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Our Macro Views Post 11/5

Cannabis Sector Equity Research



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High Level Macro Views

We explain here how we are positioning our views and stock picks post 11/5.

On the Regulatory Front with DJT Part II Looming

Our main take-away: Valuations for the top MSOs are attractive (sure, easy to say after 11/5) and we believe the well-managed large MSOs are here to stay and should be able to adapt to various regulatory changes in the future (which, yes, could run the gamut).

- Stocks are pretty much saying nothing will happen, so therein lies the investment opportunity (limited downside vs. significant upside, sure, not factoring opportunity cost).
- With DJT2, for the base case we assume change will be gradual, with rescheduling to Schedule III quite likely but probably dragging on to late 2025.
- Whether this comes accompanied by SAFE Banking (could be part of parallel negotiations with the new Farm Bill) and a possible Cole Memo II from the new AG, is not entirely unfathomable, in our view, given the strength of the MSO lobby and some CEOs proximity to Team Trump. Of course, let's see.
- More radical federal changes (like decriminalization; federal legalization; a new federal rec framework a la Rep Nancy Mace's SRA with interstate trade and alcohol-like regulations) are less likely, in our view – at least taking a 2-year view – given how disruptive these changes would be.
- We say the latter regardless of what mavericks in the eventual cabinet may want, as these are outliers in the context of the GOP's historical Prohibitionist leanings and because DJT's support of cannabis (certainly evolving, apparently) may be limited to states' rights issues and not go as far as outright federal legalization.
- Such a context (gradual reform; not full federal legalization in the medium term) benefits the larger MSOs. So, taking a 2-year view, we are positive. Note: Any positive headlines with a semblance of reality will push stocks up (see the reaction to comments made by an out of the loop ex Gov Chris Christie), but here out taking about investing and not day trading.

The Context on Stock Performance

Context regarding stock performance post the presidential election and FL A3 not passing. Not all MSO stocks took big dives post 11/5, and some have recovered more than others as the cabinet of DJT2 begins to take shape (sure, a lot remains to be seen). MSO stocks with Florida exposure ran up ahead of the ballot, outperforming peers, and they are the ones that saw the biggest drops post 11/5. In fact, comparing valuations as of the close of Friday 11/15 with 11/4, Cresco and Green



Thumb are down only 6% and 9%, respectively, while Trulieve is down 45% and Verano is down 44% (Curaleaf -28%; MSOS ETF -30%); tier 2 MSO Ayr Wellness is down 68%. In other words, stocks fell not so much because of the presidential elections results, but because of A3 not passing.

Given concerns FL may get worse (which can be debated, of course), the FL plays may suffer from a lingering overhang, which may also be the case for the MSOS ETF (given it must own the FL plays, and with AYR still an overweight position). So, if we take Cresco and Green Thumb as barometers of the federal outlook, these stocks would be saying little will happen post the election. We understand the investor skepticism given the new administration's various priorities, uncertainty about cabinet confirmations, and the eventual tug of war between the GOP's Prohibitionist leanings vs. DJT's only recent and apparently opportunistic support for cannabis (all this in the context of opportunity cost, with other "Trump plays" being more obvious).

Still, for those that can afford a punt on the sector, taking a 2-year view, in a diversified manner, we recommend buying key names in the group.

Note: we rate Cresco and Green Thumb Overweight, and have kept the OW on Verano, although we think the latter will suffer from a FL overhang in the near term); we do not have formal coverage of Curaleaf and Trulieve.

A Few "Truisms" as We See Them

Facts that support investing in this space, in our view, but selectively,

- The legal cannabis industry in the US is on an annual run rate of \$32Bn in sales. To state the obvious, this is a real and large industry, generating jobs and tax revenue (municipal, state, and federal level), and serving real consumers' and patients' needs. Projections of sales growth will depend on the pace of state level legalization (we take the under for now, and project "only" \$39.5Bn by 2027).
- Well-managed companies, reliant mostly on license-restricted states, have been able to reinvest their abnormal profit margins to expand, by acquiring brands (MRMD's Betty's Eddies), entering adjacent segments (Green Thumb's Señorita in HDD9 drinks), expanding and strengthening their footprint (adding depth in key states; building vertical models; entering new states), putting together well-oiled wholesale models (Cresco); and in some cases even building a credible business overseas (Curaleaf).
- The longer the license restricted model of state silos (no interstate trade) remains in place (more likely with DJT2 than KH, we believe), the better for the larger players. We calculate the top 20 MSOs now account for almost half of legal sales compared with <20% back in 2018. Sure, federal illegality is a problem (limiting capital access, for starters), but on the flip side, this keeps "external" competition at bay (from the CPG and pharma industries, as well as from global cannabis companies operating in federally legal markets, whether med or rec).



- Even if the future structure of the industry is unclear - when do states become less license-restricted, like, say, Massachusetts or Michigan? will competition from hemp derivatives become a bigger problem with the new Farm Bill? could, someday, federal legalization and descheduling of rec bring a 3-tier system as in alcohol plus interstate trade? or could rescheduling of medical cannabis bring greater restrictions on prescriptions and greater FDA oversight? -, the longer the current state of affairs is in place (again, more likely with DJT2), all the better for the larger and well managed companies (they will be even more prepared and well-equipped to face that long term future).
- Sure, the industry is not without its challenges (the 280e tax burden; competition from hemp-derived products; illicit cannabis trade), and those with stretched balance sheets and limited growth prospects (FL not going rec will add pressure on some of the MSOs), may be sold at the bottom of the valuation cycle. But given quality names are attractively valued, why bother with stocks that mostly represent high-risk short-term trades.

Benchmarking the Tier 1 MSOs

Across various financial metrics, Green Thumb leads the group of the five largest MSOs. In that sense, the valuation is attractive at 7x current EBITDA vs. 10x for Curaleaf. Of the three stocks trading near 5x EBITDA, on debt leverage and adjusted cash flow trends Cresco screens below Trulieve and Verano. All this said, we may be splitting hairs here, as we see these five MSOs are long term players, with sustainable models, and stock upside once we get better visibility on the regulatory outlook. We provide this analysis for context as part of this note on our macro views.

- **Sales and momentum:** As per 3Q24 results, Curaleaf reported sales of \$331Mn (-3% seq); Green Thumb \$287Mn (+2%); Trulieve \$284Mn (-6%); Verano \$227Mn (inc a full qtr of the AZ/VA deal) down 5% (ex-VA/AZ deal), and Cresco \$180Mn (-2%). Beyond seasonal and weather issues impacting AZ and FL in 3Q24, of these five companies we believe Trulieve and Verano face the toughest outlook given what we anticipate will be a more challenging FL market.
- **EBITDA margins:** Adjusted EBITDA margins in 3Q24 were 34% for Trulieve (down 100bp seq); Green Thumb 31% (-200bp); Verano 30% (-200bp), Cresco 29% (flat), and Curaleaf 23% (+200bp).
- **Adjusted cash flow:** In our view, reported operating cash flow minus the increase in tax debt (as not paying income taxes is distorting reported cash flow metrics) gives a better sense of real adjusted cash flow, and of what we call true EBITDA to OCF conversion. On this metric, Green Thumb leads, and Cresco and Curaleaf lag. Cresco reported 9mo OCF of \$89Mn (27% of sales) but total tax debt (ST and LT) increased by \$92Mn between YE23 and 3Q24, so adjusted 9mo OCF was -\$3Mn (-1% of 9mo sales). At Curaleaf, adj OCF was +\$4Mn (\$116Mn-\$112Mn), or 0% of sales. At Trulieve, adj OCF was +\$37Mn (\$241Mn-\$204Mn), or 4% of sales. At Verano, adj OCF was +\$30Mn (\$69Mn-\$39Mn), or 5% of sales. At Green Thumb, adj OCF was +\$139Mn (\$152Mn-\$13Mn), or 17% of sales.



- **Financial net debt plus tax liabilities relative to total revenues:** Financial net debt relative to LTM sales is 7% at Green Thumb, 14% at Trulieve, 40% at Verano, 50% at Curaleaf, and 53% at Cresco. ST tax payables plus LT uncertain tax provisions/benefits compared to LTM sales are 33% at Trulieve and 32% at Verano; 27% at Cresco and 29% at Curaleaf; 2% at Green Thumb. So, if add up the two (financial net debt and tax debt), the most levered tier 1 MSOs are Cresco at 80% of sales, Curaleaf 79%, and Verano at 72%; Trulieve is at 47%, and Green Thumb at 9%.
- **Gross cash holdings:** Trulieve \$318Mn; Green Thumb \$174Mn; Cresco \$157Mn; Curaleaf \$90Mn; and Verano \$65Mn.
- **Regarding valuation** (taking net debt, tax debt, net leases, and contingent obligations in the EV math): In terms of EV to current sales (3Q annualized), Green Thumb and Curaleaf trade at 2.2x; Trulieve at 1.8x; and both Cresco and Verano are at 1.6x. Regarding EV to current EBITDA, Curaleaf is at 10x, Green Thumb at 7x, and the other three at >5x (Cresco 5.5x, Trulieve 5.3x, Verano 5.2x).

Table 1: Stocks mentioned in this report

Company name	Ticker	Ticker	Rating
US MSOs			
4Front Ventures		FFNTF	Not rated
Acreage Holdings		ACRDF	will cover
Ascend Wellness		AAWH	Not rated
AYR Wellness		AYRWF	Not rated
Cannabist		CCHWF	Not rated
Cansortium		CNTMF	will cover
Cresco Labs		CRLBF	Overweight
Curaleaf Holdings		CURLF	will cover
GlassHouse Brands		GLASF	Not rated
Gold Flora		GRAM	Overweight
Goodness Growth		GDNSF	Not rated
Green Thumb Industries		GTBIF	Overweight
Grown Rogue		GRUSF	Not rated
Jushi Holdings		JUSHF	Overweight
MariMed		MRMD	Overweight
Planet 13 Holdings		PLNHF	Overweight
Schwazze		SHWZ	Not rated
StateHouse Holdings Inc		STHZF	Neutral
TerrAscend		TSNDF	Not rated
TILT Holdings		TLLTF	Neutral
Trulieve Cannabis		TCNNF	will cover
Verano Holdings		VRNOF	Overweight
Vext Science, Inc.		VEXTF	Overweight
Tech			
Leafly		LFLY	Not rated
Springbig		SBIG	Not rated
WM Technology		MAPS	Neutral
Canada LPs			
Aurora Cannabis		ACB	Neutral
Auxly Cannabis Group		CBWTF	not rated
Avant Brands		AVTBF	not rated
Avicanna		AVCN	will cover
BZAM		BZAMF	not rated
Cannara Biotech		LOVFF	not rated
Canopy Growth Corporation		CGC	will cover
Cronos Group		CRON	not rated
Decibel Cannabis Co		DBCCF	Overweight
Organigram Holdings		OGI	will cover
Rubicon Organics		ROMJF	not rated
SNDL		SNDL	not rated
Tilray Brands		TLRY	Neutral
Village Farms Intl		VFF	Overweight
Finance Companies			
AFC Gamma		AFCG	Overweight
Chicago Atlantic REFC		REFI	Overweight
Innovative Industrial Properties		IIPR	will cover
New Lake Capital Partners		NLCP	Overweight
RIV Capital		CNPOF	not rated
SHF Holdings		SHFS	not rated
Silver Spike Inv Corp		SSIC	will cover
Other			
Intercure		INCR	Overweight
LFTD Partners Inc.		LIFD	Overweight
Ispire Technology		ISPR	will cover
Smooore International		SMORF	will cover

Source: Z&A ratings



Appendix I: Valuation Comps

Exhibit 1: Valuation Comps – MSOs

US\$m	Z&A Spot EV / Sales			Z&A Spot EV / EBITDA			Financial Net Debt				Broadly Defined Net Debt				
							Sales		EBITDA		Sales		EBITDA		
	18-Nov-24	Current	CY24e	CY25e	Current	CY24e	CY25e	CY24	Current	CY24	Current	CY24	Current	CY24	Current
US MSOs	1.7x	1.6x	1.3x	8.4x	9.6x	10.8x									
Acreage Holdings	2.1x	1.3x	na	136.3x	6.7x	na	-1.0x	-1.6x	-5.1x	-104.8x	-1.2x	-2.0x	-6.3x	-129.2x	
Ascend Wellness	1.1x	1.1x	1.1x	6.1x	5.6x	5.0x	-0.4x	-0.4x	-2.2x	-2.4x	-0.9x	-0.9x	-4.6x	-5.1x	
Ayr Wellness	0.9x	0.9x	0.9x	3.5x	3.9x	3.5x	-0.8x	-0.8x	-3.3x	-3.0x	-0.7x	-0.7x	-2.9x	-2.6x	
Cannabist Co	0.9x	0.9x	0.9x	7.3x	7.1x	5.4x	-0.6x	-0.6x	-4.4x	-4.5x	-0.8x	-0.8x	-6.2x	-6.4x	
Consortium	1.1x	na	na	4.0x	na	na	na	na	na	na	na	na	na	na	
Cresco Labs	1.5x	1.5x	1.5x	5.4x	5.4x	5.5x	-0.5x	-0.5x	-1.8x	-1.8x	-0.7x	-0.7x	-2.3x	-2.3x	
Curaleaf	2.2x	2.2x	2.0x	9.8x	9.8x	8.1x	-0.5x	-0.5x	-2.3x	-2.3x	-0.9x	-0.9x	-3.8x	-3.8x	
4Front Ventures	2.1x	na	na	7.7x	na	na	na	-1.0x	na	-3.8x	na	-1.7x	na	-6.5x	
Glass House	3.2x	4.1x	na	9.9x	22.8x	na	-0.1x	na	-0.7x	na	-0.3x	-0.2x	-1.7x	-0.8x	
Gold Flora	1.0x	1.0x	0.8x	12.1x	29.5x	7.6x	na	-0.3x	na	na	na	-0.9x	na	na	
Goodness Growth	1.9x	1.9x	na	-109.5x	7.8x	na	-0.5x	-0.5x	-2.1x	29.1x	-0.9x	-0.9x	-3.7x	51.1x	
Green Thumb	2.2x	2.2x	2.1x	7.0x	6.9x	6.9x	-0.1x	-0.1x	-0.2x	-0.2x	-0.1x	-0.1x	-0.4x	-0.4x	
Grown Rogue	3.8x	na	na	5.0x	na	na	na	na	na	na	na	na	na	na	
iAnthus	1.1x	na	na	5.7x	na	na	na	-0.9x	na	-4.4x	na	-0.9x	na	-4.5x	
Jushi	1.6x	1.5x	1.4x	9.5x	7.5x	6.4x	-0.6x	-0.7x	-3.1x	-4.0x	-1.2x	-1.2x	-5.8x	-7.4x	
MariMed	1.0x	1.0x	0.8x	8.7x	8.1x	4.8x	-0.4x	-0.4x	-3.3x	-3.5x	-0.5x	-0.5x	-4.2x	-4.5x	
Planet 13	1.3x	1.3x	1.0x	31.6x	17.4x	6.0x	0.2x	0.1x	2.0x	3.7x	-0.1x	-0.1x	-0.8x	-1.5x	
Schwazze	1.2x	1.2x	na	8.6x	5.6x	na	-0.9x	-0.9x	-4.1x	na	-1.1x	-1.1x	-5.1x	na	
StateHouse	1.9x	na	na	19.7x	na	na	na	-1.1x	na	-11.2x	na	-1.8x	na	-18.9x	
TerrAscend	2.1x	2.1x	2.0x	11.5x	10.5x	9.5x	-0.6x	-0.6x	-2.9x	-3.1x	-1.0x	-1.0x	-5.2x	-5.7x	
TILT	1.0x	0.9x	0.7x	-17.7x	na	73.3x	-0.5x	-0.6x	15.1x	9.9x	-0.9x	-1.0x	26.3x	17.3x	
Trulieve	1.8x	1.7x	1.6x	5.2x	5.0x	5.0x	-0.3x	-0.3x	-0.7x	-0.8x	-0.6x	-0.6x	-1.8x	-1.8x	
Verano	1.5x	1.4x	1.4x	4.9x	4.8x	4.4x	-0.4x	-0.4x	-1.3x	-1.4x	-0.7x	-0.8x	-2.4x	-2.5x	
Vext	1.8x	1.8x	na	10.3x	9.1x	na	-0.9x	-0.9x	-4.3x	-4.9x	-0.9x	-0.9x	-4.3x	-4.9x	

1) We take FactSet consensus estimates for CY24e and CY25e multiples

2) By "current", we mean the latest reported qtr annualized

Source: FactSet and company reports

Exhibit 2: Spot EV calculation - MSOs

US\$m	FactSet	Z&A	US\$	mn	mn	Total	Financial	Net	Income	Conting	ITM deriv	Total	Pref Stock
18-Nov-24	Spot EV	Spot EV	price	shares	deriv	Mkt Cap	net debt	leases	tax liab.	Cons.	inflow	BDND	Min Int
US MSOs													
Acreage Holdings	244	339	0.14	125.0	1.0	18	-261	-3	-58			-322	
Ascend Wellness	597	618	0.47	214.5	13.3	106	-241	-134	-137			-512	
Ayr Wellness	634	423	0.77	114.0	31.1	112	-359	4	-11	0	55	-311	
Cannabist Co	558	434	0.11	472.7	8.2	54	-269	-26	-86			-380	
Cansortium	140	123	0.09	304.9	5.6	27	-59	-9	-29			-97	
Cresco Labs	1,020	1,100	1.39	441.0	8.9	625	-365	-56	-43	-10		-474	
Curaleaf	2,427	2,948	2.22	743.8	11.2	1,676	-678	-24	-389	-56		-1,146	126
4Front Ventures	242	160	0.03	915.2	3.8	26	-79	-8	-40	-6	0	-134	
Glass House	536	806	7.96	81.0	3.5	673	-25	0	-4	-32		-61	72
Gold Flora	130	135	0.04	287.7	0.1	12	-40	-34	-44	-4		-123	
Goodness Growth	113	191	0.43	230.3	4.1	102	-51	-10	-29			-89	
Green Thumb	2,426	2,492	9.61	236.2	9.3	2,359	-82	-28	-23	0	0	-133	
Grown Rogue	75	100	0.71	143.5		101	5	-2	-2			1	
iAnthus	41	203	0.01	6,615.3		42	-156	-6				-162	
Jushi	357	392	0.45	196.7	0.0	88	-165	-1	-139			-305	
MariMed	144	164	0.16	381.0	5.0	61	-66	-1	-17			-83	19
Planet 13	117	164	0.48	325.2	0.3	156	19	-7	-16	-5		-8	
Schwazze	190	205	0.24	80.2		19	-151	-2	-33	0		-186	
StateHouse	144	200	0.02	256.4	138.6	6	-114	-10	-54	-22	7	-192	2
TerrAscend	486	631	0.89	355.8	3.1	321	-172	-5	-128	-4		-310	
TILT	109	111	0.01	390.6	4.4	3	-62	-44	-2			-108	
Trulieve	1,309	1,997	6.80	186.0	3.3	1,287	-300	-21	-384	-5		-710	
Verano	956	1,276	1.71	356.9	8.6	625	-355	-6	-285	-4		-651	
Vext	49	67	0.14	245.5	3.4	35	-32	0				-32	

Source: FactSet and company reports

Exhibit 3: Stock Performance

17-Nov-24	Stock Performance		
Ticker	Last 30d	Last 90d	Last 12mo
US MSOs			
Ascend	-29%	-48%	-49%
Ayr	-53%	-53%	-55%
Cannabist	-38%	-57%	-73%
Cansortium	-41%	-30%	-9%
Cresco	-10%	-25%	-10%
Curaleaf	-25%	-29%	-32%
4Front	-31%	-46%	-83%
GlassHouse	-7%	-17%	74%
Gold Flora	-42%	-52%	-58%
Vireo Growth	17%	-29%	151%
Grown Rogue	-4%	5%	134%
Green Thumb	-6%	-10%	-6%
iAnthus	-38%	-55%	-69%
Jushi	-20%	-38%	-53%
MariMed	10%	-39%	-46%
Planet13	-7%	-17%	-40%
Schwazze	-50%	-45%	-80%
StateHouse	MN/A	-50%	-17%
Trulieve	-40%	-29%	26%
TerrAscend	-24%	-46%	-50%
Vext	-11%	-26%	-44%
Verano	-40%	-54%	-58%

	Stock Performance		
Ticker	Last 30d	Last 90d	Last 12mo
Canadian LPs			
Aurora	-17%	-34%	-4%
Avant	-36%	-55%	-86%
Auxly	4%	-9%	108%
Cannara	6%	-1%	-32%
Canopy	-2%	-42%	-27%
Cronos	-2%	-8%	8%
Decibel	51%	83%	-50%
Entourage	-34%	-26%	-51%
High Tide	17%	41%	113%
Nova	2%	2%	116%
OGI	-8%	-17%	36%
Rubicon	-18%	-25%	-37%
SNDL	-2%	-9%	23%
Tilray	-12%	-25%	-14%
VFF	-14%	-21%	22%
CBD			
CVSI	1%	-14%	49%
CWEB	10%	-2%	-36%
LFID	-27%	-27%	-68%
International			
InterCure	-28%	-14%	49%
PharmaCielo	-43%	46%	156%

	Stock Performance		
Ticker	Last 30d	Last 90d	Last 12mo
MJ Fincos			
AFCG	-5%	-7%	-12%
CNPOF	-39%	-19%	-1%
IIPR	-21%	-12%	39%
NLCP	-12%	-17%	32%
SHFS	-26%	-43%	-46%
LIEN	0%	10%	38%
REFI	0%	2%	3%
Tech			
LFLY	-18%	-20%	-74%
SBIG	1%	-19%	-54%
MAPS	0%	-17%	-15%
Vape parts			
GNLN	-49%	-88%	-62%
ISPR	-10%	-18%	-44%
SMORF	2%	2%	49%
TLLTF	-43%	-61%	-82%
Index			
S&P 500	3%	10%	36%
S&P 477	-1%	2%	19%
Nasdaq	12%	15%	53%
MSOS ETF	-24%	-30%	-24%
YOLO ETF	-11%	-16%	-1%

Source: FactSet



Appendix II: Bio and Disclaimers



Analyst Bio

Pablo Zuanic is a well-known and highly rated equity analyst following the broader cannabinoids (THC cannabis, hemp derivatives, CBD) and consumer sectors. Over the past six years he has launched coverage of over 40 companies in the US, Canada, and overseas; plant-touching as well as service providers (tech; finance); and has also worked with several private companies. He follows closely the reform process in the US, Canada, Germany, Australia, and elsewhere, and relies on a fundamental and data-driven approach to keep track of sectoral trends. His firm Zuanic & Associates publishes equity research, both from a macro/sectoral level in a thematic manner, as well as on listed stocks. The research service is aimed at institutional investors, corporations, and regulators. The firm is also available for short-term consulting and research advisory projects. Approaching the third year since its inception, the firm has collaborated with over 25 companies (in North America and overseas; plant touching and service providers; public and private), both on an on-going basis as well for specific projects. At various points in his career, Pablo Zuanic was ranked in the Institutional Investor magazine surveys and was called as expert witness in industry investigations. He has a deep global background having covered stocks over the past 20 years in the US, Europe, Latin America, and Asia, across consumer sub sectors. Prior employers include JP Morgan, Barings, and Cantor Fitzgerald. An MBA graduate of Harvard Business School, he started his career as a management consultant, which brings a strategic mindset to his approach to equity research. *He can be contacted via the company's portal www.zuanicassociates.com; via email at pablo.zuanic@zuanicgroup.com; or via X @420Odysseus.*



Disclosures and Disclaimers

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