Week of July 18, 2016

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

Analysts' Ideas of the Week – Herbalife Settlement / Positive for MLM Companies

www.researchfrc.com

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Herbalife Settlement / Positive for MLM Companies

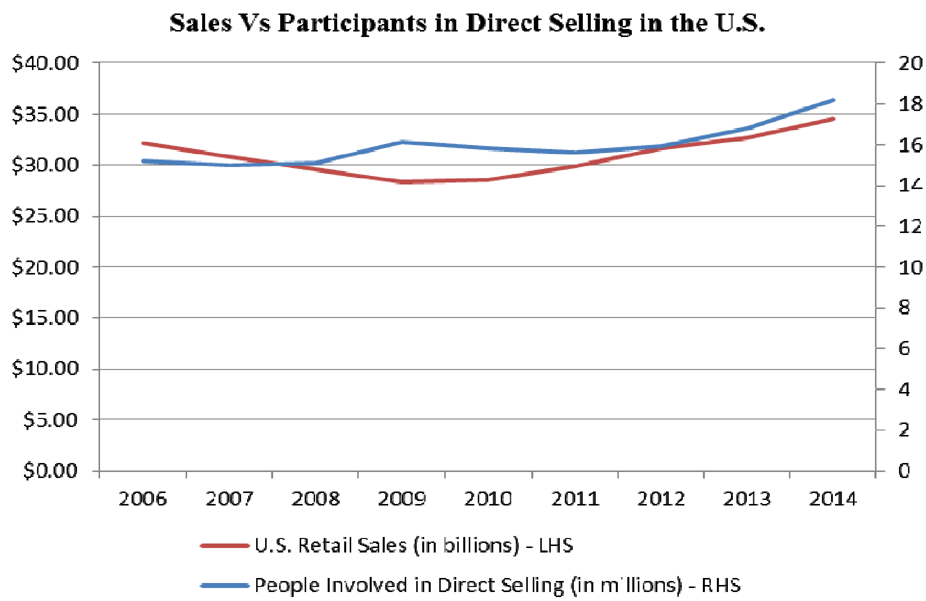
On Friday, July 15, 2016, Herbalife Ltd. (NYSE: HLF), one of the largest multi-level marketing ("MLM") companies in the world, announced that they have agreed to pay $200 million in a settlement with the U.S. Federal Trade Commission ("FTC"). **The FTC did not label Herbalife a pyramid scheme, but asked the company to modify its compensation system.** Herbalife's shares were up 22% on the news.

Herbalife's business model had attracted immense criticism, especially from hedge fund manager Bill Ackman, who called the company a pyramid scheme, and had a $1 billion short bet against Herbalife in 2012. The FTC subsequently started an investigation into Herbalife. As per the settlement announced last week, the FTC has required Herbalife's compensation / rewards to the distributors to be based on retail sales rather than recruiting new distributors. The FTC stated that they believe most of Herbalife's distributors make little income. Although Herbalife disagreed with the FTC's criticism, they decided to settle with the agency and avoid any potential litigation. Herbalife CEO, Michael Johnson, stated that, *"The settlements are an acknowledgment that our business model is sound and underscore our confidence in our ability to move forward successfully, otherwise we would not have agreed to the terms."*

MLM companies have historically been subject to criticisms and lawsuits primarily because consumers confuse them with illegal pyramid and ponzi schemes. In a pyramid scheme, new recruits are required to make a significant upfront payment in return for a share of money received from every new member they recruit. **On the other hand, legitimate MLM companies offer real products / services to consumers and members make most of their income from product sales rather than hiring new members.** Also, legitimate MLM companies typically charge a nominal fee upfront for a starter kit ($50 - $100), which includes items such as samples, catalogs, order forms and other tools that help the seller to sell.

Most people choose to get involved in direct selling due to its potential to provide additional income with flexible work schedules. Another key reason is that they can buy exclusive products and services at a discount from the parent company. Direct selling is also a very low risk business as it does not involve any significant capital investment. **According to the** Direct Selling Association (**DSA), approximately 14.9% of the households in the U.S. had someone involved in direct selling in 2014 (versus 13.8% in 2013).**

In the U.S., direct selling accounted for US$34.5 billion in sales from 18.2 million sellers (across 1,400 companies) in 2014. Canada accounted for US$1.83 billion from 779,688 direct sellers in the same year. The following chart shows the growth in sales and the number of direct sellers since 2006 in the U.S.

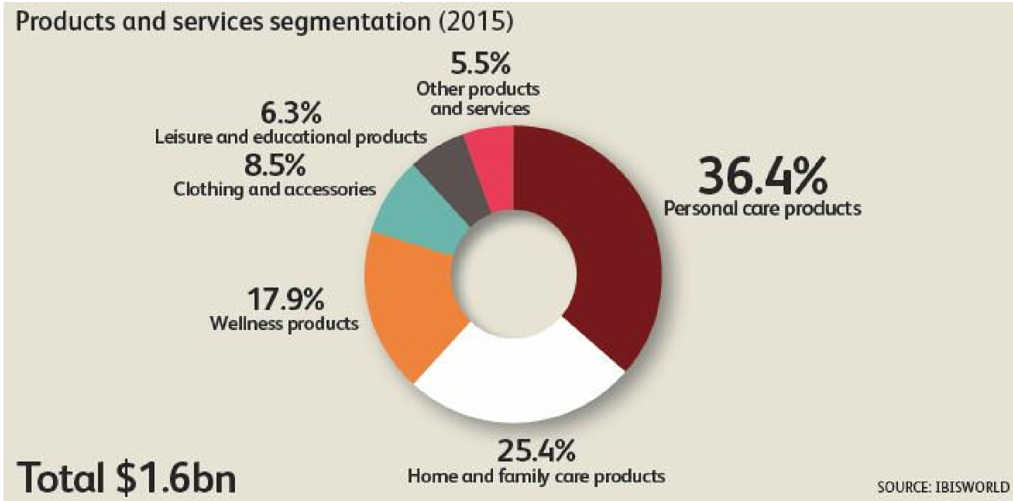


Source: DSA

Laguna Blends Inc. (CSE: LAG) is an up and coming network marketing company. Its first two products were functional beverage products containing hemp and other efficacious ingredients. The first product, named Caffe, launched in March 2016, is an instant coffee beverage that is infused with whey protein, hemp protein, and natural flavors. The second product, Pro369, is a Health Canada approved plant based hemp protein that can be directly mixed in water, milk, shake or smoothie.

As a network marketing company, the company's products are sold through independent affiliates. The company launched sales on March 7, 2016, with 135 affiliates in the US and Canada. As of April 4, 2016, the count increased to over 700, of which, approximately 70% are in the U.S. and 30% in Canada. **On June 14, 2016, the company announced that they generated unaudited sales of $105,000 for the 11-week period from March 7 to May 31.** We believe it is a very promising sign that the company has been able to expand its network of affiliates at a rapid pace in a short time period.

On July 7, 2016, the company announced it signed a non-binding letter of intent with Cannaceuticals of California, USA ("Canna"). As per the agreement, Laguna and Canna plan to enter into a definitive Manufacturing and Exclusive License Agreement for the purpose of pursuing opportunities in the Cannabidiol (CBD) skin care industry. According to Laguna, Canna's CBD7 anti-aging skincare products incorporate CBD which is known as a superior antioxidant and potential anti-inflammatory. In a press release dated July 13, 2016, the company announced that clinical trials conducted by a third party FDA approved lab indicated a 100% overall improvement of skin appearance within a two-week period. **We see this is a very positive development as it diversifies and expands Laguna's product portfolio into the skin care category.** In Canada, personal care products is the largest segment in the direct sales category.



Laguna's shares are up 150% since we initiated coverage on May 5, 2016 (from $0.12 to $0.30). We had a BUY rating, with a fair value estimate of $0.45 per share (Risk 4: Speculative). We will be publishing a detailed update report when the company releases its audited results shortly.

Disclaimers and Disclosure
The opinions expressed in this report are the true opinions of the analyst(s) about any companies and industries mentioned. Any “forward looking statements” are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. Companies mentioned in this report may be covered by FRC under an issuer paid model or be candidates for coverage. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC’s research is ranked by Investars. Full rankings and are available at www.investars.com.

To subscribe for real-time access to research, visit http://www.researchfrc.com for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company, industry, and/or stock’s performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report.
.
Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE’S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.