Stick, is the U.S. market share leader in disposable electronic nicotine delivery systems (ENDS), which we believe account for 10%-15% of the overall e-cigarette industry. BIDI® Stick is a closed, tamper-resistant system with various flavor options, and is protected by patents that, in management's view, help to resolve a range of industry "pain points." A second product, BIDI® Pouch, is a tobacco-free nicotine formulation containing natural fibers and a chew-base filler in different flavors. It is expected to be launched in 4Q21. Kaival distributes these products through retail channel partners and to nonretail customers through a partnership with Gopuff.com. As a distributor, Kaival Brands does not assume risk over unsold or damaged inventory, which is under Bidi's control.

Kaival Brands and Bidi® Vapor focus on the development of cigarette alternatives for adult smokers, and their products are supported by a strong IP portfolio that should help to drive superior long-term results. Kaival is also committed to being a leader in corporate responsibility. It is exceeding regulatory guidelines for the safe and appropriate usage of its products, and using recyclable materials in their production. The company's expansion plans include a line of CBD products.

Since launching its first products in early 2020, the company has generated \$100 million in revenue and gained a 30%+ share of the more than \$500 million disposable ENDS market. In March 2021, BIDI® Stick also became the top-selling disposable ENDS product in the United States, according to Nielsen data. We see strong prospects for further growth as disposable products account for just 10%-15% of the \$4 billion U.S. e-cigarette market, which is dominated by refillable products. The BIDI® Stick may thus help to convert many adult users to the disposable category, leading to further growth in sales and market share.

Management believes that the BIDI® Stick is superior to competing products, as its housing provides users with feedback and gives them more control over the device. The BIDI® Stick also features a heating component and a unique mouthpiece that deliver

vapor at a safe and consistent temperature, prevent the inhalation of condensation, and provide a consistent experience for users. These features are covered by four U.S. patents (as of July 2021).

Bidi® Vapor has also been granted two patents in China, which Kaival Brands/Bidi® Vapor view as vital to competing in the world's largest vaping market. The companies have applied for additional patents in the United States and abroad that will expand their IP moat and enhance their reputation for innovation in the fast-growing vape pen market, which Facts & Figures expects to reach \$45 billion by 2026.

Statista estimates the combustible cigarette market in China at more than \$220 billion, with vaping products accounting for a modest, but growing market share. As such, we see China as a much larger opportunity than the United States, where Grandview Research estimates a \$7.4 billion market for vaping products. The company has begun discussions with potential distribution partners in China, and secured approval to distribute Bidi® products in Europe, Australia, and Russia. In all, Kaival has obtained approval to distribute its products in 11 countries thus far in 2021.

Kaival plans to launch a second product, BIDI® Pouch, in the second half of 2021. The Pouch, a proprietary, tobacco-free nicotine formulation packed in a plastic can, uses a patented nicotine delivery system with enhanced bioavailability and containing fewer impurities than pouch products produced by industry leader Swedish Match. The company initially delayed the launch of the Pouch due to COVID-related manufacturing and supply-chain constraints and is now manufacturing in-house to better control production. As of July 2021, it had 8,000 distribution points for the product. The Pouch will compete in a category that has seen nearly 60%-unit sales growth in U.S. convenience stores in the year ended June 19, 2021, according to Nielsen data. Growth is also expected to be strong outside the U.S. MarketResearch.com expects the global market for nicotine pouch products to approach \$33 billion by the end of 2026, implying compound annual growth of nearly 55%.

In 2021, Kaival Brands has signed several contracts with retailers that have significantly expanded the distribution of Bidi® Vapor products. We estimate that the products are now available at more than 54,000 stores, up from approximately 10,000 at the end of 2020. Kaival has decided to pursue contracts with large national retailers, wholesalers and distributors, which are better able to ensure the appropriate use of its products, rather than with smaller organizations. Toward that end, Kaival entered into an agreement with Grocery Supply Warehouse, a distributor with a combined network of more than 25,000 grocery and convenience stores. With

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
KAIVAL BRANDS INNOVATION GROUP INC	NASDAQ: KAVL	5.94	43.80	2.74	140	NA	NA	NA	NA	3.1	NA
RLX TECHNOLOGY INC	NYSE: RLX	4.55	35	4.05	7147	-85%	147	NA	NA	NA	NA
TURNING POINT BRANDS INC	NYSE: TPB	49.45	61.08	25.99	936	61%	12	142	27.4	0.56	0.5
SMOORE INTERNATIONAL HOLDINGS LTD	SEHK: 6969	42.95*	90.00*	31.20*	33071	11%	32	NA	NA	NA	0.6

* Statistics in HKD

this expanding footprint and product line, we believe that Kaival's annual revenue could reach \$1 billion by the end of 2023.

We believe that Kaival Brands and Bidi® Vapor are well positioned to use their distribution infrastructure to launch additional product lines. In June 2021, the companies announced plans to launch a proprietary, lab-developed portfolio of CBD vape products. Data Bridge Market Research forecasts a total addressable CBD vape market of \$28 billion by 2027, while Global Market Insights projects a global CBD market of more \$100 billion by the end of the decade. Kaival Brands recently identified a production partner, with whom it will produce internally branded hemp products as well as white-label products for other manufacturers.

Kaival Brands/Bidi® Vapor are committed to ensuring the appropriate use of their products, including preventing sales to minors. In 4Q20, the companies repackaged the BIDI® product line to incorporate new product names and designs that better align with FDA Enforcement Priorities Guidance. This guidance calls for manufacturers to distinguish their products from those that might appeal to and be marketed to children, while also protecting adult consumers from potentially hazardous counterfeit products.

Kaival Brands has also pledged to sell Bidi® products only through distributors and retailers that comply with the FDA's Prevent All Cigarette Trafficking Act (PACT), and has pulled inventory from companies that have failed to comply with the act's youth access prevention measures. In addition, it uses a state-of-the-art authentication system to ensure supply-chain security and prevent counterfeit, subpar, and potentially dangerous products from reaching consumers. As noted above, it is also emphasizing sales through large national retailers with strong compliance procedures. In March 2021, it made Gopuff the exclusive online DTC retailer of Bidi® Vapor products. Gopuff has a long record of securely distributing adult-authorized products and a strict compliance program, which includes PACT Act compliance and "age-gating" procedures such as face-to-face ID verification and adult signature on delivery.

Despite these efforts, the company has been hurt by the sale of discounted and sometimes counterfeit products by noncompliant competitors, who in many cases have taken advantage of limited FDA and FTC enforcement. In August 2021, it accepted a monetary settlement from a South Carolina wholesaler that infringed on its e-cigarette trademarks and sold counterfeit BIDI® Sticks. The wholesaler also agreed to cease operations.

Meanwhile, Kaival products are themselves facing increased regulation. In 2019, a U.S. District Court established a Premarket Tobacco Product Application ("PMTA") deadline for currently marketed ENDS products, including BIDI® Sticks. ENDS manufacturers were required to submit PMTA's for their products in order to keep them on the market. Kaival has submitted applications for its 11 BIDI® Stick varieties. We expect the FDA to begin its review of these applications, which will determine which products remain on the market, in September 2021.

Although the review process has created an overhang for KAVL shares, we expect its products to receive FDA clearance and to remain on the market. We also believe that the company has an opportunity to gain market share amid increased regulation, and that FDA clearance would be a positive catalyst for KAVL stock.

Kaival Brands and Bidi® Vapor are differentiated further from peer companies in that they do not use social media, influencers or sponsorships for consumer marketing, and place the same restrictions on marketing by third parties. We note that smokeless tobacco companies such as JUUL have come under scrutiny and faced fines for their marketing practices in recent years, which we think has dampened investor interest in the industry.

Kaival and Bidi® Vapor have taken steps to make their products environmentally friendly. More than 85% of product components can be recycled, including the BIDI® Stick battery, which is ESC-compliant. The products also use recyclable packaging.

RECENT DEVELOPMENTS

On July 29, 2021, Kaival Brands uplisted to the NASDAQ exchange from the OTC Exchange. The stock trades under the ticker KAVL.

In June 2021, the company reported revenue for fiscal 2Q21 (ended April 30) of \$18.1 million and a net loss of \$0.18 per share. This compares to revenue of \$22.5 million and EPS of \$0.06 in the same period a year earlier.

In July 2021, Kaival Brands said that it would launch the BIDI® Pouch. It also announced the receipt of four patents covering various features of the BIDI® Stick product.

In May 2021, Kaival announced two major BIDI® Stick orders, including a first-time order with Grocery Supply Warehouse, which services more than 25,000 stores.

In April 2021, Kaival Brands announced that Bidi® Vapor would enter seven new international markets, bringing the total to 11.

In January 2021, the company said that the BIDI® Stick was the number-one offering in the ENDS category in the United States in 4Q20.

EARNINGS & GROWTH ANALYSIS

We forecast fiscal 2021 revenue of \$128 million (representing growth of 99%) and 2022 revenue of \$460 million (representing 259% growth). The BIDI® Stick is in the early stages of its commercial rollout, with less than 10% penetration of the U.S. retail channel.

We expect near-term results to be volatile as the rollout gains traction and the company terminates relationships with noncompliant retailers. Still, we believe that the company's ability to generate more than \$100 million in revenue with a limited footprint, along with the leading market share of BIDI® Stick in the disposable category, bode well for future growth. We also expect the company to benefit from the new BIDI® Pouch and the recently announced line of CBD products.

We believe that Kaival Brands is well positioned to maintain gross margins near 20%. We also look for operating expenses to be fairly stable, at around 10% of revenues, leading to operating margins near 10%. We expect operating expenses of approximately \$24 million in 2021 and \$42 million in 2022.

We forecast a net loss of \$0.05 per share in fiscal 2021 and EPS of \$1.30 in fiscal 2022. With approximately 25 million shares outstanding, we see considerable EPS leverage for KAVL.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Kaival Brands is Medium. As of April 30, 2021, the company had \$2.1 million in cash and restricted cash, and working capital of \$9.2 million (a current ratio of 1.2). We expect the recent uplist to the NASDAQ to enhance the company's access to capital on favorable terms, facilitating its aggressive product and geographic expansion strategy.

In fiscal 2020 (ended October 31, 2020), Kaival generated \$0.4 million in cash from operations in its first partial year as a commercial-stage company. This was offset by net cash outflows from financing of \$0.3 million. We expect it to generate positive operating cash flow going forward.

Kaival Brands does not pay a dividend, and we do not expect it to initiate one in the near term.

MANAGEMENT & RISKS

Nirajkumar "Raj" Patel is the founder and CEO of Kaival Brands Innovation Group and Bidi® Vapor. Mr. Patel also serves as Kaival Brands' CFO and treasurer. Mr. Patel received a Bachelor of Science degree in Pharmacy from AISSMS College of Pharmacy in Pune, India in 2004 and a Master's Degree in Chemistry from the Florida Institute of Technology in 2009.

Kaival's board has five members, including three independent directors, which we view favorably. Risks include Kaival's status as a "controlled company," as Mr. Patel and COO Eric Mosser together control more than 70% of the company's stock. We also believe that the company is heavily reliant on Mr. Patel, who holds multiple leadership positions at both Kaival Brands and Bidi® Vapor.

Kaival must also rely on the U.S. FDA and international agencies to approve its products and regulate their use, and to help prevent the sale of counterfeit products.

COMPANY DESCRIPTION

Kaival Brands Innovations Group, Inc. focuses on growing innovative products into dominant brands. The company is the exclusive

distributor of all products manufactured by Bidi® Vapor, a leader in disposable electronic nicotine delivery systems (ENDS), and is poised to expand internationally. Bidi® Vapor's products include BIDI® Stick, a closed, tamper-resistant vaping product, and BIDI® Pouch, a tobacco-free nicotine formulation, which is set to launch in late 2021. Kaival Brands distributes BIDI® products to retailers, and sells directly to consumers through a partnership with Gopuff.com. Kaival Brands Innovation Group was founded in 2018 and is based in Grant, Florida.

VALUATION

We think that Kaival Brands' market cap near \$150 million does not adequately reflect prospects for the expanded market adoption and distribution of BIDI® products. We note that the current market cap is less than one-time our 2021 revenue estimate, while the average market cap in the tobacco industry is 4-times revenue. We attribute this below-average valuation to investors' lack of awareness of KAVL's new listing on the NASDAQ, the stock's low trading liquidity, and the regulatory overhang from the FDA's efforts to curb the use of unapproved nicotine products. However, we view the first two factors as temporary, and expect a favorable ruling from the FDA that will allow the company's products to remain on the market. We believe that FDA clearance would strengthen the current commercial rollout and provide a catalyst for the shares.

In comparing Kaival Brands with a hybrid basket of global distributor and tobacco stocks, we use a blended forward EV/revenue multiple near 3.0 (this assumes a multiple of 0.6 for distributors, weighted at 33%, and a multiple of 4.3 for tobacco stocks, weighted at 67%). Applying this blended multiple to our fiscal 2022 revenue estimate of \$460 million, discounted back one period at 20%, and adjusting for the share count, we arrive at a fair value estimate for KAVL of \$22 per share. Our analysis assumes 51 million fully diluted shares, including approximately 25 million preferred shares.

Steve Silver

INCOME STATEMENT

Growth Analysis (\$ML)	2020	Q1 2021A	Q2 2021A	Q3 2021E	Q4 2021E	2021E	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Revenue	64.3	37.4	18.1	26.0	46.5	128.0	71.0	98.0	130.0	161.0	460.0
Gross Profit	10.1					24.9					92.0
SG&A	4.7					24.4					41.9
R&D	NA					NA					NA
Operating Income	5.4					0.4					49.7
Interest Expense	0.0					0.0					0.0
Pretax Income	5.4					0.4					49.7
Tax Rate (%)	28.0					NM					25
Net income	3.8					-0.9					37.2
Diluted Shares	43.0					24.3					28.3
EPS	0.09	0.01	-0.18	0.04	0.08	-0.05	0.21	0.29	0.36	0.44	1.30
Dividend	NA					NA					NA
Growth Rates (%)											
Revenue	NM					99					259
Operating Income	NM					NA					NA
Net Income	NM					NA					NA
EPS	NM					NA					NA
Valuation Analysis											
Price (\$): High	NA					NA					NA
Price (\$): Low	NA					NA					NA
PE: High	NA					NA					NA
PE: Low	NA					NA					NA
PS: High	NA					NA					NA
PS: Low	NA					NA					NA
Yield: High	NA					NA					NA
Yield: Low	NA					NA					NA
Financial & Risk Analysis (\$ML)											
Cash/Restricted Cash	2.1					NA					NA
Working Capital	9.2					NA					NA
Current Ratio	1.2					NA					NA
LTDebt/Equity (%)	0.0					NA					NA
Total Debt/Equity (%)	0.0					NA					NA
Ratio Analysis											
Gross Profit Margin	16%					19%					20%
Operating Margin	8%					NA					11%
Net Margin	6%					NA					8%
Return on Assets (%)	NA					NA					NA
Return on Equity (%)	NA					NA					NA
Op Inc/Int Exp	NA					NA					NA
Div Payout	NA					NA					NA

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