



12/18/2023

# Decibel Cannabis Co. (DB-CA)

Initiation of coverage: Overweight

## Key Highlights:

- #1 player in pre-rolls and vape (Canada's two fastest growth categories)
- Near 50% share in infused pre-rolls (70% of sales)
- Cash flow positive, with projected negative EV given OCF pace and easing capex
- Impressive export expansion plans; significant ramp expected in 2024
- Compelling value at 0.8x sales, on a spot EV basis

C\$Mn					
Sales	FY22	FY23	FY24	FY25	
1Q	16.7	27.1	31.2	38.0	E
2Q	18.6	30.9	34.1	40.9	E
3Q	18.3	30.2	37.5	44.3	E
4Q	25.8	30.8	37.3	43.3	E
FY	79.3	119.0	140.1	166.5	E
EBITDA	FY22	FY23	FY24	FY25	
1Q	2.5	6.8	6.7	9.9	E
2Q	3.2	7.3	7.9	10.6	E
3Q	4.3	6.7	9.0	11.4	E
4Q	7.1	6.3	9.3	11.1	E
FY	17.0	27.1	32.9	43.0	E

Share price (C\$)	\$0.13	<b>Rating</b>	<b>Overweight</b>
Share count (mn)	409.0	Price target	No PT
Market Cap (C\$Mn)	54	Fiscal Year	Dec
Ticker	DB-CA		

FCF	FY22	FY23	FY24	FY25	
1Q	1.7	1.8	5.4	12.8	E
2Q	0.9	0.5	4.6	7.7	E
3Q	2.3	1.9	5.4	8.2	E
4Q	0.0	4.8	8.7	11.2	E
FY	5.0	9.0	24.0	39.9	E
Net Debt	FY22	FY23	FY24	FY25	
1Q	-42.5	-39.2	-26.5	4.9	E
2Q	-41.8	-39.1	-21.9	12.7	E
3Q	-39.9	-42.0	-16.5	20.9	E
4Q	-40.8	-31.9	-7.8	32.1	E

Performance	DECIBEL	MSOS	S&P500
30d	-15%	-5%	7%
90d	-23%	-28%	5%
1yr	49%	-28%	17%

**Pablo Zuanic**

ZUANIC & ASSOCIATES

pablo.zuanic@zuanicgroup.com

420Odysseus; www.zuanicassociates.com



## Investment Summary

***We initiate coverage of Decibel Cannabis Co (TSX Ventures: DB) with an Overweight rating.***

### **Building a sustainable and formidable franchise in pre-rolls and vape in the Canadian rec market.**

Decibel is the #1 player in the two fastest growing categories in the Canadian market. It has overall 16% share in pre-rolls (near 50% in infused) and shares the #1 position in vape with Motif Labs with 13% share (excluding Motif's co-pack brands). Importantly, the pre-roll and vape categories are driving Canada's rec market growth (these two categories accounted for 70% and 27% of Decibel's 3Q23 sales, as per Hifyre, respectively). In 3Q23, both categories grew 23% and 24%, yoy, respectively, while flower only grew 5% (the overall market was up 15% yoy). Our read is that younger partakers are opting for convenience (ready-to-consumer formats). Pre-rolls are already 32% of the market in Canada (flower 37%) and are the #1 category in BC (39% vs. 26% for flower) and in AB (36% vs. 28% for flower). We see both, pre-rolls and vape, with runway for growth (in a context of the entire Canadian rec market growing low/mid-teens). Vape is 15% of total rec sales in Canada vs. 26% in California and infused pre-rolls (>90% of Decibel pre-roll sales) are 35% vs. as much as 60% in the more matured US markets. *Note: all \$ figures are C\$ unless noted otherwise.*

**Impressive gains in infused pre-rolls, with competition making little headway so far.** Decibel dominates the infused pre-roll segment, with 70% subsegment share in BC, 57% in ON, and 52% in AB, according to Hifyre. It should be noted that Decibel, while being profitable, maintaining an innovation edge, and selling more value-added products (infused), can afford to sell its pre-rolls below average market prices (C\$4.02 per gram vs. the category average of C\$5.65) thanks to the benefits of automation (including the application of kief coating, which has helped boost pre-roll margins too) and expertise garnered in recent years. To put this in context, Jeeter prices (#1 in CA pre-rolls, with 18% share) are US\$12.62/gram (C\$17) and the CA category average price for pre-rolls is US\$8.54 (C\$11.50). Decibel continues to innovate in pre-rolls, regarding pack sizes, crushed formats, and brands. While General Admission (mainstream) still accounts for 95% of total sales, Vox Pops was recently launched in value (3% of sales), and Qwest and Qwest Reserve play in premium. How strong is the Decibel franchise? Some years ago, a CEO from HEXO boasted growers from California (?) were coming to Quebec to learn from HEXO (we were never able to confirm this...). In the case of Decibel, they are indeed coming from Michigan and California.

**Ambitious strategy in vape.** The company believes in the growth tailwinds of the ready to consume segment, with specially the younger demographic opting for convenience vs. rolling their own joints (this, benefits both, pre-rolls and vape). So, vape fits the Decibel strategy, and the company is already #1 in this segment, together with Motif Labs (which has made a niche in larger formats). In vape, we expect Decibel to gain share by targeting segments where it under indexes at present (all in ones, and especially large 1.2-2.0ml formats), and by pioneering a close loop system (a la STIIIZY) with its recently launched Blinker. In other words, the company will diversify away from 510s (510 cartridges accounted for 86% of Decibel's pre-roll sales in 3Q23, disposables for 13%, and PAX Era pods for 1%). Regarding sizes, 58% of sales came from 0.95ml packs and 31% from 1ml (the rest was 0.30ml and 0.45ml), but the company plans to enter the 1.2-2.0ml segments (dominated by Motif) in 1Q24. At the category level, vape has room to grow. Yes, like in the case



of pre-rolls, vape also over indexes in AB (20% of the market vs. 15% nationally) and BC (18%), but vape is less developed than in the US. For example, vape is 15% of total sales in Canada vs. 26% in CA; all-in-ones are still in the low-teens vs. mid/high 20s in the US, and close-loop has not taken hold yet in Canada (Decibel estimates close-loops are now close to 40% of the market in California).

**A self-funded venture.** Since 1Q22, Decibel has posted seven quarters in a row of positive free cash flow (after negative FCF of \$20Mn in CY21 and \$8.5Mn in CY20). Gross margins climbed from the mid 20s in late CY21 to the mid 40s more recently (and management sees them at 50% by end of 2024). Recent investments in automation, expansion, and scale gains, should all help margins, combined with \$10Mn targeted in cost savings. EBITDA margins have gone from the low teens to mid 20s now (exceptional for a Canadian cannabis company), and the outlook is for mid-20s. What happened? Well, we think there was some trial and error, but most importantly, the company developed deep know-how in infused pre-rolls, and began to better adapt its game plan in vape. The Decibel product mix evolved significantly. Back in 1Q21, the company mix was 47% vape, 21% flower, 19% concentrates, and only 13% pre-rolls. In 3Q23, pre-rolls (>90% infused) accounted for 70% of Decibel sales and vape for 27% (as per Hifyre). Also, management argues that companies like Decibel (let's call them 2.0 LPs), with limited resources vs. the 1.0 LP generation, had to be inventive and creative to survive, and this is a uniquely achieved know-how for those that have risen to the top now. Most of the recent capacity expansion has already been funded, and capex for 2024 should be minimal. Cash holdings are small (>\$3Mn), but with free cash flow this should grow. Net debt of \$42Mn as of Sep 2023 was only 0.3x annualized net sales (>1x EBITDA).

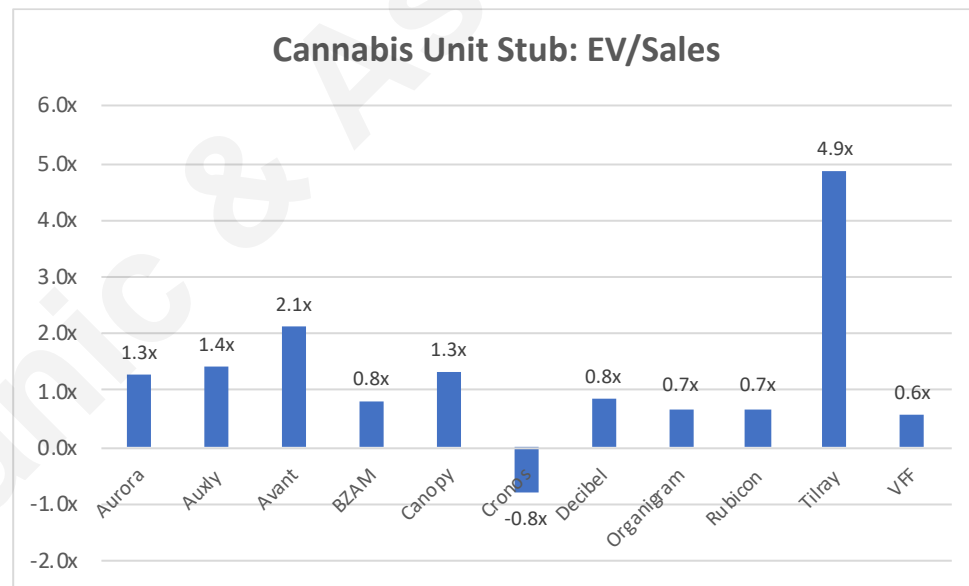
**International outlook.** The company only recently started to venture overseas (flower from its own Canadian craft growth facility), with sales to Israel (\$2Mn on a normalized basis in 3Q23). The company plans to start shipping to the UK and Australia, and it is working on other markets too. The focus for now is on premium flower (under the Qwest brand; Decibel does not do white label), management thinks overtime it can also start exporting pre-rolls and vape. To penetrate overseas markets, we understand the export gross margins will be in the 35% range compared with ~50% for the domestic branded business. We estimate by end of 2024, the company could be at a run rate of \$4-5Mn per qtr in exports, which would place it among Canada's largest exporters. *Note: The long-term outlook of 50% consolidated gross margins is 35% for exports, low 30s for the company's own retail stores, and low-mid 50s for the domestic branded business.*

**Valuation and how to think about the upside.** Decibel trades at 0.8x EV/sales, below most direct LP peers (ex OGI 0.7x and VFF 0.6x). On an apples-to-apples basis (i.e., comparing the valuation of the LPs' cannabis stubs), we see TLRY trades at 4.9x (ACB 1.3x, CGC 1.3x, Auxly 1.4x). Listed in the TSX Ventures and much less liquid (159k shares traded per day vs. 788k for VFF, 23mn for TLRY, and 44mn for CGC), we think the Decibel stock is somewhat below investors' radar. But therein lies the opportunity. We are talking about a company with leadership in pre-rolls and vape in Canada rec, rapidly building an export business, with aspirations to grow in the US, and some of the best financial metrics in the LP group (50% gross margins, 25% EBITDA margins, FCF positive, and with net cash potentially ramping to C\$40Mn by FY25 vs. net debt of \$45Mn now). In other words, the forward EV/Sales by FY25 is 0.2x. We do not assign price targets, but upside could be significant (we do not see the company as one of those being acquired here at the bottom).



**Bull case vs. bear case thesis.** Combined, the domestic and international franchise could be worth \$1Bn (8x current levels). We project Canadian rec market sales of C\$7.5Bn at retail by 2027. We think Decibel can sustainably maintain an 12-14% share over time (over indexing in pre-rolls and vape, which themselves are growing faster than the market). If we take a 0.4x wholesale deflator, 25% EBITDA margins, and a 20x EBITDA multiple (given growth pace and franchise strength), then the rec piece could be worth C\$1.95Bn. For Canadian LPs, we tend to value the export business at 5-10x sales (10x for the ones with more established presence overseas). If we take 5-10x on our projected 2025 exports of \$10Mn, this values the export piece at C\$100Mn taking the higher end of our range. What is the bear case on Decibel? That other companies succeed in penetrating the infused pre-roll space, take share, and bring margins down. For example, Jeeter is partnering with BZAM/Final Bell in Canada. But given Decibel's lower prices and the peer group's mostly failed (or half-hearted) attempts so far, we assign low probability to this risk. Vape could be a different story, given rapidly changing technologies, and shifts in preferences (AIOs, larger formats), so we see higher financial risks in this part of the business (27% of sales vs. 70% for pre-rolls). Still, we are constructive on the company's recent innovation in the vape segment. On the regulatory side of things, we do not expect changes on pre-roll and vape potency, and or other new restrictions.

**Table 1: EV/Sales Comps**



Source: Company reports, FactSet, Z&A estimates. Note: we exclude SNDL due to various moving parts.

**Table 2: Value of Cannabis Stub as per our Calculations (taking spot EV)**

C\$Mn	Aurora	Auxly	Avant	BZAM	Canopy	Cronos	Decibel	OGI	Rubicon	Tilray	VFF
Total EV	328	162	55	69	1,027	-102	101	97	27	2,221	168
MJ EV	283	162	55	69	254	-102	101	97	27	1,824	87
MJ Sales <i>curr</i>	223	113	26	84	192	133	121	141	40	376	155
MJ multiple	1.3x	1.4x	2.1x	0.8x	1.3x	-0.8x	0.8x	0.7x	0.7x	4.9x	0.6x

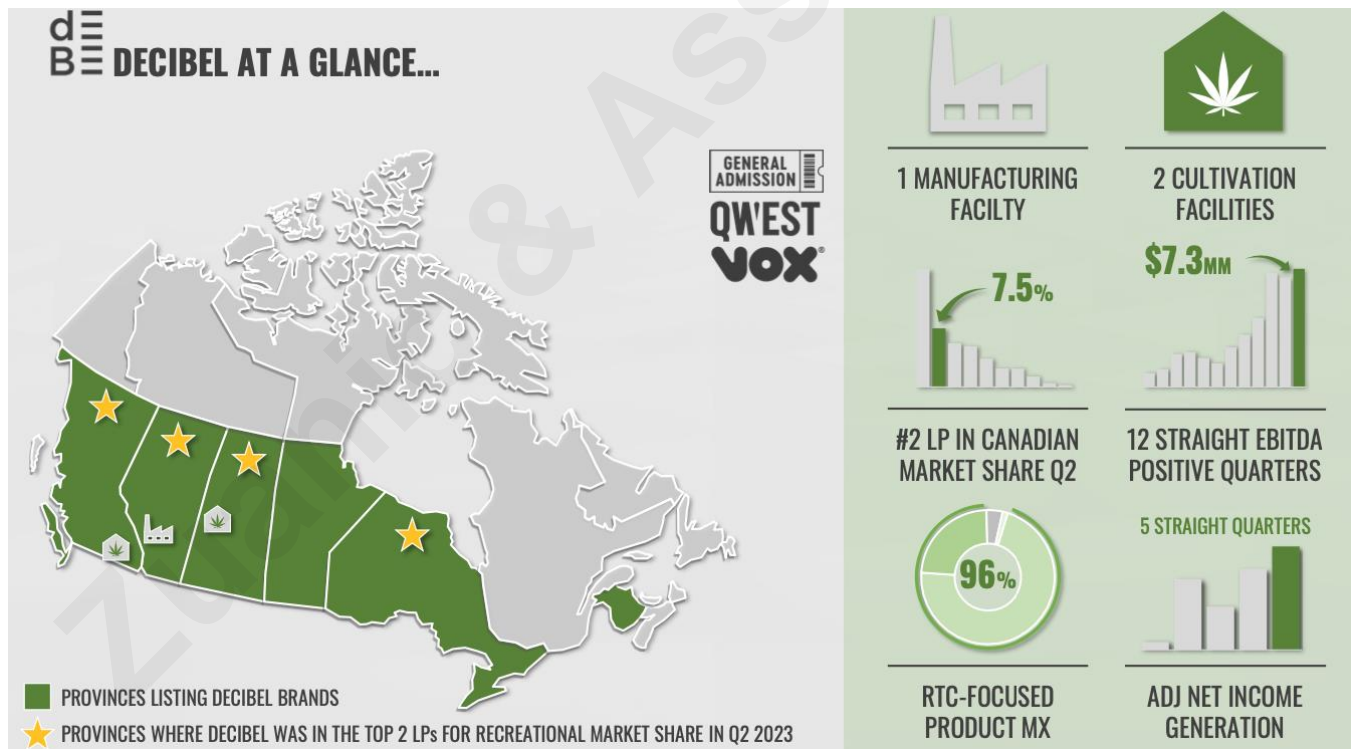
Source: company reports, FactSet, Z&A estimates



## The Decibel Portfolio

Decibel is the #1 player in the two fastest growing categories in the Canadian market. It has overall 16% share in pre-rolls (near 50% in infused) and shares the #1 position in vape with Motif Labs with 13% share (excluding Motif’s co-pack brands). These categories accounted for 70% and 27% of company sales in 3Q23, respectively, as per Hifyre. Importantly, the pre-roll and vape categories are driving Canada’s rec market growth. In 3Q23, both categories grew 23% and 24%, yoy, respectively, while flower only grew 5% (the overall market was up 15% yoy). Our read is that younger partakers are opting for convenience (ready-to-consumer formats). Pre-rolls are already 32% of the market in Canada (flower 37%) and are the #1 category in BC (39% vs. 26% for flower) and in AB (36% vs. 28% for flower). We see both, pre-rolls and vape, with runway for growth (in a context of the entire Canadian rec market growing low/mid-teens). Vape is 15% of total rec sales in Canada vs. 26% in California and infused pre-rolls (>90% of Decibel pre-roll sales) are 35% vs. as much as 60% in the more matured US markets.

Table 3: Company Snapshot



Source: company reports, FactSet, Z&A estimates

According to Hifyre, the company had only 0.4% total nationwide market share in Jan 2021, but via organic growth and M&A (We Grow BC; Westleaf Labs), Decibel grew to 3.8% share by Jan 2022, and reached 7.8% share in Aug 2023 (2<sup>nd</sup> only to Tilray). Success in pre-rolls and to a lesser extent in vapes, drove the company’s growth. As per Hifyre, total company retail sales grew 143%



between 1Q22 and 3Q23, with pre-rolls up 6x in that period, cumulatively, and vape +40%. During the same period, company pre-roll share increased from 4.9% to 15.7%, while vape share remained steady near 13% (peaking above 16% in 4Q22 and 1Q23). YTD in 2023, the bulk of absolute sales growth has been driven by pre-rolls.

Table 4: The Company is Aligned With Consumer Trends

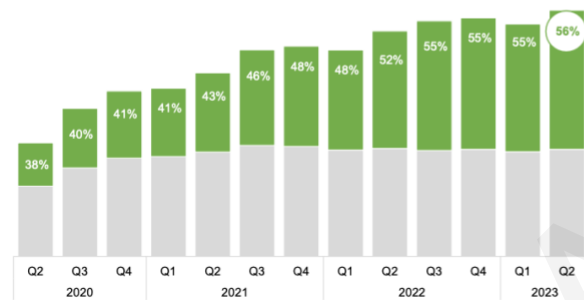
**CANADIAN READY-TO-CONSUME LANDSCAPE**

Decibel is positioned to benefit from the growing ready-to-consume cannabis market

**Ready-to-Consume Market**

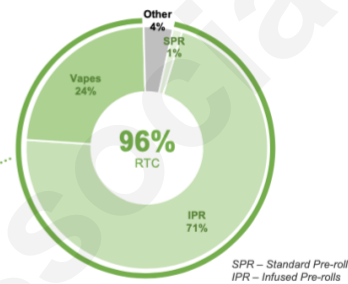
Percentage of Canadian Recreational Sales<sup>(1)</sup>

Ready-to-consume  
Other



**dB RTC Product Mix**

Percentage of Deliveries in Dollars (Q2 2023)



**#1** brand in national pre-roll sales with 14.6% market share<sup>(2)</sup>

**#1** brand in national vape sales with 15.6% market share<sup>(2)</sup>

Source: company reports, FactSet, Z&A estimates

Table 5: Decibel Overall Portfolio Trends

	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>Sales C\$000s</b>	<b>40,916</b>	<b>50,123</b>	<b>55,221</b>	<b>71,849</b>	<b>218,109</b>	<b>76,726</b>	<b>92,880</b>	<b>99,274</b>
Concentrates	3,150	2,243	1,371	964	7,728	578	215	108
Edibles	0	0	0	0	0	0	2	989
Flower	6,844	6,638	5,092	5,114	23,688	3,849	2,746	1,541
Pre-rolls	11,578	18,544	25,046	35,064	90,232	41,890	60,025	69,779
Vapes	19,343	22,697	23,712	30,708	96,461	30,408	29,891	26,856
<b>QoQ ch %</b>		<b>23%</b>	<b>10%</b>	<b>30%</b>	<b>na</b>	<b>7%</b>	<b>21%</b>	<b>7%</b>
Concentrates		-29%	-39%	-30%	na	-40%	-63%	-50%
Edibles					na			44722%
Flower								
Pre-rolls		60%	35%	40%	na	19%	43%	16%
Vapes		17%	4%	30%	na	-1%	-2%	-10%
<b>YoY ch %</b>						<b>88%</b>	<b>85%</b>	<b>80%</b>
Concentrates						-82%	-90%	-92%
Edibles								
Flower						na	na	na
Pre-rolls						262%	224%	179%
Vapes						57%	32%	13%
<b>Sales Mix</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Concentrates	8%	4%	2%	1%	4%	1%	0%	0%
Edibles	0%	0%	0%	0%	0%	0%	0%	1%
Flower	17%	13%	9%	7%	11%	5%	3%	2%
Pre-rolls	28%	37%	45%	49%	41%	55%	65%	70%
Vapes	47%	45%	43%	43%	44%	40%	32%	27%

Source: Hifyre, FactSet, Z&A calculations



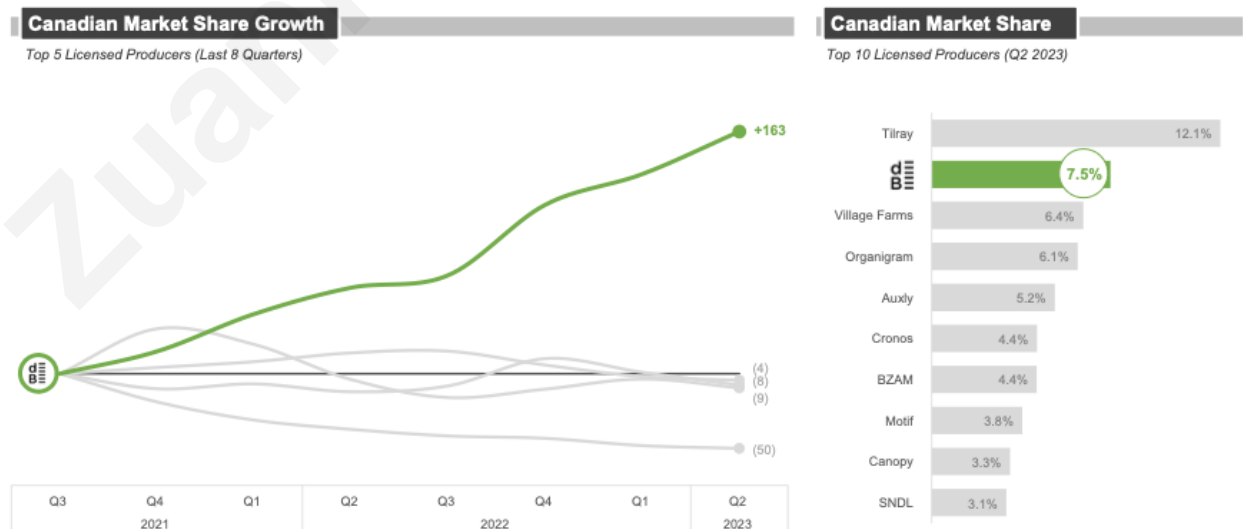
**The current Decibel portfolio.** In 3Q23, 70% of company sales came from pre-rolls and 27% from vape (flower, edibles, and concentrate accounted for the balance). The mix back in 1Q22 was quite different with vape at 47%, pre-rolls 28%, flower 17% (2% now) and concentrates 8% (0.1% now). Although the company has a total of seven brands, General Admission accounts for 95% of sales.

- Pre-rolls:** Decibel had 68 SKUs in 3Q23 (as per Hifyre), and 98% of sales came from infused varieties, and 99% from what Hifyre calls “very high THC”. Company pre-roll sales increased 179% yoy in 3Q23 (+16% seq) compared with 25% growth for the category. The company was selling four pack sizes in 3Q23, but 73% of sales came from 1.5g and 17% from 1.0g. Seven SKUs (all General Admission) accounted for 2/3 of sales, with Tiger Blood, Peach Rizz, and Taster Pack (all infused) being the top 3 strain (and 41% of sales). The average price for the Decibel portfolio was \$4.02 per gram. Regarding color at the province level, Decibel dominates the infused pre-roll segment, with 70% subsegment share in BC, 57% in ON, and 52% in AB, according to Hifyre.
- Vape.** Decibel had 39 SKUs in 3Q23 and was #2 in the segment with 13% share (Motif Labs is #1 with 21%, but that includes co-packed brands; the Motif brand Boxhot has built a niche in 1.2 and 2ml formats). While company vape sales increased 13% yoy (pre-rolls +179%) in 3Q23, they fell 10% qoq. In terms of formats, 510 cartridges accounted for 86% of sales, disposables for 14%, and PAX Era pods for 1%. Regarding sizes, 58% of sales came from 0.95ml packs and 31% from 1ml (the rest was 0.30ml and 0.45ml). Six SKUs accounted for 2/3 of sales. Re strains, Tiger Blood was Decibel’s best-selling vape SKU (24% of Decibel’s vape sales) and Peach Ringz was #2 (19%).

Table 6: Market Share Track Record (Overall)

**EXPANDING MARKET SHARE**

Decibel has sustained growth outpacing large LP peers as consumer preferences begin to dictate market leaders



Source: Hifyre Retail Analytics - Licensed Producer Sales over Time

Source: company reports, FactSet, Z&A estimates



## A Close Look at Canada's Pre-Roll Category and Decibel's Position

**Pre-rolls is the fastest growing format in Canada's market for recreational cannabis sales.** Back in late 2019, pre-rolls had 20% share of the market, and they now account for 37% of sales (Sep 2023), almost in line with flower (43%). While the overall market grew 12% yoy in 3Q23 (+5% seq), pre-rolls grew 25% yoy (+13% seq). Assortment and availability partly explain the growth. According to Hifyre, there were 1,709 pre-rolls SKUs in the Canadian rec market in 3Q23, compared with 826 back in 1Q22. Affordability has also improved over time; price per gram on average for pre-rolls was C\$5.65 in 3Q23 compared with C\$8.19 in 1Q22 (-31%). But probably the main reason is the rise of infused pre-rolls.

**Infused pre-rolls were up 9.6x between 3Q23 vs. 1Q22, as per Hifyre.** Infused pre-rolls accounted for 5% of total pre-roll sales in 1Q22 and grew to 25% of the category by 2Q23 (22% in 1Q23). In some of the more matured markets in the US, infused pre-rolls sales are >50% of the segment, so the category should have runaway for growth. Although we note growth has slowed somewhat; between 1Q23 and 3Q23, infused pre-rolls "only" increased from 22% of the segment to 25%. Still, during that six-month period, infused grew sales by 50% vs. +26% for regular-pre rolls.

- According to Hifyre, in 1Q22 Decibel had 75% share compared with 52% by 3Q23, but the category (infused) overall was 9.6x larger (and Decibel's infused sales grew 6.7x).
- The national penetration of infused at 25% (vs. >50% for matured US states), is actually understated given QC essentially does not allow infused. In fact, infused pre-rolls are 35% of the category, 30% in BC, and 29% in ON.
- Decibel has 52% share of infused in AB (19% overall); 70% in BC (21% overall); and 57% in ON (17% overall).

**Decibel has a cost advantage.** It should be noted that Decibel, while being profitable, maintaining an innovation edge, and selling more value-added products (infused), can afford to sell its pre-rolls below average market prices (C\$4.02 per gram vs. the category average of C\$5.65) thanks to the benefits of automation (including the application of kief coating, which has helped boost pre-roll margins too) and expertise garnered in recent years. To put this in context, Jeeter prices (#1 in CA pre-rolls, with 18% share) are US\$12.62/gram (C\$17) and the CA category average price for pre-rolls is US\$8.54 (C\$11.50). Decibel continues to innovate in pre-rolls, regarding pack sizes, crushed formats, and brands. While General Admission (mainstream) still accounts for 95% of total sales, Vox Pops was recently launched in value (3% of sales), and Qwest and Qwest Reserve play in premium. How strong is the Decibel franchise? Some years ago, a CEO from HEXO boasted growers from California (?) were coming to Quebec to learn from HEXO (we were never able to confirm this...). In the case of Decibel, they are indeed coming from Michigan and California.

**Other key players in pre-rolls.** Nationally, Decibel (16.1% share) and Tilray (12.5%) were #1 and #2, respectively, in 3Q23, as per the Hifyre data, well above peers (OGI is #3 with 4.7%; Auxly #4 4.1%; VFF #5 3.6%). But Tilray's market share on a proforma basis (including Hexo, Redecan, etc.) was 39% in 1Q21 (24% in 1Q22) compared with 12.5% now. On the other hand, Decibel only had 2% share of pre-rolls in 1Q21 (5% in 1Q22). Tilray's momentum points to ongoing share loss in



2023, with 14.4% in 1Q23 proforma (23.7% in 1Q22), 13.5% in 2Q23, and 12.5% in 3Q23. Interestingly, Redecan now accounts for 26% of Tilray's pre-roll sales vs. 38% in 1Q22 (proforma).

**Pricing.** Decibel's investment in automation has allowed the company to maintain prices well below the category while remaining one of the few profitable LPs. In 3Q23, the company's average pricing for pre-rolls was \$4.04/gram compared with \$5.65 for the category and \$4.74 for Tilray. During the 1Q22-3Q22 period, prices for both companies fell 25% compared with a 31% drop for the category. Decibel's pre roll prices fell from \$5.36 to \$4.02, and Tilray's from \$6.30 to \$4.74. Indeed, a first mover advantage to infused pre-rolls and competitive prices in part explain Decibel's share momentum in the pre-roll segment. Prices for the #3-#5 peers were higher than Decibel's, with Auxly at \$5.47/gram, OGI \$5.59, and VFF \$8.05.

**Assortment variety has helped Decibel.** The company was one of the first with infused pre-rolls (and these now account for >98% of its pre roll sales) and followed this with crushable pre-rolls (sold under the Vox Popz brand, launched mid-2023). It has also been adding other brands. That said, on a national basis, General Admission was still about 95% of Decibel's pre-rolls sales in 3Q23. In terms of pack sizes, 73% of sales come from 1.5g, 17% 1g, and 9% 2.5g.

**Table 7: Decibel Share Trends in Pre-Rolls**

	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
Market	232	297	349	340	1,218	323	384	433
<b>Decibel</b>	12	19	25	35	90	42	60	70
yoy ch						262%	224%	179%
qoq ch		60%	35%	40%		19%	43%	16%
pre-roll share %	5.0%	6.2%	7.2%	10.3%	7.4%	13.0%	15.6%	16.1%

Source: Hifyre, FactSet, Z&A calculations

## A Close Look at Canada's Vape Category and Decibel's Position

The company believes in the growth tailwinds of the ready to consume segment, with specially the younger demographic opting for convenience vs. rolling their own joints (this, benefits both, pre-rolls and vape). So, vape fits the Decibel strategy, and the company is already #1 in this segment, together with Motif Labs (which has made a niche in larger formats). In vape, we expect Decibel to gain share by targeting segments where it under indexes at present (all in ones, and especially large 1.2-2.0ml formats), and by pioneering a close loop system (a la STIIIZY) with its recently launched Blinker. In other words, the company will diversify away from 510s (510 cartridges accounted for 86% of Decibel's pre-roll sales in 3Q23, disposables for 13%, and PAX Era pods for 1%). Regarding sizes, 58% of sales came from 0.95ml packs and 31% from 1ml (the rest was 0.30ml and 0.45ml), but the company plans to enter the 1.2-2.0ml segments (dominated by Motif) in 1Q24. At the category level, vape has room to grow. Yes, like in the case of pre-rolls, vape also over indexes in AB (20% of the market vs. 15% nationally) and BC (18%), but vape is less developed than in the US. For example, vape is 15% of total sales in Canada vs. 26% in CA; all-in-ones are still in the low-teens vs. mid/high 20s in the US, and close-loop has not taken hold yet in Canada (Decibel estimates close-loops are now close to 40% of the market in California).



**Vape sales continue to drive industry growth in Canada rec, together with pre-rolls.** Vape sales were up 21% yoy in 3Q23 (vs. 12% for the total industry) and up 7% seq. Vape sales in Canada only began in Jan 2020 (the first phase, which started in Oct 2018 only allowed flower, pre-rolls, and oils). Since 1Q20, they have gone from 5% of total cannabis rec sales in Jan 2020, to 18% in Oct 2023, and 15% on average for 3Q23 (this is below the 26% seen in CA and 28% of CO). We think in part the lower penetration vs. CA is explained by the successful development of the pre-roll category in Canada, but also due to cap restrictions on vape (packages of no more than 1gr THC equivalent). Also, QC province does not allow vape.

**Key players in vape and leading brands.** The top two companies have a combined 34% share.

- In 3Q23, the segment leader was Motif Labs with 21.1% segment share, followed by Decibel with 13.1%. Average prices for both companies were similar (\$9.24 and \$9.38 per gram, respectively), and in both cases were above the segment average of \$8.97. Motif Labs only had 3.2% share in 1Q22 while Decibel had 12.8% in 1Q22.
- Regarding Motif Labs, we understand close to half of the company's vape sales come from contract manufacturing agreements with 3<sup>rd</sup> party brands (Sticky Greens, Debunk, and others), with own brands (mostly Boxhot, plus the recently launched Floresense) accounting for a combined >13% share. Of note, Boxhot sales come entirely from large formats (71% from 1.2ml; 18% 1ml, and 12% 2ml), while Decibel (all under the General Admission brand) had no formats above 0.95ml until recently. Decibel now has three 1ml vape SKUs (one AIO, and two 510 carts), which account for 31% of its vape sales, of a total 39 vape SKUs. It has 21 0.95ml SKUs (58% of Decibel vape sales), seven 0.45ml (3%), and eight 0.30ml (7%).
- Other key players in the vape segment in 3Q23 were: Auxly 8.7% (19% in 1Q22; 20% in 1Q21), Tilray 8.3% (17% proforma in 1Q22; 34% in 1Q21); Ayurcann 6.4%; both Cronos and BZAM has 4.7% segment share each. Of top seven players, average portfolio prices were as follows: Auxly \$9.90/gram equiv; Decibel \$9.38; Motif \$9.24; Tilray \$8.50; BZAM \$8.38; Cronos \$7.76; Ayurcann \$7.73. All C\$
- In terms of individual brands, Boxhot (Motif) and General Admission (Decibel) led with ~13% share in 3Q23 (Hifyre), followed by Good Supply 8% (Tilray), Back Forty 6% (Auxly), Spinach 5% (Cronos), and Fuego 4% (Ayurcann).

**Vape pricing trends.** Vape price deflation has been similar to that seen in pre-rolls. Back in 1Q21, vape prices were on average \$18.09 per gram, but by 3Q23 they were \$8.97 - a 50% drop over that period. During that time, pre-rolls fell by 49% from \$11.45 to \$5.65 per gram. In this context, flower prices have been more "stable" than vape and pre-rolls, at least in the last two years. Flower prices fell early on, but between 1Q21 and 3Q23, prices "only" fell 24% (from \$7.66 to \$5.85/gram), and only 5% since 1Q22.

**Packaging.** As per Hifyre, during 3Q23, at the total vape market level, 510 cartridges accounted for >87% of segment sales, and disposables (all-in-ones) for >11%; the balance was comprised by PAX Era Pods, Dosist pods, and kits. In terms of cart sizes, 1ml accounted for 57% of sales, 0.95ml for



14%, and 1.2ml for 13% (with 80% THC, these formats comply with the 1gr rule). Closed-loop systems were not available until recently when Decibel launched its Blinker line. The mix between carts and disposables has not changed much in the last two years – in 1Q21 carts were >85% of sales and disposables 8%.

**Table 8: Decibel Share Trends in Vape**

	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
Market	153	164	170	184	670	185	193	208
<b>Decibel</b>	19	23	24	31	96	30	30	27
yoy ch						57%	32%	13%
qoq ch		17%	4%	30%	na	-1%	-2%	-10%
vape share %	12.6%	13.9%	13.9%	16.7%	14.4%	16.5%	15.5%	12.9%

Source: Hifyre, FactSet, Z&A calculations



## Canada Cannabis Market: A Primer

In Canada, total cannabis retail sales are now at a run rate close to C\$6Bn (90% adult-use and 10% medical). Canada began adult-use sales on 20 October 2018 and the market continues to grow (low/mid-teens yoy), but unrestricted licensing (of stores and producers) has impacted economics. There are now over 3,600 retail dispensaries open (implying only C\$1.2Mn sales per store annually) and more than 900 licensed cultivators and processors. Retail prices are now in line with some of the lowest prices seen in the US (Colorado/Washington/Oregon). All this is exacerbated by a three-tier system (producers, wholesalers, retailers) that does not allow for vertical integration in most of the provinces. Moreover, the government in most provinces owns the wholesalers (“boards” act as the only wholesaler) and in the case of Quebec province the government also controls all retail stores. Restrictions on advertising, packaging, and omni-channel services (in some provinces), plus a minimum tax of C\$1/gram on flower (excise taxes account for more than 30% of gross revenues for most licensed producers, and close to 40% on extracts), make it difficult for operators to be cash flow positive and profitable. There is no clear line of sight on regulatory relief for now, despite intense lobbying by industry operators.

All this said, nimble and efficient producers are showing they can still operate profitably and grow in this tough market. Decibel is clearly an example of this, with the company driving innovation in pre-rolls and vape, and operating profitably in these two segments, despite prices below those seen in California for these formats.

Table 9: Decibel’s View on the Canadian Market

### WHY CANADA IS IMPORTANT

Canada is a cornerstone to success in the global cannabis market



Source: company reports, FactSet, Z&A estimates



## On Canada's Recreational Market

**The adult-use market is now at US\$4B, growing in the low teens.** Canada began adult-use sales on 20 October 2018, and the market is now near C\$5.4Bn in sales (US\$4Bn), if we annualize the latest data reported by StatCan. Still, poor economics (low prices, oversupply), various restrictions, high taxes, and several market structural challenges, make the Canadian rec market a difficult market for operators. As a result, several have diversified away from cannabis, and or been forced to merge (or sell), to garner better economics. Although a 5-year review is due by the government and regulator, it is not clear if and when that process will be completed and whether it will yield any favorable results for the industry participants (that are not government related).

**Benchmarking with the US adult-use market.** YTD growth of 13% is above the US adult-use pace (+9%), and only slightly below the +17% growth the Canadian adult-use market posted for all of 2022. Importantly, US growth is driven mostly by new markets opening adult-use sales, while in the case of Canada, the base of legal provinces is the same, so 13% growth is good in that context. That said, the Canadian market has developed more slowly than the US (Canada rec capita spend is below the state of California, not a leading state in US per cap), so it could be argued the "faster" growth in Canada is off a lower base. Indeed, Canada underperforms the US in adult-use spending per capita metrics. At about US\$100 per person, adult-use consumption is well below that of even less matured US states (that legalized adult-use after Canada): Michigan \$330 (it began rec sales in December 2019); Massachusetts \$224 (November 2018 first stores); Arizona \$181 (January 2022); Missouri \$180 (February 2023); Illinois (January 2020) \$126. Why the difference, if Canada has as many dispensaries per 1mn people as Michigan, and low prices in line with states like Colorado and Oregon? We believe this is explained in part by a larger illicit market (compared with the US average); by steeper taxes; by marketing, advertising, and packaging restrictions; by restrictions on THC per unit (that particularly impact sales of edibles, but also of vape and drinks); and by retail stores that, on average, are below US standards, in our view. Interestingly, the minimum age in Canada is 19 compared with 21 in the US.

**Factors impacting licensed producers.** In particular, we would highlight three factors impacting the economics of Canadian LPs compared with their US counterparts,

- **Retail prices are well below US averages.** Flower prices now average C\$5.32 per gram (US\$4.00) in Canada (Q2 2023 -2% qoq and -13% yoy; and -32% in 2-year stacked terms), which is well below most US states. True, Canada's flower prices are above those seen in US states like Colorado, Michigan, Oregon, and Washington (all between \$3-4 per gram), but California is at \$5.45 and Massachusetts at \$6.20.
- **High excise taxes.** The minimum tax in Canada is C\$1 per gram (on flower), which means average prices paid by the consumer are \$6.32 (C\$5.32 + C\$1) per gram for flower. But if we assume an LP only keeps 30-40% of the C\$5.32 retail price, this implies excise taxes can be as much as 35% of total gross revenue generated at the LP level, and in the case of extracts (vape, other) this can be over 40% (see Decibel's high excise tax line in the P&L. When Canadian flower prices were at C\$11/gram back in 1Q20, a minimum tax of



C\$1/gram was less of an issue. But not now, with retail prices down more than 50%, this is a much larger burden.

- **Three tier-system.** In Canada, licensed producers sell to provincial boards that act as the sole wholesalers in their respective provinces and then these sell to retailers), combined with high sales excise taxes at the point of sale, this means a typical LP only accounts for ~25% of the final all-in price (including taxes) paid by the consumer. In contrast, in a vertically integrated state like Florida (where there are no taxes on medical cannabis), a producer gets to keep 100% of the total amount paid by the consumer.

**Leading producers and format penetration.** Challenging economics, structural issues, inter province trade, have all resulted in a market that is more consolidated compared with the US. For example, the top five licensed producers have close to 40% national market share. Some of these have reached their market positions via organic growth (Decibel, VFF), while others have done it via M&A. The market leader is Tilray (12% share), a company that via consolidation now includes more than six different operators: Aphria, 48North, HEXO, Redecan, Tilray, and Zenabis. Tilray has a wide range of brands and formats. Decibel (~8% share overall) is now ranked second, growing mostly organically (sales are up close to 80% yoy); the company derives close to 70% of sales from pre-rolls. Village Farms International (VFF), a large-scale low-cost producer based in British Columbia (the company has shifted tomato greenhouses into cannabis) is the 3rd largest producer; flower accounts for 80% of company sales. Organigram (ground flower is a key part of the portfolio) and Auxly (vape is a key format) round out the group of the top 5 producers. As most operators in Canada, these companies enjoy low EBITDA margins in cannabis, and several are not profitable (Decibel and VFF would be the main exceptions).

**Sales growth and segment share vary widely across formats.** Pre-rolls and vape are driving industry growth. Flower is now 39% of sales (compared to 43% in Q2 2022 and 60% in Q2 2020). Pre-rolls are now 30% of sales (27% a year ago, and 17% 3 years ago); for context, in California pre-rolls are only 17% of sales (and flower 34%). Vape is at 15% of sales in Canada (26% in California). Edibles have low penetration in Canada (6% vs. 15% in California) due to packaging and potency restrictions.

- Indeed, overall market (Canada rec) trends vary widely across formats. While total rec sales were up 12.3% yoy for 3Q23 (as per Hifyre), flower was up only 3% yoy (flower is now 38% of sales vs. 41% in 3Q22 and 60% in 2Q20). Among the three largest formats, pre-rolls (+22% yoy) and vape (+18%) outperformed; although both formats decelerated a bit, growth is still robust (pre rolls +29% in 2Q23 and +35% in 1Q23; vape +20% and +25%, respectively).
- Pre-rolls are now 33% of sales (30% a year ago, and 17% 3yrs ago); for context, in California pre-rolls are only 17% of sales (and flower 34%). Vape is at 15% of sales in Canada (26% in CA), somewhat stable mix wise vs. prior periods (15% 3Q22; 12% 2Q20). Other smaller categories in 3Q23: edibles were up 4% yoy (5% of sales), concentrates +40% (5%), oils +2% (2%), and beverages -4% (2%). Topicals are not gaining traction, down 4% yoy (and only 0.3% of sales). While edibles decelerated (after +14% 2Q23 yoy growth



and +28% in 1Q23), concentrates accelerated (+31%; +26%). *Note: In Canada, concentrates are the fastest growing category (+43% in 3Q23 yoy), and now account for 5% of sales.*

- Regarding share trends for the five top categories.
  - Flower: Tilray 16%; VFF 12%; Organigram 9%; Cronos 6%; BZAM 5%.
  - Pre-rolls: Decibel 16% share; Tilray 12%; Weed Me 5%, Organigram 5%; Auxly 4%.
  - Vape: Motif Labs 21%; Decibel 13%; Auxly 9%; Tilray 8%; Ayurcann 6%
  - Concentrates: Organigram 12%; Adastra Labs 8%; Tilray 8%; Voyage; Cannara 7%.
  - Edibles: Organigram 20%; Indiva 18%; Cronos 18%; BZAM 11%, and Canopy Growth 9%.

## On Canada's Medical Market

Canada's medical cannabis market has declined in recent years. Sales for the fiscal year ending March 2023 amounted to C\$401Mn (US\$300Mn), compared with C\$441Mn the prior year, and C\$501Mn for the fiscal year ending March 2021. Decibel does not participate in this market at the domestic level.

Active client/patient registrations amounted to 212,700 as of March 2023 (0.6% of the population), down 40% since Oct 2018 (adult-use sales began on 20 Oct 2018). Out of pocket patients (those not reimbursed) have switched to the adult-use market given generally lower prices and easy access (variety, supplies, formats, plenty of stores). In fact, between CY21 and CY23, sales to out of pocket patients fell 39%.

On the other hand, total reimbursements (mostly veterans) have continued to increase (+40% for FY23 vs. FY21) and accounted for 42% of sales in FY23. The medical market is more concentrated than the adult-use market in Canada; Aurora has 24% share, followed by Canopy Growth with 13%, and Tilray with 8%.

Unlike the 3-tier system in adult-use, Canadian companies can sell directly to medical patients, and or directly to dispensaries.

## Exports of Medical Cannabis

Canada's exports of medical cannabis continue to grow. For the fiscal year ending March 2023, Canadian medical exports reached C\$160Mn compared to C\$107Mn in FY22 (March) and \$39Mn in FY21, as per StatCan. Canadian operators are on record indicating that medical exports can be



as much as 3x more profitable than domestic adult-use sales. Decibel started with exports to Israel, and it will be starting shipments to the UK and Australia.

Compared with other producing countries, Canada has a first mover advantage in the export markets, a larger production footprint, and more years of production expertise. While these advantages may be eroded over time, Canada for now remains the main supplier to key overseas medical markets such as Australia and Germany. According to data shared by Health Canada, 44% of Canada's dried flower exports in FY23 March (of the 60 tons in total) went to Australia, followed by Israel (35%), and Germany (16%); Australia accounted for 90% of Canada's exports of extracts (9.3K liters in total).

## Benchmarking Canada with California

Canada and California have similar populations (39mn people each). Medical sales began in CA in 1996 and in 2001 in Canada, and rec began about the same time (Jan'18 in CA; Oct'18 in Canada). As per the latest official data, Canadian sales are US\$4.3Bn (\$300Mn med; \$4Bn rec) and California's are ~\$5.3Bn in total. So, on a per capita basis CA is a tad more developed (\$135 vs. \$112), but both lag several US states (MI \$330; MA/CO \$265; MO/OR \$230), including MD (\$180), which only went rec on 7/1/23.

- Structural differences: CA allows vertical integration, while in Canada there is a 3-tier system in most large provinces (LPs; sole government-owned wholesalers in each province; separate retail dispensaries). Canada has more restrictions in communications, marketing, packaging, content/potency in some cases (edibles) and even delivery.
- Illicit market: There is more illicit growth in CA, but in terms of illicit product available for "retail sales", both have similar problems.
- Formats: in CA, flower plus pre-rolls account for 52% of sales (34% and 18%, respectively), compared with 71% in Canada (38% and 33%). In fact, pre-rolls over index almost 2x in Canada vs. CA. On the other hand, in Canada vape (16%) and edibles (5%) under index vs. CA (26% and 11%, respectively). Concentrates are similar in both cases (6% in CA; 5% in Canada). Drinks have not made much headway in either market (2%).
- Stores: There are now more than 3,600 dispensaries in Canada compared with >1,200 in CA (i.e. 94 dispensaries per 1mn people in Canada compared with 31 in CA). In CA, several municipalities have banned rec stores, or allow a small number - for the most part, this is not the case in Canada. Revenue per store in Canada is US\$1.2Mn per annum, compared with \$4.1Mn in CA (CO is \$1.5Mn). Still, compared with some US states, Canada has less stores per 1mn people (CO 182; OR 196; NM 310).
- Prices: Retail flower prices in Canada in 3Q23 averaged C\$5.85, or US\$4.36 per gram (as per Hifyre) before sales taxes. In California (as per Headset), retail prices for flower were

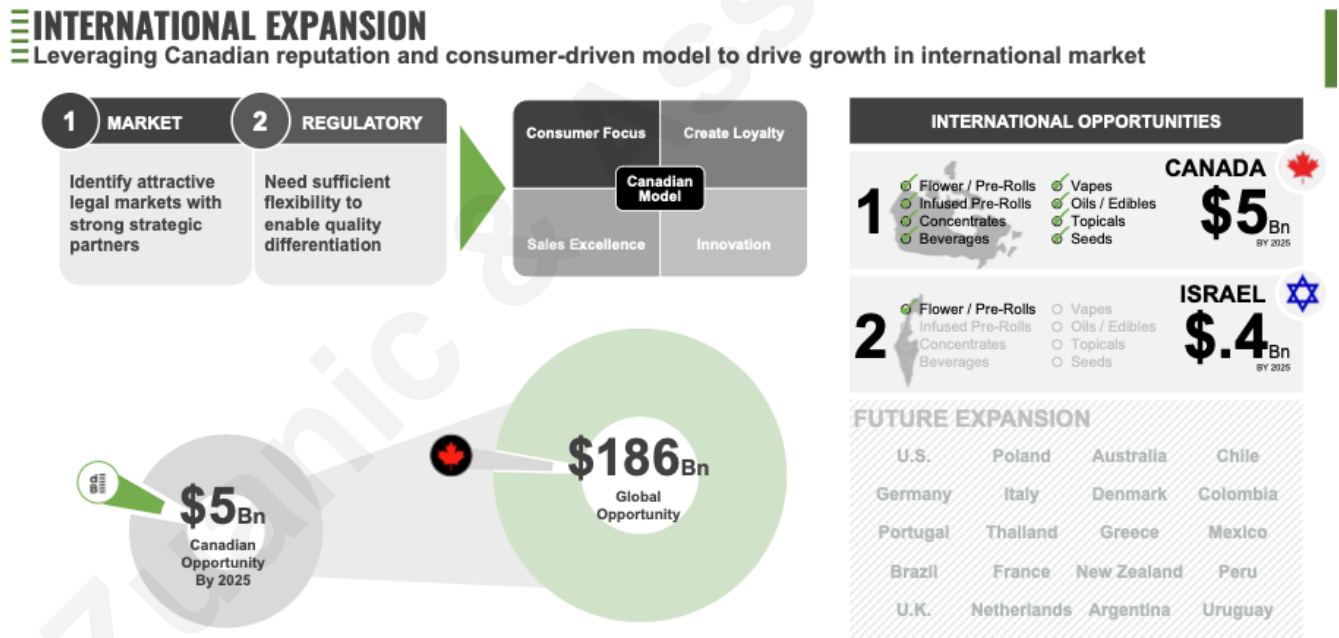


US\$5.36. But in markets like CO (\$3.35) and OR (\$3.85), flower prices were even lower than in Canada (AZ at \$4.24 was in line). For pre-rolls, 3Q23 prices in Canada were C\$5.65/gram (US\$4.21); in the US CA (US\$8.54) and CO (US\$7.36) were much higher, like states like OR (US\$3.36) and WA (US\$3.67) were below Canada.

## Decibel’s International Plans

The company only recently started to venture overseas (flower from its own Canadian craft growth facility), with sales to Israel (\$2Mn on a normalized basis in 3Q23). The company plans to start shipping to the UK and Australia, and it is working on other markets too. The focus for now is on premium flower (under the Qwest brand; Decibel does not do white label), management thinks overtime it can also start exporting pre-rolls and vape.

Table 10: International Plans



Source: company reports, FactSet, Z&A estimates



To penetrate overseas markets, we understand the export gross margins will be in the 35% range compared with ~50% for the domestic branded business. We estimate by end of 2024, the company could be at a run rate of \$4-5Mn per qtr in exports, which would place it among Canada's largest exporters. *Note: The long-term outlook of 50% consolidated gross margins is 35% for exports, low 30s for the company's own retail stores, and low-mid 50s for the domestic branded business.*

## Canada's Exports (not just Decibel's): A Few Observations

Total cannabis exports from Canada reached C\$160Mn (all \$ figures are in C\$ unless noted otherwise) for the fiscal year ending March 2023; that was up 50% from \$107Mn in FY22 (Mar) and \$39Mn in FY21. All this as per data presented in two recent [MJBiz articles](#) (from data collected from Health Canada). In this note we try compare the MJBiz numbers with the data reported by the LPs, even though we realize there may be timing differences. *Note: as per the same source, export prices were seemingly stable in FY23 Mar, with flower volumes (60 tons) +48% yoy.*

If we add exports reported by the various LPs (converting to C\$ those that report in US\$) for the 12-month period ending March 2023, (note: Tilray and Organigram are on a Feb qtr vs. Mar for ACB and CGC, so we prorate for TLRY/OGI), we see Tilray accounted for 35% of exports (\$56Mn), Aurora for 30% (\$47.4Mn), Canopy Growth for 23% (\$36.9Mn), and Organigram for 15% (\$24Mn). *Note: Yes, we realize this adds up to 103% (just an issue of timing? The CGC data is ex C3 and CBD, so it is apples to apples).*

But while Canadian medical cannabis exports remain concentrated among a few players, the growth rates for the top two exporting LPs in FY23 Mar would imply other companies are gaining export share. On the assumption that the export data from Health Canada should roughly tally with what LPs report, we note that while total exports grew 50% for the 12 months thru Mar 2023, exports at Tilray fell about 12% yoy (again, here we convert from US\$ to C\$, and pro-rate to Mar qtrs.) and fell 19% at Aurora. On the other hand, exports grew 3x at OGI (FY Mar yoy) and were up too at CGC (adjusting for C3 and CBD/hemp). Net, other LPs are gaining overseas.

Other companies exporting now (as per their financial disclosure) include VFF (C\$4.1Mn for calendar 1H23), Decibel (C\$1.8Mn), and Avant. Our discussions with companies in markets like Germany and Australia, imply several also source from smaller craft growers in Canada. On the other hand, companies like Aleafia (in the process of being acquired by RWB) and HEXO (acquired by Tilray) scaled back their export businesses. HEXO had been active in the export markets (C\$25Mn reported for FY21 Mar), but apparently those exports were not very profitable, so the company retrenched.

Of note, most companies reported export seq growth in the June qtr (in part this may reflect new GMP restrictions for imported cannabis in the Australian market). Aurora reported June seq growth of 17% and CGC of +16%; VFF exports were up 23% seq and Decibel +80%. In the May qtr, Tilray reported 62% seq growth to US\$15.7Mn, while OGI exports fell to C\$1.8Mn from C\$10.8Mn in the Feb qtr (due to timing issues with exports to Israel).



*Note: Cronos discloses sales for its Israel subsidiary, but it does not disclose how much of its sales in the Israel market (US\$30.5Mn in CY22 vs. US\$101Mn for Intercure) is imported from Canada vs. how much is local production (or imported from other countries).*

## Benchmarking Decibel with Canadian LPs

**First, a caveat, not so straightforward discussing LPs on a apples-to-apples basis.** Unlike US MSOs, which tend to have similar business models, although with different levels of profitability (mainly due to respective footprint and efficiencies), the Canadian LPs are for the most part quite different from each other. Some have diversified away from cannabis, and even when it comes to cannabis revenues, they are different depending on the mix of domestic rec, domestic med, and exports.

- **Total sales:** The largest LPs (we exclude retailers like High Tide and Nova) in terms of total revenues (latest reported qtr, all converted to C\$Mn) are SNDL with \$238Mn and Tilray with \$227Mn. The next ones are VFF (93Mn), Canopy Growth (\$70Mn) and Aurora (\$63Mn). But, for SNDL cannabis revenues only account for 9% of total sales; and for 31% for TLRY and VFF (and 69% at Canopy Growth; this figure used to be lower, but the company has divested several businesses, including retail and BioSteel).
- **Cannabis sales:** In terms of cannabis sales (all in C\$Mn, latest qtr), Tilray is the largest with \$94Mn, followed by Aurora (\$56Mn), Canopy Growth (\$48Mn), and VFF (\$39Mn). After that, there is a cluster of companies within a close range: Cronos \$33Mn, Organigram \$33Mn, Decibel \$28Mn, and Auxly \$28Mn (we would also put here BZAM/Final Bell proforma with \$30Mn).
- **MJ revenue mix.** The mix varies in terms of domestic (rec, med, B2B), and international.
  - **TLRY:** rec \$60Mn, med \$8Mn, B2B \$7Mn, and exports \$19Mn
  - **ACB:** rec \$12Mn, med \$25Mn, exports \$18Mn
  - **CGC:** rec \$24Mn, med \$15Mn, exports \$9Mn
  - **CRON:** rec \$25Mn, exports \$8Mn
  - **OGI:** rec \$29Mn, med \$0.5Mn, B2B \$1.3Mn, exports \$1.8Mn
  - **VFF:** rec \$31Mn, B2B \$6Mn, exports \$1Mn
  - **DECI:** rec \$27.5Mn, exports \$0.5Mn
  - **XLY:** rec \$28Mn



Table 11: Screens Well vs. Peers (slide from company management)

**LEADING PROFITABILITY**

Decibel trades at a substantial discount to peers despite being the only LP with profitable market share

**Market Share Ranking**

(CSMM)

	TILRAY	dB	VFF	village VERITAS	ORGANIGRAM	Auxly	CRONOS	BZAM	CANOPY GROWTH	sndl
Market Share (%)	12.1%	7.5%	6.4%	6.1%	5.2%	4.4%	4.4%	3.3%	3.1%	
Market Cap (CSMM)	\$2,414.0	\$58.0	\$138.6	\$145.4	\$25.7	\$893.5	\$28.7	\$381.0	\$578.8	
Share Capital (CSMM)	\$7,807.9	\$70.1	\$556.2	\$807.6	\$563.6	\$889.8	\$691.5	\$10,565.3	\$2,444.0	
Enterprise Value (EV) (CSMM)	\$2,800.2	\$97.6	\$175.5	\$92.8	\$205.9	(\$242.9)	\$54.8	\$855.3	\$389.8	
EV to Market Share (ratio)	23.1	1.3	2.8	1.5	4.0	(5.5)	1.2	26.0	12.4	

**Last Quarter Adj. EBITDA**

Normalized to Decibel Adj. EBITDA Definition in CSMM



**Last Quarter Adj. Net Income**

Normalized to Decibel Adj. Net Income Definition in CSMM



Source: Hifyre Retail Analytics, Company Filings.

Note: Financial information from most recent available financial reporting period for each entity. Adjusted EBITDA and Adjusted Net Income are non-GAAP performance measures. Refer to "Non-GAAP Measures" for further details. Tilray Adj. EBITDA and Adj. Net Income presented using combined last reported quarter for Tilray and Hexo. Market share as of Q2 2023. Share price information as of August 15, 2023.



Source: FactSet; company reports

**Cannabis gross margins:** The leader in cannabis gross margins is Aurora, given its focus on medical (domestic and exports) although rec volatility tends to be an offset. Aurora’s gross margins (including depreciation but ex impairments) were in the low 40s (the company’s domestic/export business is in the 55-60% range). Decibel is in the 43% range, which is remarkable, given the bulk of its sales come from the domestic rec market. Both, Tilray and VFF generated 35% cannabis gross margins in the latest qtr. Auxly and Cronos were in the high teens. OGI was only 2%, and CGC was -35% (inc. impairments).

**Cannabis EBITDA:** Not all companies split EBITDA by division, so this is harder to compare. Without allocating part of its corporate overheads (these are 3.3% of consolidated sales), VFF reported cannabis EBITDA margins of 16% for the Sep qtr. YTD EBITDA margins have been in the 16-17% range vs. 12% in CY22 (24% in CY21). Tilray does not split EBITDA by division. Given companies have different methodologies, we do not believe EBITDA numbers are comparable. That said, at a consolidated level, we look at total SGA to gross profits (for the entire company, not just cannabis).

**SGA/sales (consolidated).** Recurring cash SGA was larger than gross profits for most of the Canadian LPs in 2022 and YTD23. Decibel (80%) and Rubicon (88%) were the exceptions. For VFF this ratio was 108% in 3Q23, which was better than the rest: Tilray 128%, Auxly 145%, Aurora 195%, OGI 237%, CGC 246%, CRON 527%.

**Operating cash flow (consolidated).** For the Jan-Sep period, VFF generated OCF of \$9Mn, which was an improvement vs. -\$26Mn for 2022. Others: Tilray +\$21Mn (-\$98Mn); Decibel +\$5Mn

(+\$8Mn); Auxly has break even OCF YTD (-\$3Mn in CY22); OGI -\$24Mn (-\$28Mn); ACB YTD was -\$66Mn (CY22 -\$157Mn); CRON -\$80Mn (-\$117Mn); CGC -\$367Mn (-\$544Mn).

**Balance sheet.** As of the latest reported qtr, leverage was high for Canopy Growth and Auxly, with net debt to sales (latest qtr annualized) of 1.5x and 1.1x, respectively. Both companies lag the group in EBITDA metrics. CRON had a net cash position of C\$1.13Bn (8.5x sales), and so did ACB (0.2x sales) and OGI (0.4x). VFF has net debt <0.1x of sales. Decibel and Tilray had low net debt, equivalent to 0.3x and 0.1x sales, respectively.

**Table 12: LP Consolidated EBITDA margins (not just from cannabis)**

C\$Mn	CY20	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>EBITDA MARGIN</b>										
Aleafia	20%	-49%	-10%	-8%	1%	4%	-6%	1%	na	na
Aurora	-53%	-27%	-20%	-17%	-13%	2%	-11%	2%	4%	5%
Auxly	-56%	-26%	-28%	-15%	-29%	-3%	-18%	1%	-5%	0%
Avant	-3%	-16%	2%	-26%	18%	20%	9%	25%	21%	14%
BZAM	-300%	-75%	-21%	-37%	13%	-40%	-37%	-16%	-31%	-38%
Canopy Growth	-69%	-70%	-232%	-75%	-85%	-82%	-118%	-109%	-53%	-17%
Cronos	-315%	-175%	-62%	-77%	-104%	-115%	-164%	-75%	-97%	-62%
Decibel	5%	14%	15%	17%	23%	27%	21%	25%	24%	22%
Hexo	-10%	-23%	-29%	-25%	-8%	-6%	-19%	-15%	na	na
Fire & Flower	4%	3%	-6%	-15%	-6%	-12%	-10%	na	na	na
High Tide	12%	6%	3%	4%	5%	5%	4%	5%	4%	6%
Nova Cannabis	-3%	-2%	3%	4%	4%	5%	4%	5%	9%	10%
Organigram	-9%	-33%	-2%	-1%	1%	6%	1%	7%	-10%	4%
Rubicon	-118%	-35%	-30%	3%	18%	12%	5%	2%	16%	11%
SNDL	-42%	54%	-4%	-12%	8%	-3%	-2%	4%	1%	7%
Tilray	2%	8%	7%	8%	-3%	-16%	-1%	11%	10%	5%
Village Farms	9%	5%	-9%	-12%	-3%	-4%	-7%	1%	6%	5%

Source: FactSet; company reports

**Table 13: Net debt to Consolidated Sales**

C\$Mn	CY20	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>NET DEBT / CONSOLIDATED SALES</b>										
Aleafia	-0.6x	1.0x	-0.9x	5.8x	6.3x	-6.1x	-3.3x	6.0x	na	na
Aurora	0.4x	0.2x	-0.6x	-2.0x	-0.7x	-0.3x	-0.5x	-0.6x	-1.1x	-0.4x
Auxly	2.8x	3.0x	5.8x	-22.7x	14.2x	-7.0x	64.2x	-12.2x	7.6x	-12.6x
Avant	44.8x	-2.6x	-1.5x	-1.3x	12.9x	54.7x	-2.0x	-4.4x	-1.0x	-1.0x
BZAM	0.8x	0.9x	1.4x	1.3x	2.1x	-2.6x	3.1x	1.2x	5.0x	-1.0x
Canopy Growth	-1.7x	0.2x	0.3x	0.4x	0.4x	0.7x	0.8x	0.9x	0.8x	1.3x
Cronos	-8.9x	-6.5x	-7.2x	-13.7x	-16.6x	-9.0x	-9.9x	-4.4x	-17.9x	na
Decibel	8.2x	2.5x	-3.6x	-5.9x	-2.8x	89.4x	-4.9x	-4.2x	-10.6x	-5.4x
Hexo	-3.0x	1.6x	2.4x	2.7x	1.7x	6.9x	2.6x	-19.7x	na	na
Fire & Flower	-0.9x	0.2x	-1.1x	-0.7x	0.7x	0.1x	0.1x	0.2x	na	na
High Tide	-3.3x	2.7x	1.7x	4.2x	-0.5x	-0.7x	-1.7x	-2.3x	-0.6x	-0.1x
Nova Cannabis	0.0x	-1.1x	0.0x	-0.1x	-0.3x	0.3x	56.0x	1.3x	-0.4x	-0.3x
Organigram	0.0x	-4.9x	-9.9x	-7.1x	-1.8x	-5.8x	-3.5x	-1.6x	-1.4x	-6.2x
Rubicon	0.1x	-0.2x	0.2x	1.0x	-0.7x	-0.2x	-1.0x	-3.7x	-0.1x	-0.2x
SNDL	-1.2x	-4.3x	-5.0x	-5.9x	10.2x	2.9x	-49.1x	-1.3x	-6.2x	2.1x
Tilray	1.0x	0.9x	2.3x	1.5x	1.8x	-3.1x	2.2x	-21.9x	-1.2x	2.1x
Village Farms	-7.1x	0.3x	0.7x	-12.8x	2.3x	1.5x	2.0x	1.4x	3.7x	-0.3x

Source: FactSet; company reports



## Canada Rec: Performance by Licensed Producer

Regarding the largest LPs by \$ share (at a high level, without delving much into portfolio trends).

- In terms of total market share in 3Q23, Tilray (inc HEXO) had 13.1% share, Decibel 7.5%, Organigram 6.6%, VFF 6.2%, Cronos 4.8%, Auxly 4.8%, Motif Labs 4.4%, BZAM 4.0%, Canopy Growth 3.6%, and Weed Me 2.8%. Re other companies that we track, outside the top 10 in 3Q23 were SNDL (#12 with 2.3% share); Aurora (#13, 2%); Rubicon (#14, 1.8%), and Entourage Health (#17; 1.3%).
- Of the top 10 LPs (based on \$ share), in 3Q23 three LPS outperformed the market yoy growth rate of 12.3% in 3Q23: Motif Labs +159% (2Q23 +392% yoy); Decibel +77% (+91%); and Cronos +34% (+21%). Another three grew near the market rate: Weed Me +12% (+31%); Auxly +11% (+6%); and VFF +10% (+18%). Growing below the market rate: Tilray +6%; Organigram +1%, BZAM -11%, Canopy Growth -19%. Re LPs that we track, outside the top 10: Aurora +42%; Rubicon -8%; Entourage -13%; Sundial -38%.
- Below we discuss in greater detail, the largest four companies based on \$ share as per Hifyre (in order of 3Q23 sales performance).

**Decibel (+77% rec sales growth in 3Q22 vs. +12% for the overall market).** In seq terms, 3Q sales were up 5% (vs. 22% in 2Q23). The company is now the #2 LP overall, with 7.5% share (vs. 4.8% in 3Q22 and 3.8% in 1Q22). The company holds the #2 position with a portfolio of only 158 SKUs in total compared with 618 at Tilray; yes, while Tilray is 1.7x bigger in sales it has 4x as many SKUs. Over time, Decibel has become increasingly focused on pre-rolls; these now account for 70% of sales compared with 28% back in 1Q22. Pre-rolls are driving the bulk of the growth and were up 179% yoy (vs. +22% for the category). The company has 68 pre-roll SKUs compared with 156 at Tilray; the latter generated \$343K/SKU in 3Q23 compared with \$1.02Mn/SKU for Decibel. The company's average price in pre-rolls of \$4.02/gram (\$4.76 in 3Q22) is below peers (VFF \$7.95; OGI \$5.60; TLRV \$4.60). The vape business (now 27% of sales vs. 47% in 1Q22) was up 13% in yoy terms (vs. +18% for the category).

**VFF (+10% vs. 12% for the market).** 3Q23 growth implies deceleration from 2Q23 (+18%) and 1Q23 (+23%). Mix remains mostly stable with flower accounting for 75% of sales and pre-rolls for 19% (vapes 5%; edibles 1%). In yoy terms, flower sales were up 15% and pre-rolls +9%. The company's average flower price of \$5.17/gram is up yoy from \$4.70 in 3Q22; pre-roll prices are also up (\$7.95 vs. \$6.46). Flower SKUs are up considerably (44 in 1Q22 and 123 in 3Q23), partly due to new brands and strains, and the impact of Rose in Quebec. Pure Sunfarms Pink Kush is no longer the #1 flower SKU (#4 now), with The Original Fraser Valley (Donny Burger strain) the #1 SKU. In Quebec, the company's main brand in Promenade.

**Tilray (+4% proforma yoy).** Sales were up 6% in qoq terms in 3Q23. In qoq terms, flower sales were up 11% and pre-rolls +2%. Flower is 45% of sales and pre-rolls 31% (vape 9%, oils 5%, drinks 5%). The company's average flower price is the lowest among the companies reviewed in this report (\$4.30/gram; flat qoq). Tilray had 618 SKUs in 3Q23 (well above the top 5 peers). For example, it

has 234 flower SKUs vs. 123 at VFF (VFF generates 1.5x sales per flower SKU vs. Tilray); we already mentioned how it compares with Decibel in pre-roll SKUs.

**Organigram (+1% yoy).** 3Q23 growth was better than the yoy drop of -9% in 2Q23 and -8% in 1Q23. Pre-rolls (+59% yoy) and concentrates (+273%) are driving growth, while flower was down 20% and edibles were flat. The sales mix in 3Q23 was 50% flower, 23% pre-rolls, 15% edibles, and 9% concentrates. The company's average flower price of \$4.68/gram is up yoy from \$4.37 in 3Q22, but on the other hand, pre-roll prices are down (\$5.60/g vs. \$6.38 a year ago). The top three flower SKUs account for 62% of flower sales and are all pre-ground (Shred brand): Funk Master, Tropic Thunder, Gnarberry.

Table 14: Rec Retail Sales by Canadian LPs as per Hifyre

	2023 Jan	2023 Feb	2023 Mar	2023 Apr	2023 May	2023 Jun	2023 Jul	2023 Aug	2023 Sep	2023 Oct	2023 Nov
MoM ch %	-8%	-8%	12%	1%	1%	5%	2%	5%	-5%	1%	-5%
Subtotal	-8%	-8%	11%	1%	1%	5%	2%	4%	-5%	0%	-6%
Abba Medix Corp	-18%	-9%	56%	33%	33%	14%	8%	3%	2%	0%	-13%
Adastra Labs Inc.	13%	-10%	27%	21%	4%	22%	5%	4%	3%	4%	1%
Atlantic Cultivation Limi	na	na	1058%	86%	9%	17%	9%	4%	-7%	7%	1%
Atlantican Medical Inc	-7%	15%	-3%	-3%	-3%	0%	-6%	-3%	-16%	-9%	-100%
Atlas Global Brands Inc.	8%	-23%	9%	-12%	0%	4%	-18%	-10%	-3%	35%	-12%
Aurora Cannabis	-2%	-1%	11%	0%	2%	-18%	-5%	3%	-11%	1%	7%
Auxly Cannabis Group	-4%	-5%	12%	-1%	-6%	4%	0%	3%	-9%	6%	-9%
Ayurcann Inc.	8%	9%	44%	2%	8%	14%	27%	-5%	4%	7%	-10%
Bloom Cultivation Ltd	-36%	29%	19%	17%	-5%	-13%	2%	-4%	-13%	-12%	-25%
Bold	-8%	-7%	3%	6%	-4%	8%	-2%	1%	-4%	17%	-11%
Canada'S Island Garden	-20%	-6%	10%	13%	-8%	44%	5%	-3%	-14%	4%	-27%
Canadian Clinical Cannal	-11%	-15%	20%	19%	6%	8%	6%	12%	-6%	22%	6%
Cannara Biotech	-6%	12%	40%	13%	-1%	9%	7%	7%	-1%	1%	-8%
Canopy Growth Corpora	-11%	-12%	-1%	-3%	-1%	5%	7%	-11%	-8%	-12%	-13%
Carmel Cannabis	5%	-5%	12%	4%	5%	11%	3%	10%	-5%	-3%	-11%
Cronos	-6%	-11%	9%	-2%	4%	11%	-1%	12%	-1%	11%	-3%
Decibel Cannabis Comp	-10%	-5%	16%	7%	4%	8%	2%	2%	2%	-4%	-8%
Emblem Cannabis	-5%	-8%	-2%	-13%	-6%	10%	-6%	-20%	-22%	-11%	-21%
Entourage Health Corp	-2%	-12%	3%	-3%	5%	-1%	6%	10%	-5%	-4%	3%
Final Bell Corp	-16%	-10%	-3%	5%	2%	33%	15%	13%	-2%	7%	-8%
Flower	-24%	-16%	-16%	-32%	16%	-8%	-17%	-21%	23%	12%	-100%
Gtec	-10%	-12%	14%	0%	-4%	4%	-9%	1%	-13%	-13%	-19%
Im Cannabis	-16%	-13%	-5%	-4%	-14%	43%	-18%	-9%	-3%	14%	-2%
Indiva	-4%	-5%	14%	-4%	-7%	12%	1%	6%	6%	14%	6%
Joint Venture Craft Canr	4%	-9%	27%	4%	4%	-28%	-4%	31%	-15%	40%	-10%
Medipharm Labs	-13%	-10%	12%	-8%	-8%	2%	-2%	5%	-8%	1%	-9%
Mera Cannabis Corp	-14%	-13%	13%	-3%	-10%	21%	-3%	-1%	-4%	4%	-4%
Motif Labs	3%	2%	21%	8%	8%	2%	12%	11%	-1%	1%	-5%
Namaste Technologies	0%	2%	10%	3%	-10%	-10%	-1%	13%	1%	18%	-1%
Organigram	-6%	-11%	5%	-2%	6%	11%	0%	11%	-8%	-3%	-1%
Qc - Unknown	na	na	na	na	na	na	na	na	na	na	na
Rubicon Organics	-10%	-6%	8%	5%	-3%	1%	8%	6%	0%	1%	-7%
Sensi Brands	-9%	-16%	15%	4%	6%	9%	-1%	6%	-4%	5%	1%
Stigma Grow	-12%	-4%	16%	3%	-5%	-7%	-7%	5%	-3%	7%	-2%
Sundial	0%	-10%	2%	0%	-5%	-3%	-17%	3%	-3%	-2%	-6%
Tantalus Labs	-12%	-19%	8%	9%	4%	-3%	-10%	-19%	-26%	-36%	-37%
Terrascend	-59%	-39%	16%	-33%	49%	-39%	-25%	-56%	74%	74%	-100%
The Green Organic Dutc	-9%	-6%	10%	-9%	-7%	3%	1%	3%	-15%	-7%	-17%
Tilray	-12%	-9%	10%	-2%	5%	1%	1%	4%	-5%	-5%	-7%
Village Farms Internatio	-11%	-16%	12%	4%	-9%	2%	1%	9%	-1%	1%	-1%
Vivo Cannabis	-26%	27%	-20%	-3%	-7%	3%	3%	-9%	-1%	67%	-100%
Vortex Cannabis Inc	-16%	-27%	-21%	11%	13%	12%	9%	8%	-7%	5%	-4%
Voyage Cannabis Corp	-9%	-15%	-4%	3%	-15%	22%	6%	-9%	-14%	7%	-15%
Weed Me	-3%	-9%	3%	1%	4%	3%	5%	-7%	-5%	-3%	-3%
Other	-6%	-5%	16%	-1%	5%	8%	5%	9%	-2%	4%	0%

Source: Hifyre; Z&A calculations

## Financial Projections

We project the Canadian rec market to grow low teens for the next three years, and Decibel to gain share in pre-rolls and vape, and gradually gain in other formats (edibles, concentrates). Exports will continue to grow as the company enters other markets besides Israel (Australia, UK, Germany).

**Table 15: Our projections**

C\$ 000s	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	FY24e	FY25e	FY26e
<b>Sales</b>	52.5	79.3	27.1	30.9	30.2	30.8	119.0	140.1	166.5	188.9
qoq ch %	na	na	5%	14%	-2%	2%	na	na	na	na
yoy ch %	75%	51%	63%	66%	65%	19%	50%	18%	19%	13%
<i>guidance consensus</i>						<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
						31.1	119.3	140.1	173.7	na
<b>Profit margins</b>										
Gross profit before FV adj	17.9	34.0	13.4	13.1	12.8	13.6	52.8	66.4	83.3	94.4
as % of sales	34.1%	42.9%	49.2%	42.3%	42.5%	44.0%	44.4%	47.4%	50.0%	50.0%
Gross profit after FV adj	28.2	26.4	9.4	8.4	12.7	13.6	44.1	66.4	83.3	94.4
as % of sales	53.7%	33.3%	34.8%	27.1%	42.2%	44.0%	37.1%	47.4%	50.0%	50.0%
Op exp	22.2	27.1	9.3	8.0	11.6	8.1	37.0	36.9	43.5	49.2
as % of sales	42.3%	34.2%	34.2%	25.8%	38.4%	26.4%	31.1%	26.3%	26.1%	26.0%
EBIT	6.0	-0.7	0.2	0.4	1.1	5.4	7.1	29.5	39.7	45.3
as % of sales	11.4%	-0.9%	0.6%	1.3%	3.7%	17.6%	6.0%	21.0%	23.9%	24.0%
adj EBITDA	7.4	17.0	6.8	7.3	6.7	6.3	27.1	32.9	43.0	48.2
as % of sales	14.1%	21.4%	24.9%	23.6%	22.2%	20.4%	22.7%	23.5%	25.8%	25.5%
<i>Consensus EBITDA</i>						6.8	27.5	32.3	42.6	na
as % of sales						21.9%	23.1%	23.1%	24.5%	na
<b>EPS</b>										
Pre tax income	1.7	-4.5	-0.6	-0.4	0.4	5.4	4.8	29.7	40.3	46.2
Tax rate assumption	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	1.7	-4.5	-0.6	-0.4	0.4	5.4	4.8	29.7	40.3	46.2
Share count (FD) Mn	374.8	404.2	406.8	409.0	472.3	472.3	440.1	472.3	472.3	472.3
EPS	0.00	-0.01	0.00	0.00	0.00	0.01	0.01	0.06	0.09	0.10
<i>consensus</i>						0.00	0.00	0.03	0.05	na
<b>BS &amp; CF highlights</b>										
Operating cash flow	-17.1	8.3	2.3	0.9	1.9	5.3	10.5	26.0	41.9	50.2
(-) Capex	-3.0	-3.3	-0.5	-0.5	-0.1	-0.5	-1.5	-2.0	-2.0	-2.0
Free cash flow	-20.1	5.0	1.8	0.5	1.9	4.8	9.0	24.0	39.9	48.2
Ending net cash (debt)	-43.6	-40.8	-39.2	-39.1	-42.0	-31.9	-31.9	-7.8	32.1	80.3
LTM EBITDA	7.4	17.0	21.3	25.4	27.8	27.1	27.1	32.9	43.0	48.2
Net debt/EBITDA	-5.9	-2.4	-1.8	-1.5	-1.5	-1.2	-1.2	-0.2	0.7	1.7
Equity	50.7	47.2	46.9	46.7	47.2	52.6	52.6	82.3	122.6	168.9

Source: Company reports; Z&A estimates

**Table 16: Sales Projections**

C\$Mn	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	FY24e	FY25e	FY26e
<b>Net Sales</b>	52.5	79.3	27.1	30.9	30.2	30.8	119.0	140.1	166.5	188.9
Domestic rec	0.0	0.0	25.0	28.1	27.8	27.4	108.4	122.5	144.7	164.4
Exports	0.0	0.0	0.6	1.1	0.5	1.8	4.1	11.2	15.5	18.1
Retailing	0.0	0.0	1.5	1.6	1.9	1.6	6.6	6.4	6.4	6.4
<b>Sales and market share assumptions</b>										
Canada rec sales	3,875	4,518	1,166	1,264	1,358	1,318	5,106	5,616	6,178	6,796
market (0.4x)	1,550	1,807	466	506	543	527	2,042	2,246	2,471	2,718
total market % share	2.4%	5.1%	5.4%	5.6%	5.1%	5.2%	5.3%	5.5%	5.9%	6.0%

Source: Company reports; Z&A estimates



Since 1Q22, Decibel has posted seven quarters in a row of positive free cash flow (after burning \$20Mn in CY21 and \$8.5Mn in CY20). Gross margins climbed from the mid 20s in late CY21 to the mid 40s more recently (and management sees them at 50% by end of 2024). Investments in automation, expansion, and scale gains, should all help margins, plus \$10Mn in cost savings. EBITDA margins have gone from the low teens to mid 20s now (exceptional for a Canadian cannabis company), and the outlook is for mid-20s.

What happened? Well, we think there was some trial and error, but most importantly, the company developed deep know-how in infused pre-rolls, and began to better adapt its vape strategy. The product mix evolved significantly. Back in 1Q21, the company mix was 47% vape, 21% flower, 19% concentrates, and only 13% pre-rolls. In 3Q23, pre-rolls (>90% infused) accounted for 70% of sales and vape for 27%. Also, management argues companies like Decibel (say, 2.0 LPs), with limited resources vs. the 1.0 LP generation, had to be inventive and creative to survive, and this is a unique achieved know-how for those that have risen to the top now. Most of the recent capacity expansion has already been funded, and capex for 2024 should be minimal. Cash holdings are small (>\$3Mn), but with free cash flow this should grow. Net debt of \$42Mn as of Sep 2023 was only 0.3x annualized net sales (>1x EBITDA).

### 3Q23 Review

Decibel reports on a Dec fiscal year.

- Net sales increased 65% yoy to \$30.2Mn (-2% seq), very much in line with both the CY22 growth pace and 1H23. According to management, demand for infused products and vapes drove yoy growth. Exports could have been 4x the \$0.5Mn reported (lab delays).
- Avg selling price in 2023 is \$4.96 per gram compared with \$4.55 in 2022
- Gross margins were mostly stable seq at 42.5% and in line with the CY22 level. Reported gross profits include write offs from aged products and increase temporary labor costs. Recent investments in capacity and efficiencies are expected to yield \$10Mn in annual savings.
- Cash SGA increased by almost \$3Mn seq to \$10.3Mn. but this includes one-off cost adjustments.
- As a result, EBITDA margins were mostly stable at 22% (24% in 2Q23). Adj EBITDA of \$6.7Mn was up 57% yoy.
- Net interest expense was less than 7% of financial debt, and only 2.4% of revenues.
- It ended Sep with \$42Mn in net debt (\$3.3Mn cash), which is a manageable 1.5x last 12 months EBITDA of \$28Mn (and 1.6x 3Q23 annualized). Leases only add another \$13Mn to the debt load.



- Operating cash flow for the last 12 months was \$4.1Mn (compared with \$8.3Mn in CY22), implying only 15% EBITDA conversion. Capex is now mostly to maintenance levels (0.3% of sales in 3Q23).

#### Other highlights from 3Q23,

- #2 with 7.5% national share
- About \$1.4Mn in exports moved from 3Q to 4Q, due to 3<sup>rd</sup> party lab delays. Adjusted 3Q exports would have bene up 80% seq.
- Decibel also launched a new brand, Vox, and, also entered General Admission edibles.
- It owns 3 stores in SK and 3 in AB. It also has an ecommerce platform for SK

### 4Q23 Trends

The scanner data (Hifyre) for Oct/Nov points to average daily sales down 12% seq compared with 3Q23. We believe part of this will be offset by shipments of new products to the boards based on the company's innovation pipeline (i.e. shipments ahead of take-aways). Moreover, we note Hifyre had pointed to +7% growth seq for 3Q23 vs. the -2% reported, so we believe part of this will be unwounded in 4Q22.

On the other hand, given the moving parts from several product launches, we would not expect much in terms of margin expansion.

Table 17: Financial Goals

### DRIVING TOWARDS OUR GOALS

Decibel continues to execute towards its long-term objectives

Metric	Short-Term Target	Current	Long-Term
REVENUE	High Double-Digit Growth	67% Growth Q2'23 over Q2'22	\$200MM in Canada Equal Contribution Internationally
PROFITABILITY	Grow Adj. EBITDA, Cash Flow, Adj. EPS	24% Adj. EBITDA Margin Q2'23 Positive Adj. EBITDA, CF, Adj. EPS	>20% Adj. EBITDA Margin
LEVERAGE	2 – 3x Debt to Adj. EBITDA	1.5x (Annualized Q2'23)	1.0 – 1.5x Debt to Adj. EBITDA
MARKET SHARE	Top 3 LP by Canadian Market Share	Second Largest LP (7.5% Q2 2023)	Globally Recognized Canadian Leader
INTERNATIONAL EXPANSION	Expand Brands Internationally	Ongoing Shipments of Qwest Products to Israel	Globally Recognized Brands

Source: company reports, FactSet, Z&A estimates



## Our Evaluation Framework (“Filter”)

We use this approach whether looking at plant touching or nor plant touching companies, in the US, Canada, and overseas.

- **Avoid companies with governance issues and lackluster M&A track record.** While these factors are backward looking, they are still relevant. We prefer to avoid companies with a history of buying “related” assets at steep prices; with well above average executive compensation (unlinked to performance); with stacked boards; with a history of proven rule-breaking (here we do not include unproven allegations), such as cross-state shipping, improper labelling, THC inflation, just to name a few “transgressions”. In terms of M&A, one metric we factor is sales per share over time. Yes, we like scale, so no issue with M&A per se if it is accretive and grows a company’s moat and strategic position.
- **Avoid highly levered companies (especially those with negative cashflow trends).** The dilution of shareholders seen with stocks like CGC (down 68% YTD vs. -16% for the YOLO ETF), serves as a cautionary tale for investors. Most Canadian LPs are well capitalized, with the exceptions being Auxly (1.1x net debt to sales) and Canopy Growth (1.5x). Cash flow remains an issue for some LPs too; YTD (Jan-Sep) negative OCF to sales was -138% for Canopy, -94% for Cronos, -33% for Organigram, and -22% for OGI. On the other hand, this metric was positive at Decibel (6%), Tilray and VFF (3% for both).
- **Look for sustainable franchise strength or specific know-how.** A small operator may only own a few stores, but if those stores outsell peers in the state by a factor of 2-3x rev/store, we see that as franchise strength. A company with a unique concept, such as Planet 13’s superstore in Las Vegas, or with niche strength, such as Decibel in infused pre-rolls in Canada, we see as having franchise strength. A company with a large retail store network, such as Trulieve in Florida, has franchise strength (and those stores outsell peers 2-3x on a per store basis). We would also highlight Cresco Labs’ leading wholesale presence, and VFFs cost advantage in at-scale cultivation.
- **Positive financial metrics.** By this we mean profitability, cash flow conversion (EBITDA to OCF), and decent balance sheet. In 1Q23, Schwazze had the highest gross margin among MSOS (58%). MariMed and Tilt Holdings (TLLTF/NR) had the lowest cash recurring SGA to sales in 1Q23 (29% and 28%, respectively). Green Thumb (GTBIF/NR) has the best cash flow conversion in the group, with OCF/EBITDA of 51% in CY22. Decibel’s target of 25% EBITDA margins in Canadian cannabis is unique. On balance sheet metrics among MSOs (net debt at less than 0.5x sales, or in net cash position), Green Thumb, MariMed, Planet 13, and Tilt Holdings stand out in the US MSO group.



## Valuation

Decibel trades at 0.8x EV/sales, below most direct LP peers (ex OGI 0.7x and VFF 0.6x). On an apples-to-apples basis (i.e., comparing the valuation of the LPs' cannabis stubs), we see TLRY trades at 4.9x (ACB 1.3x, CGC 1.3x, Auxly 1.4x). Listed in the TSX Ventures and much less liquid (159k shares traded per day vs. 788k for VFF, 23mn for TLRY, and 44mn for CGC), we think the Decibel stock is somewhat below investors' radar. But therein lies the opportunity. We are talking about a company with leadership in pre-rolls and vape in Canada rec, rapidly building an export business, with aspirations to grow in the US, and some of the best financial metrics in the LP group (50% gross margins, 25% EBITDA margins, FCF positive, and with net cash potentially ramping to C\$40Mn by FY25 vs. net debt of \$45Mn now). In other words, the forward EV/Sales by FY25 is 0.2x. We do not assign price targets, but upside could be significant (we do not see the company as one of those being acquired here at the bottom).

**Table 18: EV calculation and forward valuation multiples (taking projected EV)**

C\$ 000s	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	FY24e	FY25e	FY26e
<b>EV calculation (C\$Mn)</b>	<b>111</b>	<b>107</b>	<b>104</b>	<b>103</b>	<b>106</b>	<b>96</b>	<b>99</b>	<b>75</b>	<b>35</b>	<b>-13</b>
<b>Market cap (C\$Mn)</b>	<b>54</b>	<b>54</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>54</b>	<b>54</b>	<b>54</b>	<b>54</b>
Share price (C\$)	0.13	0.13	0.12	0.12	0.12	0.12	0.13	0.13	0.13	0.13
Share price (US\$)	0.10	0.10	0.09	0.09	0.09	0.09	0.10	0.10	0.10	0.10
FD share count (Mn)	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0
common shares	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0
RSU/DSUs	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
derivatives in the money	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Broadly defined net debt</b>	<b>-57</b>	<b>-53</b>	<b>-53</b>	<b>-53</b>	<b>-55</b>	<b>-45</b>	<b>-45</b>	<b>-21</b>	<b>19</b>	<b>67</b>
net financial debt	-44	-41	-39	-39	-42	-32	-32	-8	32	80
leases	-13	-12	-14	-13	-13	-13	-13	-13	-13	-13
other debt/deferred taxes										
warrant/option/convert inflow										
<i>Note: our comp tables use a static definition of EV (i.e. the current one); but in this table we used projected EV</i>										
<b>Multiples (CF)</b>										
PE	28.3	-11.9	-22.2	-30.1	35.5	2.7	13.3	2.1	1.5	1.3
EV/Sales	2.1	1.4	1.0	0.8	0.9	0.8	0.8	0.5	0.2	-0.1
EV/EBITDA	15.0	6.3	3.8	3.5	4.0	3.8	3.7	2.3	0.8	-0.3

Source: company reports, FactSet, Z&A estimates

## Valuation Comps – Apples to Apples

In the analysis below, we show our best estimates of how the market is valuing the cannabis business of the eight LPs we have used as comps.

**Table 19: Value of Cannabis Stub as per our Calculations (taking spot EV)**

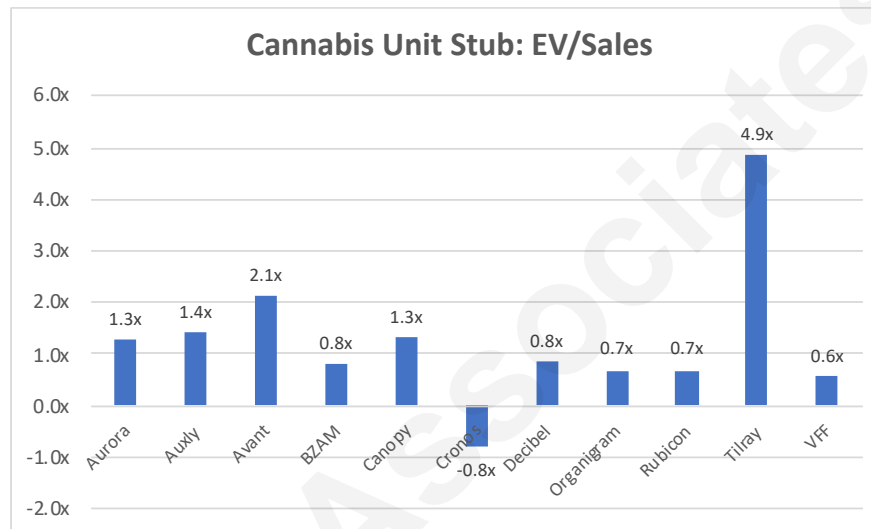
C\$Mn	Aurora	Auxly	Avant	BZAM	Canopy	Cronos	Decibel	OGI	Rubicon	Tilray	VFF
Total EV	328	162	55	69	1,027	-102	101	97	27	2,221	168
MJ EV	283	162	55	69	254	-102	101	97	27	1,824	87
MJ Sales <i>curr</i>	223	113	26	84	192	133	121	141	40	376	155
MJ multiple	1.3x	1.4x	2.1x	0.8x	1.3x	-0.8x	0.8x	0.7x	0.7x	4.9x	0.6x

Source: company reports, FactSet, Z&A estimates



Finding the right comps is not straightforward, given the different business models (for quite a few, cannabis is less than 50% of revenues). Moreover, for some of the LPs there is no “consensus” (thin coverage). Also, EBITDA multiples are not of much use given few companies are profitable).

**Table 20: EV Calculations**



Source: Company reports, FactSet, Z&A estimates. Note: we exclude SNDL due to various moving parts.

#### Re apples-to apples comps: stripping the market-implied valuation of cannabis units.

- TLRY: How is the market valuing the cannabis unit? We calculate an EV of C\$2.22Bn (see next tables). Alcohol stocks like SAM and TAP trade at 1.6x sales, and BUD at 2.8x (international angle). We generously take 2x to value for TLRY’s alcohol unit, which means an EV of ~C\$260Mn. We value the hemp food unit at 1x sales (i.e., C\$72Mn), and the German distribution unit at cost (C\$65Mn). That implies cannabis is valued C\$1.82Bn, or 4.9x current cannabis sales for Tilray (of C\$376Mn).
- CGC: The company has divested its dispensary unit, as well as other non-cannabis ops (BioSteel, C3). At present, we calculate a total EV of C\$1.03Bn. If we take 2x sales for the non-MJ units (S&B, This Works, and others), that values that piece at C\$173Mn. We also add the US\$30Mn from the sale of BioSteel (C\$40Mn). We also adjust for the US assets (for the ~C\$560Mn in cash it has paid so far): US\$69Mn for Jetty Extracts; US\$298Mn for Wana; US\$50Mn credit line advanced to Acreage. So, the market is valuing the CGC non-US cannabis unit at C\$254Mn, or 1.3x (of C\$192Mn)
- ACB: Aurora paid C\$45Mn upfront for the Bevo propagation business. So, we take that out from our EV estimate of C\$328Mn, which means the cannabis unit is valued at C\$283Mn, or 1.3x sales (of C\$223Mn).

- VFF: Not factoring the optionality of the TX greenhouses, we value the produce unit at C\$54Mn (8x our normalized EBITDA estimate of US\$5Mn pa). We value the US CBD unit at 1x sales (C\$27Mn). So, of the total EV calculated of C\$168Mn, this would mean the cannabis piece is valued at C\$87Mn, or 0.6x sales (of C\$156Mn).
- The above adjustments are not needed for stocks where cannabis accounts for >95% of total revenues: Avant, Auxly, Cronos, Decibel, Organigram, and Rubicon.
- Stocks with CPG partners are not receiving a premium. BAT owns 19% of OGI (with a path to 40% ownership) and MO owns 41% of CRON, but these stocks trade at 0.7x and -0.6x EV to current sales, respectively.

**Table 21: EV/Sales and EV/EBITDA multiples (taking spot EV). At consolidated level (i.e., not stripping out cannabis EV)**

US\$m	Z&A Spot EV / Sales			Z&A Spot EV / EBITDA			Financial Net Debt				Broadly Defined Net Debt				
	18-Dec-23	Current	2024	2025	Current	2024	2025	Sales		EBITDA		Sales		EBITDA	
								Current	CY24	Current	CY24	Current	CY24	Current	CY24
<b>US MSOs</b>															
Aurora Cannabis Inc.	1.3x	1.1x	1.0x	24.1x	10.8x	6.3x		na	na	na	na	0.0x	0.0x	-0.9x	-0.4x
Auxly Cannabis Group Inc.	1.4x	na	na	345.3x	na	na		-1.1x	na	-273.2x	na	-1.3x	na	-310.1x	na
Avant Brands Inc	2.1x	na	na	15.3x	na	na		-0.3x	na	-2.1x	na	-0.7x	na	-4.9x	na
BZAM Ltd	0.8x	na	na	-2.2x	na	na		-0.4x	na	1.0x	na	-0.5x	na	1.4x	na
Canopy Growth Corporation	3.7x	3.3x	2.9x	-21.6x	-51.7x	-41.0x		-1.5x	-1.3x	8.7x	20.8x	-1.5x	-1.3x	8.7x	20.8x
Cronos Group Inc	-0.8x	-0.7x	-0.6x	1.2x	2.7x	3.7x		na	na	na	na	8.5x	8.0x	-13.8x	-29.7x
Decibel Cannabis Company Inc	0.8x	0.7x	0.6x	3.8x	3.1x	2.4x		-0.3x	-0.3x	-1.6x	-1.3x	-0.4x	-0.3x	-1.8x	-1.5x
High Tide, Inc.	0.4x	0.4x	0.3x	12.3x	5.6x	3.8x		0.0x	0.0x	-0.7x	-0.3x	-0.1x	-0.1x	-2.6x	-1.2x
Nova Cannabis Inc	0.4x	0.4x	0.3x	4.0x	4.6x	3.5x		0.0x	0.0x	-0.1x	-0.2x	-0.2x	-0.2x	-2.0x	-2.2x
OrganiGram Holdings Inc	0.7x	0.6x	0.4x	-8.3x	8.2x	5.4x		na	na	na	na	0.4x	0.3x	-4.5x	4.4x
Rubicon Organics, Inc.	0.7x	0.6x	na	6.0x	3.6x	na		0.0x	0.0x	-0.3x	-0.2x	0.0x	0.0x	-0.3x	-0.2x
SNDL Inc.	0.4x	0.4x	0.4x	6.6x	10.4x	6.2x		na	na	na	na	0.1x	0.1x	0.9x	1.5x
Tilray Brands, Inc.	2.3x	1.9x	1.6x	35.8x	17.2x	10.5x		-0.1x	-0.1x	-1.9x	-0.9x	-0.2x	-0.1x	-2.4x	-1.1x
Village Farms International, Inc.	0.4x	0.4x	0.4x	9.6x	8.2x	5.0x		0.0x	0.0x	-1.0x	-0.8x	-0.1x	-0.1x	-2.1x	-1.7x

Source: company reports, FactSet, Z&A estimates

**Table 22: EV Calculations**

C\$m	FactSet	Z&A	C\$	mn	mn	Total	Financial	Gross	ST income	Conting	ITM deriv	Total	Pref Stock
18-Dec-23	Spot EV	Spot EV	price	shares	deriv	Mkt Cap	net debt	leases	tax liab.	Cons.	inflow	BDND	Min Int
<b>US MSOs</b>													
Aurora Cannabis Inc.	210	328	0.66	475.1	16.9	316	53	-51		-14		-12	
Auxly Cannabis Group Inc.	149	162	0.02	1,009.0	249.9	16	-128	-17		0		-145	
Avant Brands Inc	45	55	0.15	258.3	3.4	38	-7	-10				-18	
BZAM Ltd	55	69	0.13	180.8	0.2	24	-31	-14				-45	
Canopy Growth Corporation	1,028	1,027	0.74	829.1	1.7	614	-413					-413	
Cronos Group Inc	-69	-102	2.72	381.1	7.8	1,035	1,140	-3				1,138	
Decibel Cannabis Company Inc	96	101	0.13	409.0	16.7	54	-42	-6				-48	
High Tide, Inc.	182	209	2.20	75.1	0.5	165	-12	-31				-44	
Nova Cannabis Inc	4	109	0.97	57.2		56	-4	-49				-53	
OrganiGram Holdings Inc	99	97	1.86	80.5	1.2	150	53		0			52	
Rubicon Organics, Inc.	30	27	0.46	56.1	6.9	26	-1	0				-1	
SNDL Inc.	283	425	2.05	236.7	12.8	485	232	-171				61	
Tilray Brands, Inc.	2,202	2,221	2.80	730.3		2,043	-117	-10		-20		-147	30
Village Farms International, Inc.	133	168	1.05	110.2		116	-17	-19				-36	16

Source: company reports, FactSet, Z&A estimates



## Price Target? Upside?

We do not assign price targets, but we see significant upside for Decibel shares.

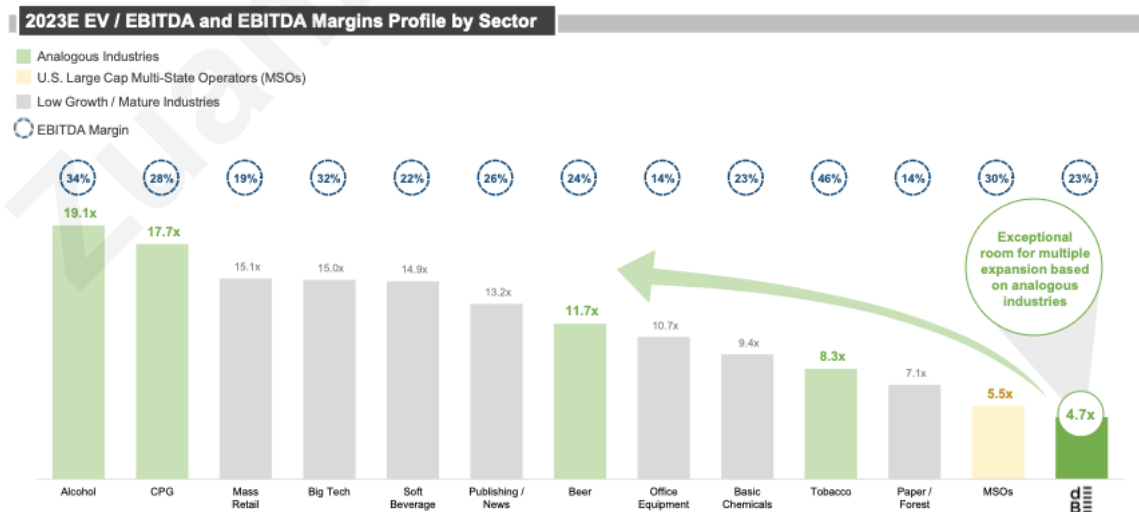
### Bull case vs. bear case thesis.

- Bull case:** Combined, the domestic and international franchise could be worth \$1Bn (8x current levels). We project domestic rec sales of C\$7.5Bn by 2027. We think Decibel can sustainably maintain an 12-14% share over time (over indexing in pre-rolls and vape, which themselves are growing faster than the market. If take a 0.4x wholesale deflator, 25% EBITDA margins, and a 20x EBITDA multiple (given growth pace and franchise strength), then the rec piece could be worth \$1.95Bn. For Canadian LPs, we tend to value the export business 5-10x sales (10x for the ones with more established presence overseas). If we take 5-10x on our projected 2025 exports of \$10Mn, this values the export piece at C\$100Mn.
- Bear case:** That other companies succeed in penetrating the infused pre-roll space, take share, and bring margins down. For example, Jeeter is partnering with BZAM/Final Bell in Canada. But given Decibel's lower prices and mostly failed (or half-hearted) attempts by peers so far, we assign low probability to this risk. Vape could be a different story, given rapidly changing technologies, and shifts in preferences (AIOs, larger formats), so we see higher financial risks in this part of the business (27% of sales vs. 70% for pre-rolls), but we are constructive on the company's recent innovation in the vape segment. On the regulatory side of things, we do not expect changes on pre-roll and vape potency.

Table 23: Management's View on Valuation

### ATTRACTIVE VALUATION

Canadian cannabis is overlooked today, but over time will mature similar to other analogous industries



Source: S&P Capital IQ.  
Note: Share price information as of February 3, 2023. Decibel multiple and EBITDA margin based on research estimates.

Source: FactSet; company reports



Table 24: Stocks Mentioned in this Report

Name	Ticker	Rating
4Front Ventures	FFNTF	Not rated
Acreage Holdings	ACRDF	Not rated
Ascend Wellness	AAWH	Not rated
AYR Wellness	AYRWF	Not rated
Columbia Care	CCHWF	Not rated
Cresco Labs	CRLBF	Not rated
Curaleaf Holdings	CURLF	Not rated
GlassHouse Brands	GLASF	Not rated
Gold Flora	GRAM	Not rated
Greenlane Holdings	GNLN	Not rated
Green Thumb Industries	GTBIF	Not rated
Ispire Technology	ISPR	Not rated
Jushi Holdings	JUSHF	Not rated
MariMed Inc	MRMD	Not rated
Planet 13 Holdings	PLNHF	Not rated
Schwazze	SHWZ	Not rated
Smooore International	SMORF	Not rated
StateHouse Holdings Inc	STHZF	Not rated
TerrAscend Corp.	TSNDF	Not rated
TILT Holdings, Inc.	TLLTF	Not rated
Trulieve Cannabis	TCNNF	Not rated
Verano Holdings	VRNOF	Not rated
Vext Science, Inc.	VEXTF	Not rated

*Note: others mentioned are either brands or private companies*

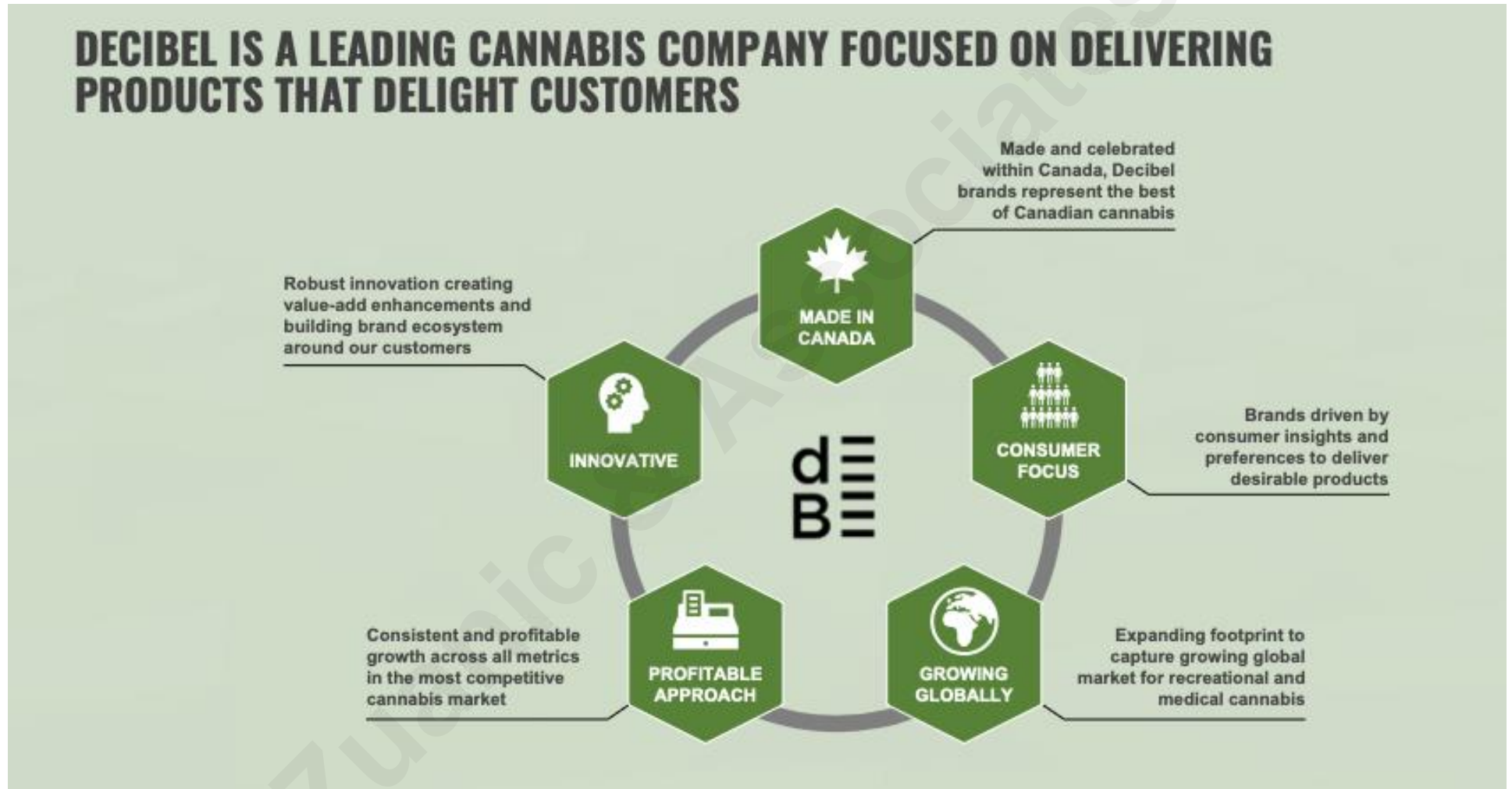
*Source: Z&A estimates*



# Appendix I: Company Slides

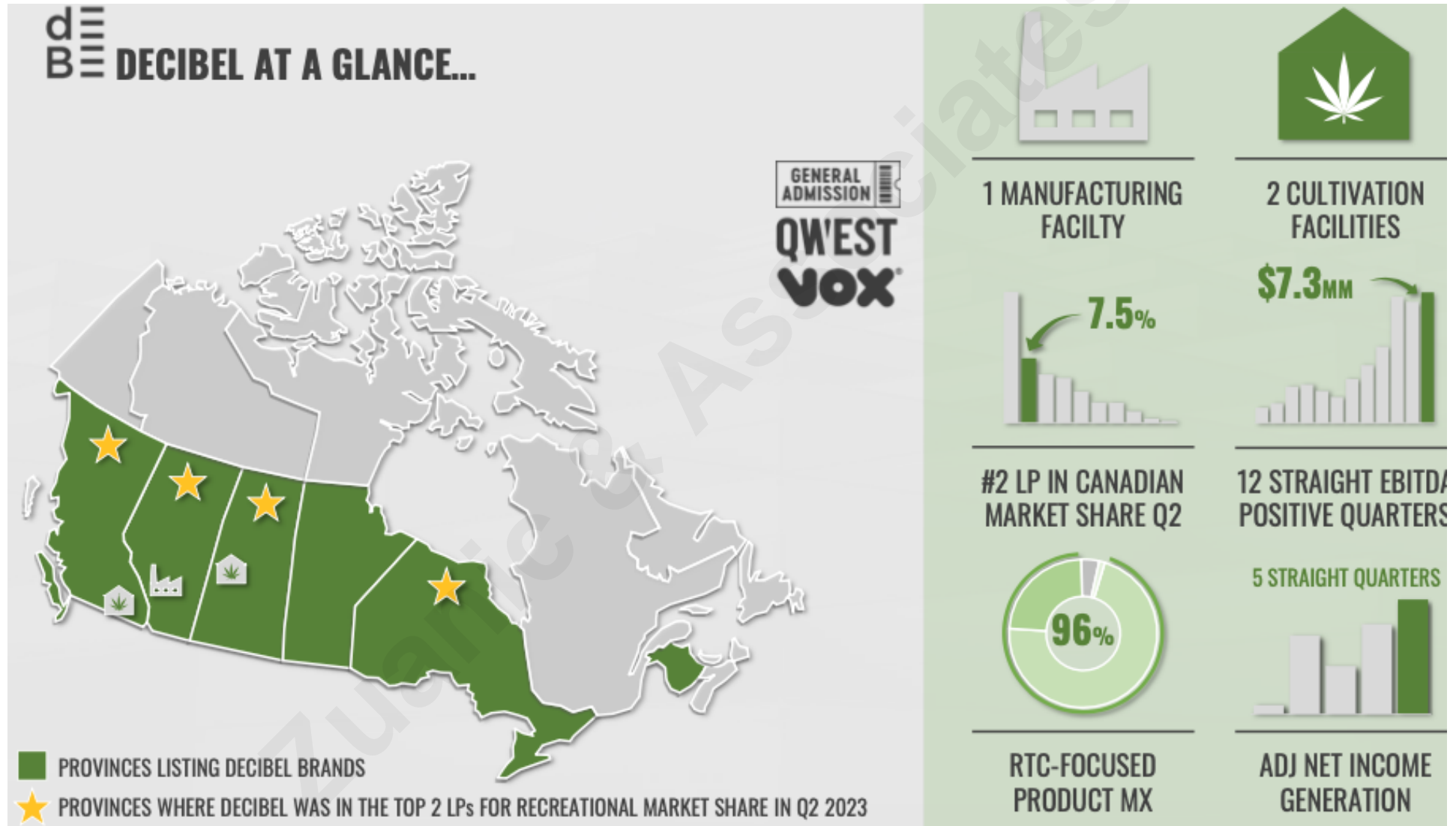
Zuanic & Associates

Exhibit 1: Business Model



Source: Company reports

Exhibit 2: Snapshot



Source: Company reports



## Exhibit 3: Management Highlights

## DECIBEL HIGHLIGHTS

### Driving Success in Canada

- Consumer focused model with history of execution (Fastest growing large LP with 7.5% Canadian market share)
- Q2 2023 record Net Revenue of \$30.9 million (67% growth from Q2'22)
- Q2 2023 record Adjusted EBITDA of \$7.3 million (126% growth from Q2'22)

### Expanding Internationally

- Brand reputation in Canada establishes platform for global reach
- Entering new markets with proven approach to attract consumers
- Asset light international brand launch in Israel started in Q4 2022

### Profitable & Positioned For Growth

- Achieved 1.5x Debt to Annualized Adjusted EBITDA as of Q2'23
- Cash flow and \$7.5MM accordion to capitalize on CDN market opportunities

### Attractive Valuation





- Trading at a significant discount to its peers in publicly listed top 10 LPs<sup>(1)</sup>

Source: Company reports

## Exhibit 4: Assets

## ASSET OVERVIEW

High quality assets designed to produce premium cannabis products

Flower		Derivatives	Insights
			
<b>Qwest Estate</b> Creston, BC Licensed & operational ~2,000 kg per annum 26,000 square feet Indoor craft cultivation	<b>Thunderchild</b> Battleford, SK Licensed & operational 7,300 kg per annum <sup>(1)</sup> 80,000 square feet Indoor craft cultivation	<b>The Plant</b> Calgary, AB Licensed & operational Concentrates & vapes 60,000 square feet Central hub for all products	<b>Prairie Records</b> Alberta & Saskatchewan Six retail stores Real time customer feedback Drives product innovation Consumer insights

Source: Company reports

- Decibel has a Health Canada licensed 26,000 square foot cultivation, processing and distribution facility consisting of 14,000 square feet of dedicated grow areas and 12,000 square feet of production support areas located in Creston, British Columbia (the “Creston Facility”).
- The Company has a second cannabis production facility with 80,000 square feet of indoor cultivation, packaging and processing space, located in Battleford, Saskatchewan (the “Thunderchild Cultivation Facility”). On January 29, 2021, Decibel’s wholly owned subsidiary, dB Thunderchild Cultivation LP, which owns and operates the Thunderchild Cultivation Facility, received a cultivation license from Health Canada to grow, harvest, trim and store cannabis, becoming a licensed producer. Initial planting

and activation of all 20 rooms at the Thunderchild Cultivation Facility was completed at the end of July 2021 and run-rate harvests were achieved in October 2021. To reinforce the Company's commitment to quality products, the Company accelerated the implementation of the planned infrastructure optimization of the integrated humidification system at its Thunderchild Cultivation Facility, which was complete in Q3 2022. On June 29, 2022, the Thunderchild Cultivation Facility received its CUMCS Equivalency IMC-G.A.P. certification to support the Company's international expansion, with the first export to Israel having occurred in Q4 2022.

- Decibel has a large-scale cannabis extraction, processing, and manufacturing facility in Calgary, Alberta ("The Plant"). The Plant is a 60,000 square foot facility with approximately 24,000 square feet of Health Canada licensed space. On July 13, 2020, the Company received a sales amendment from Health Canada for the ability to manufacture and sell dried cannabis, cannabis extracts, and edible cannabis as finished cannabis products to provincial wholesalers and retailers. On March 14, 2022, Decibel announced the completion of the construction of Phase 1 of its processing hub expansion at The Plant, received its Health Canada license on May 2, 2022. The Phase 1 area includes newly automated processing and packaging lines for infused pre-roll products, packaging automation, and labeling automation, accompanied by significantly reduced labor and logistics costs. Decibel engages in processing, manufacturing, and packaging activities at The Plant. Currently, the Company sells vape cartridges, cannabis infused products, pre-rolls, and cannabis extracts (also known as concentrates) from The Plant.
- The company sells in QB (~\$300k) through Rose LifeScience, but it has to design a lower potency product to comply with QC regulations.

## Exhibit 5: Management Teams

## EXECUTIVE TEAM

We Grind, We Craft, We Care, We Grow

### Paul Wilson

#### Chief Executive Officer



- Brand builder establishing and growing sustainable consumer brand positions that create enterprise value and enduring relevance
- CEO & President level experience at some of Canada's best consumer businesses including, Canadian Tire, Mark's, Princess Auto, Spence Diamonds, Kit & Ace, and Alcanna Nova Cannabis

### Kris Newell

#### Chief Operating Officer



- Scaled manufacturing and grow facilities to deliver >\$100MM in annualized sales and with best-in-class gross margin within the cannabis space
- Joined Decibel as early-stage employee in 2018
- Entrepreneurial background in specialty CPG industry, leading expansion, development, systems implementation, operational planning and execution

### Stuart Boucher

#### Chief Financial Officer



- Strategist in positioning Decibel's path to profitable growth and supporting broad execution while navigating a complex cannabis market
- Joined Decibel as 2<sup>nd</sup> employee in 2018
- Capital markets experience raising over \$150MM of debt & equity in the Cannabis sector and completed successful acquisitions positioning DB for growth

### Warren Matzelle

#### Chief Product & Marketing Officer



- Leads strategy and developed Decibel's innovation pipeline leading to top selling products nationwide and positioning Decibel as 3<sup>rd</sup> largest LP in Canada
- Joined Decibel as early-stage employee in 2018
- Several consumer facing entrepreneurial endeavors having successfully scaled and exited

### Adam Coates

#### Chief Revenue Officer



- Drove Decibel's top line growth positioning Decibel as 3<sup>rd</sup> largest LP in Canada and central to taking Decibel international
- Joined Decibel as 1<sup>st</sup> employee in 2018
- Thirteen years of regulated consumer packaged goods experience including brand building, marketing, sales and M&A integration

### Jesse Martin

#### General Counsel



- Navigates complex domestic and international regulatory markets and management of all of corporate legal aspects of Decibel which allows Decibel to execute on aggressive growth
- Joined Decibel as early-stage employee in 2018
- Depth of legal experience at Burnet, Duckworth & Palmer LLP advising on corporate matters

Source: Company reports



## Exhibit 6: Board

## BOARD OF DIRECTORS AND ADVISORS

We Grind, We Craft, We Care, We Grow

### Shawn Dym

#### Chairman

- Early investor and strategic thought leader in the North American cannabis industry
- As an early investor in Aphria, he served on their board until November 2019
- Co-founded and serves as advisor to the board of Green Acre Capital and serves as a director of Humble & Fume Inc, a leading cannabis products distributor

### Nadia Vattovaz

#### Director, Audit Chair

- CFO & Head of Logistics for Sporting Life Group
- Prior to current role was the COO of Fire & Flower, a cannabis retailer with over 100 locations across Canada, and held senior finance roles at Holt Renfrew, Canadian Tire, and Maple Leaf Foods
- Experience includes launching and overseeing new multi-jurisdictional companies and business lines, M&A and navigating regulatory environments

### Jakob Ripshtein

#### Director, Governance Chair

- Chief Executive Officer of Perennial Brands Inc, a full life-cycle brand strategy organization
- Formerly the President of Aphria and held multiple roles at Diageo PLC including CFO of Diageo North America
- Chairman of the Board, Audit Committee member, and Compensation & Corporate Governance Committee member for Humble & Fume

### Manjit Minhas

#### Director

- Co-founded the Minhas Brewery, Distillery and Winery with over 90 brands of beers, spirits liqueurs and wines
- Cannabis industry experience as a former member of the board of directors of Inner Spirit Holdings Ltd
- Television personality on Dragon's Den, where she has invested in dozens of Canadian businesses

### Paul Wilson

#### Director

- CEO & President level experience at some of Canada's best consumer facing businesses including, Canadian Tire, Mark's, Princess Auto, Spence Diamonds, Kit & Ace, and Alcanna Nova Cannabis
- A brand builder establishing and growing sustainable consumer brand positions that create enterprise value and enduring relevance

### Billy Yellowhead

#### Advisor

- Council member of Thunderchild First Nation, heading the Legislation, Culture and ANCFs portfolios
- Previously served as Land Coordinator for Thunderchild First Nation
- Owned and operated Yellowhead Outfitters

Source: Company reports



# Appendix II: Company Financials

Zuanic & Associates



## Exhibit 7: Financial highlights

C\$ 000s	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	1Q24e	2Q24e	3Q24e	4Q24e	FY24e	FY25e	FY26e
<b>Sales</b>	52.5	79.3	27.1	30.9	30.2	30.8	119.0	31.2	34.1	37.5	37.3	140.1	166.5	188.9
qoq ch %	na	na	5%	14%	-2%	2%	na	1%	9%	10%	0%	na	na	na
yoy ch %	75%	51%	63%	66%	65%	19%	50%	15%	10%	24%	21%	18%	19%	13%
<i>guidance</i>						na	na					na	na	na
<i>consensus</i>						31.1	119.3	32.6	34.2	35.8	37.6	140.1	173.7	na
<b>Profit margins</b>														
Gross profit before FV adj	17.9	34.0	13.4	13.1	12.8	13.6	52.8	14.1	16.0	18.0	18.3	66.4	83.3	94.4
as % of sales	34.1%	42.9%	49.2%	42.3%	42.5%	44.0%	44.4%	45.0%	47.0%	48.0%	49.0%	47.4%	50.0%	50.0%
Gross profit after FV adj	28.2	26.4	9.4	8.4	12.7	13.6	44.1	14.1	16.0	18.0	18.3	66.4	83.3	94.4
as % of sales	53.7%	33.3%	34.8%	27.1%	42.2%	44.0%	37.1%	45.0%	47.0%	48.0%	49.0%	47.4%	50.0%	50.0%
Op exp	22.2	27.1	9.3	8.0	11.6	8.1	37.0	8.3	9.0	9.8	9.8	36.9	43.5	49.2
as % of sales	42.3%	34.2%	34.2%	25.8%	38.4%	26.4%	31.1%	26.4%	26.3%	26.2%	26.2%	26.3%	26.1%	26.0%
EBIT	6.0	-0.7	0.2	0.4	1.1	5.4	7.1	5.8	7.1	8.2	8.5	29.5	39.7	45.3
as % of sales	11.4%	-0.9%	0.6%	1.3%	3.7%	17.6%	6.0%	18.6%	20.7%	21.8%	22.8%	21.0%	23.9%	24.0%
adj EBITDA	7.4	17.0	6.8	7.3	6.7	6.3	27.1	6.7	7.9	9.0	9.3	32.9	43.0	48.2
as % of sales	14.1%	21.4%	24.9%	23.6%	22.2%	20.4%	22.7%	21.3%	23.2%	24.1%	25.0%	23.5%	25.8%	25.5%
<i>Consensus EBITDA</i>						6.8	27.5	7.2	7.7	8.4	9.1	32.3	42.6	na
as % of sales						21.9%	23.1%	22.1%	22.5%	23.5%	24.2%	23.1%	24.5%	na
<b>EPS</b>														
Pre tax income	1.7	-4.5	-0.6	-0.4	0.4	5.4	4.8	5.8	7.1	8.2	8.6	29.7	40.3	46.2
Tax rate assumption	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	1.7	-4.5	-0.6	-0.4	0.4	5.4	4.8	5.8	7.1	8.2	8.6	29.7	40.3	46.2
Share count (FD) Mn	374.8	404.2	406.8	409.0	472.3	472.3	440.1	472.3	472.3	472.3	472.3	472.3	472.3	472.3
EPS	0.00	-0.01	0.00	0.00	0.00	0.01	0.01	0.01	0.02	0.02	0.02	0.06	0.09	0.10
<i>consensus</i>						0.00	0.00	0.01	0.01	0.01	0.01	0.03	0.05	na
<b>BS &amp; CF highlights</b>														
Operating cash flow	-17.1	8.3	2.3	0.9	1.9	5.3	10.5	5.9	5.1	5.9	9.2	26.0	41.9	50.2
(-) Capex	-3.0	-3.3	-0.5	-0.5	-0.1	-0.5	-1.5	-0.5	-0.5	-0.5	-0.5	-2.0	-2.0	-2.0
Free cash flow	-20.1	5.0	1.8	0.5	1.9	4.8	9.0	5.4	4.6	5.4	8.7	24.0	39.9	48.2
Ending net cash (debt)	-43.6	-40.8	-39.2	-39.1	-42.0	-31.9	-31.9	-26.5	-21.9	-16.5	-7.8	-7.8	32.1	80.3
LTM EBITDA	7.4	17.0	21.3	25.4	27.8	27.1	27.1	27.0	27.6	29.9	32.9	32.9	43.0	48.2
Net debt/EBITDA	-5.9	-2.4	-1.8	-1.5	-1.5	-1.2	-1.2	-1.0	-0.8	-0.6	-0.2	-0.2	0.7	1.7
Equity	50.7	47.2	46.9	46.7	47.2	52.6	52.6	58.5	65.6	73.8	82.3	82.3	122.6	168.9

Source: Z&amp;A estimates, company reports

**Exhibit 8: Sales**

C\$Mn	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	1Q24e	2Q24e	3Q24e	4Q24e	FY24e	FY25e	FY26e
<b>Net Sales</b>	<b>52.5</b>	<b>79.3</b>	<b>27.1</b>	<b>30.9</b>	<b>30.2</b>	<b>30.8</b>	<b>119.0</b>	<b>31.2</b>	<b>34.1</b>	<b>37.5</b>	<b>37.3</b>	<b>140.1</b>	<b>166.5</b>	<b>188.9</b>
Domestic rec	0.0	0.0	25.0	28.1	27.8	27.4	108.4	27.4	30.0	32.9	32.2	122.5	144.7	164.4
Exports	0.0	0.0	0.6	1.1	0.5	1.8	4.1	2.2	2.5	3.0	3.5	11.2	15.5	18.1
Retailing	0.0	0.0	1.5	1.6	1.9	1.6	6.6	1.6	1.6	1.6	1.6	6.4	6.4	6.4
<b>Sales and market share assumptions</b>														
Canada rec sales	3,875	4,518	1,166	1,264	1,358	1,318	5,106	1,294	1,390	1,493	1,438	5,616	6,178	6,796
market (0.4x)	1,550	1,807	466	506	543	527	2,042	518	556	597	575	2,246	2,471	2,718
total market % share	2.4%	5.1%	5.4%	5.6%	5.1%	5.2%	5.3%	5.3%	5.4%	5.5%	5.6%	5.5%	5.9%	6.0%

Source: Z&A estimates, company reports

**Exhibit 9: Projected EV**

C\$ 000s	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	1Q24e	2Q24e	3Q24e	4Q24e	FY24e	FY25e	FY26e
<b>EV calculation (C\$Mn)</b>	<b>111</b>	<b>107</b>	<b>104</b>	<b>103</b>	<b>106</b>	<b>96</b>	<b>99</b>	<b>91</b>	<b>86</b>	<b>81</b>	<b>72</b>	<b>75</b>	<b>35</b>	<b>-13</b>
<b>Market cap (C\$Mn)</b>	<b>54</b>	<b>54</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>54</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>54</b>	<b>54</b>	<b>54</b>
Share price (C\$)	0.13	0.13	0.12	0.12	0.12	0.12	0.13	0.12	0.12	0.12	0.12	0.13	0.13	0.13
Share price (US\$)	0.10	0.10	0.09	0.09	0.09	0.09	0.10	0.09	0.09	0.09	0.09	0.10	0.10	0.10
FD share count (Mn)	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0
common shares	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0	409.0
RSU/DSUs	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
derivatives in the money	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Broadly defined net debt</b>	<b>-57</b>	<b>-53</b>	<b>-53</b>	<b>-53</b>	<b>-55</b>	<b>-45</b>	<b>-45</b>	<b>-40</b>	<b>-35</b>	<b>-30</b>	<b>-21</b>	<b>-21</b>	<b>19</b>	<b>67</b>
net financial debt	-44	-41	-39	-39	-42	-32	-32	-26	-22	-16	-8	-8	32	80
leases	-13	-12	-14	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13
other debt/deferred taxes														
warrant/option/convert inflow														
<i>Note: our comp tables use a static definition of EV (i.e. the current one); but in this table we used projected EV</i>														
<b>Multiples (CF)</b>														
PE	28.3	-11.9	-22.2	-30.1	35.5	2.7	13.3	2.5	2.1	1.8	1.7	2.1	1.5	1.3
EV/Sales	2.1	1.4	1.0	0.8	0.9	0.8	0.8	0.7	0.6	0.5	0.5	0.5	0.2	-0.1
EV/EBITDA	15.0	6.3	3.8	3.5	4.0	3.8	3.7	3.4	2.7	2.2	1.9	2.3	0.8	-0.3

Source: Z&A estimates, company reports

Note: The common shares of Decibel ("Common Shares") trade on the TSX-Venture Exchange ("TSX-V") under the ticker symbol "DB" and on the OTCQB Venture Market under the symbol "DBCCF". The Company's warrants trade on the TSX-V under the trading symbol "DB.WT.A".

## Exhibit 10: Income statement

C\$ 000s	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	1Q24e	2Q24e	3Q24e	4Q24e	FY24e	FY25e	FY26e
<b>Gross revenue</b>	<b>67,892</b>	<b>118,954</b>	<b>42,721</b>	<b>49,461</b>	<b>49,107</b>	<b>49,085</b>	<b>190,374</b>	<b>49,534</b>	<b>54,155</b>	<b>59,361</b>	<b>58,784</b>	<b>221,834</b>	<b>262,963</b>	<b>298,434</b>
(-) excise duty	-15,439	-39,628	-15,580	-18,567	-18,917	-18,274	-71,338	-18,294	-20,022	-21,904	-21,474	-81,694	-96,442	-109,581
<b>Net revenue</b>	<b>52,453</b>	<b>79,326</b>	<b>27,141</b>	<b>30,894</b>	<b>30,190</b>	<b>30,811</b>	<b>119,036</b>	<b>31,241</b>	<b>34,133</b>	<b>37,456</b>	<b>37,311</b>	<b>140,140</b>	<b>166,521</b>	<b>188,854</b>
(-) cost of sales - research contracts and other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(-) cost of sales - cost of finished cannabis inve	-34,590	-45,300	-13,775	-17,832	-17,352	-17,254	-66,213	-17,182	-18,091	-19,477	-19,028	-73,778	-83,260	-94,427
(-) inventory impairment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Gross profit before loss on fair value of biolog</b>	<b>17,863</b>	<b>34,026</b>	<b>13,366</b>	<b>13,062</b>	<b>12,838</b>	<b>13,557</b>	<b>52,823</b>	<b>14,058</b>	<b>16,043</b>	<b>17,979</b>	<b>18,282</b>	<b>66,362</b>	<b>83,260</b>	<b>94,427</b>
(-) unrealized gain on changes in fair value of bi	25,199	18,406	3,954	471	4,682	0	9,107	0	0	0	0	0	0	0
(-) change in fair value of biological assets realiz	-14,889	-26,002	-7,872	-5,157	-4,792	0	-17,821	0	0	0	0	0	0	0
<b>Gross profit</b>	<b>28,173</b>	<b>26,430</b>	<b>9,448</b>	<b>8,376</b>	<b>12,728</b>	<b>13,557</b>	<b>44,109</b>	<b>14,058</b>	<b>16,043</b>	<b>17,979</b>	<b>18,282</b>	<b>66,362</b>	<b>83,260</b>	<b>94,427</b>
(-) SGA	-16,042	-21,661	-7,663	-7,332	-10,270	-7,700	-32,965	-7,810	-8,533	-9,364	-9,328	-35,035	-41,630	-47,213
(-) D&A	-3,737	-3,669	-1,216	-468	-834	-449	-2,967	-453	-457	-461	-465	-1,834	-1,898	-1,962
(-) equity-based compensation	-2,426	-1,814	-398	-173	-493	0	-1,064	0	0	0	0	0	0	0
(-) other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Operating income</b>	<b>5,968</b>	<b>-714</b>	<b>171</b>	<b>403</b>	<b>1,131</b>	<b>5,408</b>	<b>7,113</b>	<b>5,796</b>	<b>7,053</b>	<b>8,154</b>	<b>8,490</b>	<b>29,493</b>	<b>39,732</b>	<b>45,251</b>
(-) finance costs	-4,090	-3,158	-697	-742	-732	0	-2,171	0	0	0	0	0	0	0
(+) fx loss	-167	-649	-111	-134	-39	18	-266	34	47	59	77	216	554	996
(+) loss on disposal of PPE and right of use assi	-34	-81	0	0	0	0	0	0	0	0	0	0	0	0
(+) transaction costs	0	-10	0	0	0	0	0	0	0	0	0	0	0	0
(-) other income	66	150	68	50	53	0	171	0	0	0	0	0	0	0
<b>Income before tax</b>	<b>1,743</b>	<b>-4,462</b>	<b>-569</b>	<b>-423</b>	<b>413</b>	<b>5,426</b>	<b>4,847</b>	<b>5,830</b>	<b>7,099</b>	<b>8,213</b>	<b>8,566</b>	<b>29,709</b>	<b>40,286</b>	<b>46,247</b>
(-) income tax, current	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(-) income tax, deferred	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net income</b>	<b>1,743</b>	<b>-4,462</b>	<b>-569</b>	<b>-423</b>	<b>413</b>	<b>5,426</b>	<b>4,847</b>	<b>5,830</b>	<b>7,099</b>	<b>8,213</b>	<b>8,566</b>	<b>29,709</b>	<b>40,286</b>	<b>46,247</b>
(-) non controlling interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net income after min int</b>	<b>1,743</b>	<b>-4,462</b>	<b>-569</b>	<b>-423</b>	<b>413</b>	<b>5,426</b>	<b>4,847</b>	<b>5,830</b>	<b>7,099</b>	<b>8,213</b>	<b>8,566</b>	<b>29,709</b>	<b>40,286</b>	<b>46,247</b>
Basic EPS	0.00	-0.01	0.00	0.00	0.00	0.05	0.05	0.05	0.07	0.08	0.08	0.27	0.37	0.42
Diluted EPS	0.00	-0.01	0.00	0.00	0.00	0.01	0.01	0.01	0.02	0.02	0.02	0.06	0.09	0.10
Basic # of shares (Mn)	365.8	404.2	406.8	409.0	109.0	109.0	258.5	109.0	109.0	109.0	109.0	109.0	109.0	109.0
Diluted # of shares (Mn)	374.8	404.2	406.8	409.0	472.3	472.3	440.1	472.3	472.3	472.3	472.3	472.3	472.3	472.3

Source: Z&amp;A estimates, company reports



## Exhibit 11: Cash Flow

C\$ 000s	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	1Q24e	2Q24e	3Q24e	4Q24e	FY24e	FY25e	FY26e
Net earnings	1,743	-4,462	-569	-423	413	5,426	4,847	5,830	7,099	8,213	8,566	29,709	40,286	46,247
(+) D&A	3,737	3,669	1,216	468	834	449	2,967	453	457	461	465	1,834	1,898	1,962
<b>Cash earnings</b>	<b>5,480</b>	<b>-793</b>	<b>647</b>	<b>45</b>	<b>1,247</b>	<b>5,875</b>	<b>7,814</b>	<b>6,282</b>	<b>7,556</b>	<b>8,674</b>	<b>9,031</b>	<b>31,543</b>	<b>42,184</b>	<b>48,209</b>
(-) Working capital changes	-15,845	-1,225	-2,789	-4,163	-80	-525	-7,557	-363	-2,446	-2,811	123	-5,497	-258	2,021
(-) Other operating flows	-6,781	10,276	4,457	5,040	770	0	10,267	0	0	0	0	0	0	0
<b>Net cash used in operating activities</b>	<b>-17,146</b>	<b>8,258</b>	<b>2,315</b>	<b>922</b>	<b>1,937</b>	<b>5,349</b>	<b>10,523</b>	<b>5,919</b>	<b>5,110</b>	<b>5,863</b>	<b>9,154</b>	<b>26,046</b>	<b>41,926</b>	<b>50,230</b>
(-) net capex	-2,960	-3,266	-486	-464	-79	-500	-1,529	-500	-500	-500	-500	-2,000	-2,000	-2,000
<b>Free cash flow</b>	<b>-20,106</b>	<b>4,992</b>	<b>1,829</b>	<b>458</b>	<b>1,858</b>	<b>4,849</b>	<b>8,994</b>	<b>5,419</b>	<b>4,610</b>	<b>5,363</b>	<b>8,654</b>	<b>24,046</b>	<b>39,926</b>	<b>48,230</b>
(-) acquisitions	-283	-556	0	0	-701	0	-701	0	0	0	0	0	0	0
(-) divestitures	0	47	0	0	0	0	0	0	0	0	0	0	0	0
(+) other	-3,543	-1,691	-407	-665	-4,442	5,245	-269	0	0	0	0	0	0	0
(+) share issuance	15,008	0	0	0	0	0	0	0	0	0	0	0	0	0
(-) stock options/warrants	272	1	142	356	356	0	854	0	0	0	0	0	0	0
<b>Change in net</b>	<b>-8,652</b>	<b>2,793</b>	<b>1,564</b>	<b>149</b>	<b>-2,929</b>	<b>10,094</b>	<b>8,878</b>	<b>5,419</b>	<b>4,610</b>	<b>5,363</b>	<b>8,654</b>	<b>24,046</b>	<b>39,926</b>	<b>48,230</b>
<b>Ending net (debt)</b>	<b>-43,560</b>	<b>-40,767</b>	<b>-39,203</b>	<b>-39,054</b>	<b>-41,983</b>	<b>-31,889</b>	<b>-31,889</b>	<b>-26,470</b>	<b>-21,860</b>	<b>-16,497</b>	<b>-7,842</b>	<b>-7,842</b>	<b>32,084</b>	<b>80,314</b>
Cash/inv/sec	1,919	2,966	3,872	3,366	3,391	10,895	10,895	16,314	20,924	26,287	34,942	34,942	74,868	123,098
Gross debts/loans/bonds	45,479	43,733	43,075	42,420	45,374	42,784	42,784	42,784	42,784	42,784	42,784	42,784	42,784	42,784

Source: Z&amp;A estimates, company reports



## Exhibit 12: Balance Sheet

C\$ 000s	FY21	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e	FY24e	FY25e	FY26e
Cash and cash equivalents	1,919	2,966	3,872	3,366	3,391	10,895	10,895	34,942	74,868	123,098
Short term investments and restricted cash	0	0	0	0	0	0	0	0	0	0
Accounts receivables	12,839	16,612	15,886	16,562	21,032	21,465	21,465	25,993	28,688	29,841
Notes receivables	0	0	0	0	0	0	0	0	0	0
Biological assets	2,460	2,358	1,554	1,014	1,946	1,986	1,986	2,405	2,794	3,059
Inventory	34,656	45,424	46,963	43,200	46,479	47,435	47,435	57,441	63,397	65,946
Research contract costs	0	0	0	0	0	0	0	0	0	0
Prepaid expenses	0	0	0	0	0	0	0	0	0	0
Deposits	0	0	0	0	0	0	0	0	0	0
Other current assets	4,756	2,413	2,081	1,989	1,902	1,941	1,941	2,351	2,731	2,990
Assets held for sale	0	0	0	0	0	0	0	0	0	0
<b>Current assets</b>	<b>56,630</b>	<b>69,773</b>	<b>70,356</b>	<b>66,131</b>	<b>74,750</b>	<b>83,723</b>	<b>83,723</b>	<b>123,131</b>	<b>172,478</b>	<b>224,934</b>
PPE	58,864	57,924	56,963	56,351	56,073	56,124	56,124	56,290	56,392	56,429
Right of use assets	3,343	4,620	6,284	6,120	5,931	686	686	686	686	686
Other long-term assets	2,412	3,941	3,484	3,128	3,246	3,246	3,246	3,246	3,246	3,246
Intangible assets	421	363	580	686	686	686	686	686	686	686
Goodwill	0	4,259	4,259	4,259	4,259	4,259	4,259	4,259	4,259	4,259
Other	4,259	0	0	0	0	0	0	0	0	0
<b>TOTAL ASSETS</b>	<b>125,929</b>	<b>140,880</b>	<b>141,926</b>	<b>136,675</b>	<b>144,945</b>	<b>148,724</b>	<b>148,724</b>	<b>188,298</b>	<b>237,746</b>	<b>290,241</b>
Accounts payable and accrued liabilities	24,961	44,325	44,842	40,662	45,826	46,769	46,769	56,634	65,796	72,044
Current portion of lease liabilities	732	868	1,219	1,134	1,050	1,050	1,050	1,050	1,050	1,050
Current portion of long term debt	9,806	8,687	8,694	8,708	8,748	8,748	8,748	8,748	8,748	8,748
Convertible debenture	11,616	0	0	0	0	0	0	0	0	0
Short term debt	0	0	0	0	3,590	1,000	1,000	1,000	1,000	1,000
Deferred revenue	0	0	0	0	0	0	0	0	0	0
Current portion of equipment loan	0	0	0	0	0	0	0	0	0	0
Contingent consideration payable	0	0	0	0	0	0	0	0	0	0
<b>Total current liabilities</b>	<b>47,115</b>	<b>53,880</b>	<b>54,755</b>	<b>50,504</b>	<b>59,214</b>	<b>57,567</b>	<b>57,567</b>	<b>67,432</b>	<b>76,594</b>	<b>82,842</b>
Long term lease liabilities	3,689	3,793	4,987	4,788	4,538	4,538	4,538	4,538	4,538	4,538
Long-term debt	24,057	35,046	34,381	33,712	33,036	33,036	33,036	33,036	33,036	33,036
Other long term liabilities	333	950	946	951	950	950	950	950	950	950
Equipment loan	0	0	0	0	0	0	0	0	0	0
Contingent consideration payable	0	0	0	0	0	0	0	0	0	0
<b>Total liabilities</b>	<b>75,194</b>	<b>93,669</b>	<b>95,069</b>	<b>89,955</b>	<b>97,738</b>	<b>96,091</b>	<b>96,091</b>	<b>105,956</b>	<b>115,118</b>	<b>121,366</b>
Share capital	53,420	53,533	53,746	54,077	54,078	54,078	54,078	54,078	54,078	54,078
Shares to be issued	0	0	0	0	0	0	0	0	0	0
Reserves	15,264	16,089	16,091	16,046	16,119	16,119	16,119	16,119	16,119	16,119
Accumulated other comprehensive income	0	0	0	0	0	0	0	0	0	0
Deficit	-17,949	-22,411	-22,980	-23,403	-22,990	-17,564	-17,564	12,145	52,431	98,678
<b>Total stockholders equity</b>	<b>50,735</b>	<b>47,211</b>	<b>46,857</b>	<b>46,720</b>	<b>47,207</b>	<b>52,633</b>	<b>52,633</b>	<b>82,342</b>	<b>122,628</b>	<b>168,875</b>
Non controlling interest	0	0	0	0	0	0	0	0	0	0
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>125,929</b>	<b>140,880</b>	<b>141,926</b>	<b>136,675</b>	<b>144,945</b>	<b>148,724</b>	<b>148,724</b>	<b>188,298</b>	<b>237,746</b>	<b>290,241</b>

Source: Z&amp;A estimates, company reports



# Appendix III: Benchmarking Data

Zuanic & Associates



## Exhibit 13: Consolidated Sales comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>SALES</b>														
Aleafia	44.5	7.1	10.7	9.6	8.8	36.1	43.1	12.0	10.6	10.8	76.5	42.8	na	na
Aurora	285.0	55.2	55.7	60.1	60.6	231.6	50.4	50.1	49.3	61.7	211.5	64.0	75.1	63.3
Auxly	50.8	10.0	20.9	24.5	28.5	83.8	22.6	27.3	19.8	24.7	94.5	24.0	22.0	28.2
Avant	7.9	2.0	2.5	2.7	2.3	9.5	4.2	4.1	4.0	7.9	20.1	7.0	8.0	6.5
BZAM	12.7	5.4	8.1	7.3	9.5	30.2	10.6	11.6	9.9	17.2	49.4	24.1	19.3	21.0
Canopy Growth	506.1	148.4	136.2	131.4	141.0	557.0	101.8	105.9	105.4	104.0	417.1	87.5	108.7	69.6
Cronos	62.6	16.0	19.2	25.7	54.5	115.2	31.7	27.6	27.3	33.1	120.6	27.2	25.6	33.3
Decibel	29.9	12.6	12.4	13.4	14.0	52.5	16.7	18.6	18.3	25.8	79.3	27.1	30.9	30.2
Hexo	106.4	26.0	33.4	46.4	51.9	157.8	47.9	43.6	38.0	28.0	157.5	22.4	na	na
Fire & Flower	128.1	44.1	43.3	45.4	42.7	175.5	40.9	40.7	43.8	30.5	156.0	na	na	na
High Tide	98.7	39.5	45.7	52.0	66.2	203.3	78.1	90.6	104.0	114.8	387.6	118.1	122.3	119.3
Nova Cannabis	63.3	18.4	29.7	38.7	47.6	134.4	49.8	56.3	58.9	61.4	226.4	60.2	64.0	67.7
Organigram	82.9	16.2	18.4	23.4	28.6	86.6	31.4	36.0	43.0	44.0	154.5	40.8	35.0	35.3
Rubicon	9.4	4.1	4.6	7.1	6.8	22.6	5.1	8.8	10.5	11.0	35.5	8.8	11.3	10.0
SNDL	60.9	9.9	9.2	14.4	22.7	56.1	17.6	223.7	230.5	240.4	712.2	202.5	244.5	237.6
Tilray	507.8	164.6	185.1	206.3	194.2	750.2	193.0	195.7	196.0	196.3	787.8	214.2	244.2	228.9
Village Farms	228.0	66.4	86.4	91.3	91.7	336.0	88.9	105.8	92.7	94.3	385.2	87.5	103.7	93.2

Source: Z&amp;A estimates, company reports



## Exhibit 14: Cannabis Net Sales comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>CANNABIS SALES</b>														
Aleafia	44.5	7.1	10.7	9.6	8.8	36.1	43.1	12.0	10.6	10.8	76.5	42.8	na	na
Aurora	272.1	55.2	55.7	60.1	60.1	231.1	49.7	49.2	44.7	54.2	197.7	52.8	54.8	55.8
Auxly	50.8	10.0	20.9	24.5	28.5	83.8	22.6	27.3	19.8	24.7	94.5	24.0	22.0	28.2
Avant	7.9	2.0	2.5	2.7	2.3	9.5	4.2	4.1	4.0	7.9	20.1	7.0	8.0	6.5
BZAM	12.7	5.4	8.1	7.3	9.5	30.2	10.6	11.6	9.9	17.2	49.4	24.1	19.3	21.0
Canopy Growth	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0
Cronos	62.6	16.0	19.2	25.7	54.5	115.2	31.7	27.6	27.3	33.1	120.6	27.2	25.6	33.3
Decibel	29.9	12.6	12.4	13.4	14.0	52.5	16.7	18.6	18.3	25.8	79.3	27.1	30.9	30.2
Hexo	106.4	26.0	33.4	46.4	51.9	157.8	47.9	43.6	38.0	28.0	157.5	22.4	na	na
Fire & Flower	128.1	44.1	43.3	45.4	42.7	175.5	40.9	40.7	43.8	30.5	156.0	na	na	na
High Tide	98.7	39.5	45.7	52.0	66.2	203.3	78.1	90.6	104.0	114.8	387.6	118.1	122.3	119.3
Nova Cannabis	63.3	18.4	29.7	38.7	47.6	134.4	49.8	56.3	58.9	61.4	226.4	60.2	64.0	67.7
Organigram	82.9	16.2	18.4	23.4	28.6	86.6	31.4	36.0	43.0	44.0	154.5	40.8	35.0	35.3
Rubicon	9.4	4.1	4.6	7.1	6.8	22.6	5.1	8.8	10.5	11.0	35.5	8.8	11.3	10.0
SNDL	60.9	9.9	9.2	8.2	12.8	40.0	8.8	11.6	11.8	12.3	44.4	7.5	8.6	8.8
Tilray	160.5	57.8	72.7	83.9	72.5	287.1	69.0	70.2	72.7	66.7	281.2	71.8	89.1	89.9
Village Farms	17.1	22.1	30.4	34.5	33.8	120.9	27.6	38.0	39.6	37.9	144.2	34.0	37.7	38.6

Source: Z&A estimates, company reports



Exhibit 15: Cannabis as % of Consolidated Sales comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>CANNABIS AS % OF TOTAL NET SALES</b>														
Aleafia	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	na	na
Aurora	95%	100%	100%	100%	99%	100%	99%	98%	91%	88%	93%	82%	73%	88%
Auxly	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Avant	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
BZAM	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Canopy Growth	9%	32%	35%	37%	34%	9%	47%	45%	46%	46%	11%	55%	44%	69%
Cronos	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Decibel	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Hexo	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	na	na
Fire & Flower	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	na	na	na
High Tide	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Nova Cannabis	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Organigram	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Rubicon	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
SNDL	100%	100%	100%	57%	56%	71%	50%	5%	5%	5%	6%	4%	4%	4%
Tilray	32%	35%	39%	41%	37%	38%	36%	36%	37%	34%	36%	34%	37%	39%
Village Farms	8%	33%	35%	38%	37%	36%	31%	36%	43%	40%	37%	39%	36%	41%

Source: Z&A estimates, company reports



## Exhibit 16: Consolidated Gross Margin comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>GROSS MARGIN</b>														
Aleafia	53%	46%	43%	-41%	27%	17%	21%	22%	35%	37%	26%	33%	na	na
Aurora	-6%	-131%	39%	44%	-18%	-15%	-20%	10%	3%	3%	-1%	32%	18%	29%
Auxly	21%	21%	37%	18%	13%	21%	-2%	18%	15%	22%	14%	35%	20%	19%
Avant	50%	41%	39%	40%	34%	39%	23%	23%	37%	38%	32%	42%	34%	31%
BZAM	-6%	1%	32%	29%	32%	26%	35%	21%	6%	-15%	8%	13%	16%	8%
Canopy Growth	-4%	7%	20%	-54%	7%	-4%	-166%	-5%	-8%	0%	-44%	-103%	5%	34%
Cronos	-55%	-23%	-101%	-4%	73%	13%	28%	20%	6%	-2%	13%	12%	16%	16%
Decibel	39%	39%	41%	31%	26%	34%	35%	41%	52%	43%	43%	49%	42%	43%
Hexo	-38%	18%	21%	-42%	-32%	-15%	-19%	-70%	-35%	-5%	-35%	-26%	na	na
Fire & Flower	35%	37%	37%	35%	32%	35%	30%	24%	27%	24%	26%	na	na	na
High Tide	37%	36%	35%	33%	32%	34%	29%	27%	27%	27%	28%	27%	27%	28%
Nova Cannabis	33%	26%	17%	17%	18%	19%	19%	19%	19%	21%	19%	21%	23%	25%
Organigram	-33%	-76%	-41%	-7%	5%	-23%	17%	22%	20%	24%	21%	26%	10%	16%
Rubicon	-43%	-14%	-9%	25%	22%	10%	14%	32%	39%	41%	34%	34%	41%	32%
SNDL	-60%	-33%	-22%	-8%	-22%	-20%	7%	20%	23%	19%	21%	17%	21%	20%
Tilray	29%	21%	21%	27%	23%	23%	16%	8%	31%	17%	18%	9%	33%	26%
Village Farms	6%	4%	7%	25%	27%	17%	14%	8%	12%	4%	9%	19%	15%	21%

Source: Z&A estimates, company reports



## Exhibit 17: Consolidated SGA/Gross Profits comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>CASH SGA/GROSS PROFIT</b>														
Aleafia	124%	210%	202%	-168%	297%	473%	373%	191%	114%	97%	242%	128%	na	na
Aurora	-1408%	-62%	227%	185%	-403%	-544%	-423%	1004%	3043%	1965%	-10826%	205%	261%	195%
Auxly	453%	451%	157%	267%	340%	257%	-2687%	260%	399%	173%	365%	122%	196%	187%
Avant	97%	117%	121%	130%	299%	161%	137%	206%	113%	69%	110%	74%	66%	145%
BZAM	-4248%	12693%	247%	344%	199%	321%	160%	271%	1030%	-536%	803%	383%	372%	757%
Canopy Growth	-2848%	1517%	357%	-153%	979%	-1889%	-99%	-2608%	-1175%	26735%	-282%	-120%	1537%	246%
Cronos	-524%	-1258%	-259%	-6827%	-67%	893%	454%	571%	2218%	-5756%	893%	853%	641%	527%
Decibel	103%	71%	77%	95%	126%	90%	77%	62%	59%	61%	64%	57%	56%	80%
Hexo	-152%	364%	312%	-143%	-182%	-401%	-349%	-75%	-119%	-997%	-155%	-230%	na	na
Fire & Flower	91%	88%	81%	87%	115%	92%	119%	174%	132%	167%	144%	na	na	na
High Tide	70%	69%	82%	85%	83%	81%	85%	82%	80%	80%	81%	77%	69%	66%
Nova Cannabis	10%	42%	21%	-7%	0%	11%	-15%	-20%	-23%	-25%	-21%	-25%	-38%	-40%
Organigram	-169%	-90%	-170%	-833%	1054%	-256%	271%	218%	210%	168%	208%	181%	599%	237%
Rubicon	-238%	-540%	-858%	169%	200%	555%	386%	115%	84%	76%	107%	116%	77%	88%
SNDL	-104%	-250%	-598%	-956%	-276%	-397%	922%	96%	90%	101%	103%	148%	111%	107%
Tilray	128%	137%	164%	131%	148%	144%	234%	524%	125%	232%	217%	397%	104%	127%
Village Farms	174%	351%	171%	74%	81%	103%	171%	275%	201%	588%	248%	142%	146%	108%

Source: Z&amp;A estimates, company reports



## Exhibit 18: Adj Consolidated EBITDA margins comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>EBITDA MARGIN</b>														
Aleafia	20%	-42%	-32%	-184%	73%	-49%	-10%	-8%	1%	4%	-6%	1%	na	na
Aurora	-53%	-44%	-35%	-18%	-12%	-27%	-20%	-17%	-13%	2%	-11%	2%	4%	5%
Auxly	-56%	-65%	-14%	-25%	-21%	-26%	-28%	-15%	-29%	-3%	-18%	1%	-5%	0%
Avant	-3%	10%	-1%	-10%	-63%	-16%	2%	-26%	18%	20%	9%	25%	21%	14%
BZAM	-300%	-87%	-41%	17%	75%	-75%	-21%	-37%	13%	-40%	-37%	-16%	-31%	-38%
Canopy Growth	-69%	-63%	-47%	-124%	-48%	-70%	-232%	-75%	-85%	-82%	-118%	-109%	-53%	-17%
Cronos	-315%	-294%	-1830%	-229%	542%	-175%	-62%	-77%	-104%	-115%	-164%	-75%	-97%	-62%
Decibel	5%	16%	17%	13%	10%	14%	15%	17%	23%	27%	21%	25%	24%	22%
Hexo	-10%	-27%	-32%	-24%	-15%	-23%	-29%	-25%	-8%	-6%	-19%	-15%	na	na
Fire & Flower	4%	5%	7%	5%	-6%	3%	-6%	-15%	-6%	-12%	-10%	na	na	na
High Tide	12%	12%	6%	3%	4%	6%	3%	4%	5%	5%	4%	5%	4%	6%
Nova Cannabis	-3%	-11%	-4%	1%	0%	-2%	3%	4%	4%	5%	4%	5%	9%	10%
Organigram	-9%	-49%	-52%	-32%	-14%	-33%	-2%	-1%	1%	6%	1%	7%	-10%	4%
Rubicon	-118%	-82%	-74%	-9%	-8%	-35%	-30%	3%	18%	12%	5%	2%	16%	11%
SNDL	-42%	34%	-2%	73%	60%	54%	-4%	-12%	8%	-3%	-2%	4%	1%	7%
Tilray	2%	8%	8%	8%	8%	8%	7%	8%	-3%	-16%	-1%	11%	10%	5%
Village Farms	9%	1%	2%	9%	7%	5%	-9%	-12%	-3%	-4%	-7%	1%	6%	5%

Source: Z&amp;A estimates, company reports



## Exhibit 19: Net Interest Expense comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>NET INTEREST EXP/SALES</b>														
Aleafia	-26%	-32%	-16%	-21%	-25%	-23%	-25%	-23%	-19%	-21%	-23%	-22%	na	na
Aurora	-23%	-28%	-26%	-25%	-22%	-25%	-49%	-28%	-13%	-10%	-24%	-4%	-3%	-2%
Auxly	-25%	-42%	-21%	2%	-28%	-19%	-22%	0%	1%	-67%	-22%	-24%	0%	0%
Avant	0%	-2%	-1%	-1%	0%	-1%	0%	0%	0%	0%	0%	0%	-1%	-1%
BZAM	0%	-35%	-30%	-14%	-8%	-20%	-9%	-10%	-13%	-10%	-10%	-7%	-9%	-8%
Canopy Growth	0%	0%	-18%	0%	0%	-4%	25%	-26%	0%	0%	-1%	32%	0%	0%
Cronos	39%	18%	15%	10%	37%	25%	8%	17%	108%	-24%	25%	56%	66%	54%
Decibel	-12%	-8%	-8%	-8%	-7%	-8%	-6%	-4%	-3%	-3%	-4%	-3%	-2%	-2%
Hexo	-9%	-11%	-49%	-23%	-9%	-22%	-10%	22%	11%	-4%	5%	-1%	na	na
Fire & Flower	-19%	-8%	-3%	-3%	-4%	-4%	-4%	-3%	-3%	-3%	-3%	na	na	na
High Tide	-11%	-10%	-7%	-5%	-3%	-6%	-3%	-3%	-3%	-2%	-3%	-2%	-2%	-3%
Nova Cannabis	0%	-3%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
Organigram	-8%	-7%	-3%	-1%	0%	-2%	0%	0%	0%	0%	0%	0%	0%	0%
Rubicon	0%	-15%	-4%	-3%	-4%	-6%	-5%	-3%	-3%	0%	-2%	0%	-2%	-3%
SNDL	0%	158%	103%	22%	-83%	17%	22%	-11%	-2%	0%	-3%	0%	0%	1%
Tilray	-8%	-6%	-6%	-6%	-5%	-6%	-2%	-3%	-3%	-2%	-2%	-1%	-4%	-6%
Village Farms	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-2%	-1%	-1%	-1%	-2%

Source: Z&amp;A estimates, company reports



## Exhibit 20: Consolidated Operating Cash Flow comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>OPERATING CASH FLOW</b>														
Aleafia	-7.6	-8.8	-10.9	-9.9	-16.3	-45.8	13.7	-1.6	-1.7	1.6	12.0	-1.8	na	na
Aurora	-280.9	-61.2	23.2	-22.7	-21.6	-82.2	-39.0	-26.6	-31.1	-60.6	-157.4	-24.0	-11.2	-30.9
Auxly	-33.1	-18.7	-9.9	-7.8	-13.2	-49.6	-7.0	1.7	-2.9	5.7	-2.5	3.2	-5.4	2.5
Avant	-0.1	-0.1	-3.1	-0.9	-1.4	-5.5	-2.0	-1.7	0.2	0.0	-3.5	0.4	2.0	1.8
BZAM	-36.0	-5.5	-0.3	-11.1	-1.2	-18.0	-3.7	-4.7	-3.2	2.7	-9.0	-7.4	-1.7	7.9
Canopy Growth	-578.5	-97.8	-165.8	-86.0	-167.4	-517.0	-126.7	-140.5	-133.4	-143.9	-544.5	-139.7	-148.7	-78.7
Cronos	-194.2	-58.3	-49.4	-39.7	-45.3	-192.6	-43.0	-22.1	-17.5	-33.1	-116.7	-64.5	-15.8	-0.2
Decibel	-4.2	-3.1	-3.0	-5.9	-5.1	-17.1	3.0	1.8	3.6	-0.1	8.3	2.3	0.9	1.9
Hexo	-37.6	-4.4	-18.4	-46.5	-42.3	-111.6	-17.9	-13.5	-24.4	-5.9	-61.8	2.0	na	na
Fire & Flower	2.7	0.1	-7.3	-0.3	-5.1	-12.6	-6.0	-5.6	-2.5	-2.8	-16.8	24.1	na	na
High Tide	10.0	-2.2	-4.8	1.6	0.6	-4.9	-2.0	-0.7	5.6	4.1	7.0	1.6	5.5	10.8
Nova Cannabis	11.3	-2.5	-3.5	5.2	-9.1	-10.0	-5.9	5.9	3.3	-3.4	-0.1	-1.4	3.9	3.0
Organigram	-26.9	-6.9	-10.6	-8.7	-8.8	-35.0	-3.6	-4.5	-15.3	-4.2	-27.6	-12.1	-10.2	-2.0
Rubicon	-14.3	-6.1	-3.5	-1.3	0.5	-10.4	-1.6	-0.7	1.4	2.8	2.0	0.2	2.4	1.4
SNDL	-57.5	-34.4	-70.4	-56.2	5.5	-155.4	-26.0	-17.9	8.6	28.6	-6.7	-48.8	-8.8	27.5
Tilray	-195.0	-272.1	-174.8	-85.8	-33.7	-566.7	-47.9	-37.0	-27.9	18.2	-98.2	2.6	32.2	-14.8
Village Farms	7.6	-18.3	-1.0	-7.4	-23.3	-49.6	-12.2	0.8	-5.5	-9.1	-26.1	-5.0	-2.1	16.2

Source: Z&A estimates, company reports



## Exhibit 21: Net Debt comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>NET DEBT</b>														
Aleafia	-26	-15	-16	-33	-44	-44	-51	-37	-42	-39	-39	-44	na	na
Aurora	-109	63	83	33	-16	-16	96	211	85	83	83	57	48	53
Auxly	-93	-96	-72	-68	-148	-148	-162	-158	-163	-159	-159	-157	-163	-128
Avant	-6	-3	18	16	14	14	12	9	9	7	7	-6	-8	-7
BZAM	-29	-25	-7	-11	-16	-16	-21	-25	-27	-28	-28	-34	-34	-31
Canopy Growth	961	716	490	431	-87	-87	-129	-241	-211	-416	-416	-524	-474	-413
Cronos	1,729	1,570	1,347	1,310	1,266	1,259	1,243	1,206	1,159	1,192	1,152	1,131	1,130	1,126
Decibel	-35	-39	-43	-37	-44	-44	-42	-42	-40	-41	-41	-39	-39	-42
Hexo	113	90	48	-107	-179	-179	-171	-144	-166	-162	-162	-155	na	na
Fire & Flower	-2	29	25	15	-2	-2	27	17	-7	-1	-1	17	na	na
High Tide	-33	-12	2	-7	-13	-13	-14	-12	-11	-12	-12	-15	-14	-5
Nova Cannabis	0	34	25	15	11	11	0	-3	-3	-4	-4	-7	-6	-4
Organigram	-1	14	135	187	173	173	143	129	108	96	96	79	59	50
Rubicon	-2	11	-5	2	2	2	-1	-3	-4	-2	-2	-3	-1	-1
SNDL	68	915	1,043	790	671	671	520	425	349	329	329	252	218	232
Tilray	-199	-373	-501	-544	-530	-527	-445	-226	-200	-228	-220	-226	-156	-127
Village Farms	-54	88	71	27	-14	-14	-36	-40	-51	-53	-52	-29	-31	-17

Source: Z&A estimates, company reports



## Exhibit 22: Net Debt to Consolidated Sales comps

C\$Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23
<b>NET DEBT / CONSOLIDATED SALES</b>														
Aleafia	-0.6x	0.4x	0.4x	0.8x	0.7x	1.0x	-0.9x	5.8x	6.3x	-6.1x	-3.3x	6.0x	na	na
Aurora	0.4x	-0.3x	0.9x	-0.4x	0.2x	0.2x	-0.6x	-2.0x	-0.7x	-0.3x	-0.5x	-0.6x	-1.1x	-0.4x
Auxly	2.8x	1.3x	1.8x	2.2x	2.8x	3.0x	5.8x	-22.7x	14.2x	-7.0x	64.2x	-12.2x	7.6x	-12.6x
Avant	44.8x	5.8x	-1.4x	-4.6x	-2.5x	-2.6x	-1.5x	-1.3x	12.9x	54.7x	-2.0x	-4.4x	-1.0x	-1.0x
BZAM	0.8x	1.2x	6.4x	0.2x	3.4x	0.9x	1.4x	1.3x	2.1x	-2.6x	3.1x	1.2x	5.0x	-1.0x
Canopy Growth	-1.7x	-1.8x	-0.7x	-1.3x	0.1x	0.2x	0.3x	0.4x	0.4x	0.7x	0.8x	0.9x	0.8x	1.3x
Cronos	-8.9x	-6.7x	-6.8x	-8.3x	-7.0x	-6.5x	-7.2x	-13.7x	-16.6x	-9.0x	-9.9x	-4.4x	-17.9x	na
Decibel	8.2x	3.1x	3.5x	1.6x	2.1x	2.5x	-3.6x	-5.9x	-2.8x	89.4x	-4.9x	-4.2x	-10.6x	-5.4x
Hexo	-3.0x	-5.1x	-0.6x	0.6x	1.1x	1.6x	2.4x	2.7x	1.7x	6.9x	2.6x	-19.7x	na	na
Fire & Flower	-0.9x	138.9x	-0.9x	-13.6x	0.1x	0.2x	-1.1x	-0.7x	0.7x	0.1x	0.1x	0.2x	na	na
High Tide	-3.3x	1.3x	-0.1x	-1.0x	-5.6x	2.7x	1.7x	4.2x	-0.5x	-0.7x	-1.7x	-2.3x	-0.6x	-0.1x
Nova Cannabis	0.0x	-3.4x	-1.8x	0.7x	-0.3x	-1.1x	0.0x	-0.1x	-0.3x	0.3x	56.0x	1.3x	-0.4x	-0.3x
Organigram	0.0x	-0.5x	-3.2x	-5.4x	-4.9x	-4.9x	-9.9x	-7.1x	-1.8x	-5.8x	-3.5x	-1.6x	-1.4x	-6.2x
Rubicon	0.1x	-0.5x	0.4x	-0.4x	1.0x	-0.2x	0.2x	1.0x	-0.7x	-0.2x	-1.0x	-3.7x	-0.1x	-0.2x
SNDL	-1.2x	-6.7x	-3.7x	-3.5x	30.7x	-4.3x	-5.0x	-5.9x	10.2x	2.9x	-49.1x	-1.3x	-6.2x	2.1x
Tilray	1.0x	0.3x	0.7x	1.6x	3.9x	0.9x	2.3x	1.5x	1.8x	-3.1x	2.2x	-21.9x	-1.2x	2.1x
Village Farms	-7.1x	-1.2x	-18.6x	-0.9x	0.1x	0.3x	0.7x	-12.8x	2.3x	1.5x	2.0x	1.4x	3.7x	-0.3x

Source: Z&A estimates, company reports



# Appendix IV: Valuation Comps

Zuanic & Associates



## Exhibit 23: Valuation Multiples

US\$Mn 18-Dec-23	Z&A Spot EV / Sales			Z&A Spot EV / EBITDA			Financial Net Debt				Broadly Defined Net Debt			
	Current	2024	2025	Current	2024	2025	Sales		EBITDA		Sales		EBITDA	
							Current	CY24	Current	CY24	Current	CY24	Current	CY24
<b>US MSOs</b>														
Aurora Cannabis Inc.	1.3x	1.1x	1.0x	24.1x	10.8x	6.3x	na	na	na	na	0.0x	0.0x	-0.9x	-0.4x
Auxly Cannabis Group Inc.	1.4x	na	na	345.3x	na	na	-1.1x	na	-273.2x	na	-1.3x	na	-310.1x	na
Avant Brands Inc	2.1x	na	na	15.3x	na	na	-0.3x	na	-2.1x	na	-0.7x	na	-4.9x	na
BZAM Ltd	0.8x	na	na	-2.2x	na	na	-0.4x	na	1.0x	na	-0.5x	na	1.4x	na
Canopy Growth Corporation	3.7x	3.3x	2.9x	-21.6x	-51.7x	-41.0x	-1.5x	-1.3x	8.7x	20.8x	-1.5x	-1.3x	8.7x	20.8x
Cronos Group Inc	-0.8x	-0.7x	-0.6x	1.2x	2.7x	3.7x	na	na	na	na	8.5x	8.0x	-13.8x	-29.7x
Decibel Cannabis Company Inc	0.8x	0.7x	0.6x	3.8x	3.1x	2.4x	-0.3x	-0.3x	-1.6x	-1.3x	-0.4x	-0.3x	-1.8x	-1.5x
High Tide, Inc.	0.4x	0.4x	0.3x	12.3x	5.6x	3.8x	0.0x	0.0x	-0.7x	-0.3x	-0.1x	-0.1x	-2.6x	-1.2x
Nova Cannabis Inc	0.4x	0.4x	0.3x	4.0x	4.6x	3.5x	0.0x	0.0x	-0.1x	-0.2x	-0.2x	-0.2x	-2.0x	-2.2x
OrganiGram Holdings Inc	0.7x	0.6x	0.4x	-8.3x	8.2x	5.4x	na	na	na	na	0.4x	0.3x	-4.5x	4.4x
Rubicon Organics, Inc.	0.7x	0.6x	na	6.0x	3.6x	na	0.0x	0.0x	-0.3x	-0.2x	0.0x	0.0x	-0.3x	-0.2x
SNDL Inc.	0.4x	0.4x	0.4x	6.6x	10.4x	6.2x	na	na	na	na	0.1x	0.1x	0.9x	1.5x
Tilray Brands, Inc.	2.3x	1.9x	1.6x	35.8x	17.2x	10.5x	-0.1x	-0.1x	-1.9x	-0.9x	-0.2x	-0.1x	-2.4x	-1.1x
Village Farms International, Inc.	0.4x	0.4x	0.4x	9.6x	8.2x	5.0x	0.0x	0.0x	-1.0x	-0.8x	-0.1x	-0.1x	-2.1x	-1.7x

Source: FactSet and company reports

Exhibit 24: EV Calculations

C\$Mn	FactSet	Z&A	C\$	mn	mn	Total	Financial	Gross	ST income	Conting	ITM deriv	Total	Pref Stock
18-Dec-23	Spot EV	Spot EV	price	shares	deriv	Mkt Cap	net debt	leases	tax liab.	Cons.	inflow	BDND	Min Int
<b>US MSOs</b>													
Aurora Cannabis Inc.	210	328	0.66	475.1	16.9	316	53	-51		-14		-12	
Auxly Cannabis Group Inc.	149	162	0.02	1,009.0	249.9	16	-128	-17		0		-145	
Avant Brands Inc	45	55	0.15	258.3	3.4	38	-7	-10				-18	
BZAM Ltd	55	69	0.13	180.8	0.2	24	-31	-14				-45	
Canopy Growth Corporation	1,028	1,027	0.74	829.1	1.7	614	-413					-413	
Cronos Group Inc	-69	-102	2.72	381.1	7.8	1,035	1,140	-3				1,138	
Decibel Cannabis Company Inc	96	101	0.13	409.0	16.7	54	-42	-6				-48	
High Tide, Inc.	182	209	2.20	75.1	0.5	165	-12	-31				-44	
Nova Cannabis Inc	4	109	0.97	57.2		56	-4	-49				-53	
OrganiGram Holdings Inc	99	97	1.86	80.5	1.2	150	53		0			52	
Rubicon Organics, Inc.	30	27	0.46	56.1	6.9	26	-1	0				-1	
SNDL Inc.	283	425	2.05	236.7	12.8	485	232	-171				61	
Tilray Brands, Inc.	2,202	2,221	2.80	730.3		2,043	-117	-10		-20		-147	30
Village Farms International, Inc.	133	168	1.05	110.2		116	-17	-19				-36	16

Source: FactSet and company reports

Exhibit 25: Forward Estimates

C\$Mn Company name	REVENUES			Adj EBITDA			Adj EBITDA Margins		
	Current	2024	2025	Current	2024	2025	Current	2024	2025
Aurora Cannabis Inc.	253	288	340	14	30	52	5.4%	10.5%	15.3%
Auxly Cannabis Group Inc.	113	na	na	0	na	na	0.4%	na	na
Avant Brands Inc	26	na	na	4	na	na	13.9%	na	na
BZAM Ltd	84	na	na	-32	na	na	-37.9%	na	na
Canopy Growth Corporation	278	313	358	-47	-20	-25	-17.0%	-6.3%	-7.0%
Cronos Group Inc	133	142	168	-82	-38	-28	-62.0%	-26.9%	-16.6%
Decibel Cannabis Company Inc	121	140	174	27	32	43	22.2%	23.1%	24.5%
High Tide, Inc.	497	548	635	17	37	55	3.4%	6.8%	8.7%
Nova Cannabis Inc	271	286	321	27	24	31	10.0%	8.2%	9.6%
OrganiGram Holdings Inc	131	165	220	-12	12	18	-8.9%	7.2%	8.1%
Rubicon Organics, Inc.	40	48	na	5	8	na	11.4%	16.1%	na
SNDL Inc.	950	996	1,052	64	41	68	6.8%	4.1%	6.5%
Tilray Brands, Inc.	961	1,199	1,354	62	129	211	6.5%	10.8%	15.6%
Village Farms International, Inc.	373	407	469	17	21	33	4.7%	5.1%	7.1%

Note: for Decibel and VFF, we use our 2024-2025 estimates; for the rest, we use FactSet consensus if available. Current means latest qtr annualized

Source: FactSet and company reports



## Exhibit 26: Stock Performance

12/18/23	Stock Performance		
	Last	Last	Last
Ticker	30d	90d	12mo
<b>US MSOs</b>			
FFNTF	-45%	-58%	-71%
ACRDF	-40%	-68%	-85%
AAWH	5%	-3%	-3%
AYRWF	1%	-32%	-5%
CXXIF	-5%	-36%	7%
CBSTF	-14%	-72%	-70%
CRLBF	-8%	-40%	-45%
CURLF	13%	-30%	-23%
GLASF	1%	-2%	72%
GRAMF	5%	-25%	-34%
GDNSF	39%	28%	-21%
GTBIF	-2%	-13%	1%
ITHUF	0%	0%	0%
JUSHF	-32%	-20%	-58%
LOWLF	-29%	-33%	-84%
MRMD	-7%	-40%	-30%
PLNH	-17%	-19%	-37%
RWBYF	0%	-35%	-71%
SHWZ	0%	-44%	-60%
STHZF	107%	-35%	-71%
TSNDF	-22%	-38%	-27%
GNRS	-100%	-100%	-100%
TLLTF	-51%	-55%	-66%
TCNNF	-7%	-27%	-44%
VRNOF	-10%	-15%	8%
VEXTF	-10%	-1%	31%

	Stock Performance		
	Last	Last	Last
Ticker	30d	90d	12mo
<b>Canada</b>			
ALEAF	na	na	-70%
ACB	4%	-42%	-56%
CBWTF	-17%	-10%	-25%
AVTBF	-3%	-24%	-24%
BZAMF	-20%	-25%	-75%
CGC	0%	-56%	-81%
CRON	0%	-19%	-30%
DBCCF	-15%	-23%	49%
ETRGF	-5%	-23%	-53%
HITI	27%	-17%	7%
NVACF	21%	75%	68%
OGI	18%	-23%	-63%
ROMJF	-15%	-10%	-31%
SNDL	-6%	-30%	-38%
TLRY	23%	-31%	-42%
VFF	19%	-22%	-53%
YOLO ETF	1%	-25%	-34%
<b>CBD, CPG, Pharma, International</b>			
CWBHF	2%	-34%	-67%
CLVR	16%	-38%	-82%
CVSI	13%	-36%	7%
TPB	16%	0%	19%
IMCC	-21%	-49%	-76%
INCR	18%	-28%	-73%
ISPR	-20%	6%	#N/A

	Stock Performance		
	Last	Last	Last
Ticker	30d	90d	12mo
<b>Service Providers</b>			
AFCG	16%	-4%	-27%
AGFY	-32%	-62%	-93%
REFI	5%	6%	0%
IIPR	33%	14%	-13%
NLCP	13%	8%	-13%
PW	-22%	-63%	-90%
RIV	6%	0%	-17%
SHFS	48%	58%	-52%
SSIC	2%	0%	-8%
LFLY	-12%	-44%	-67%
SBIG	-26%	-14%	-79%
MAPS	-19%	-49%	-28%
GNLN	5%	-38%	-88%
GRWG	26%	-32%	-58%
HYFM	4%	-34%	-55%
SMG	24%	13%	21%
UGRO	-6%	-15%	-71%
<b>CBD, CPG, Pharma, International</b>			
LGPPF	#N/A	#N/A	#N/A
PCLOF	-5%	-39%	-43%
SMORF	1%	-10%	-53%
JAZZ	1%	-8%	-19%
<b>Index</b>			
S&P 500	7%	5%	17%
MSOS ETF	-5%	-28%	-28%

Source: FactSet



# Appendix V: Bio and Disclaimers

Zuanic & Associates



## Analyst Bio

Pablo Zuanic is a well-known and highly rated equity analyst following the cannabis and psychedelics sector. Over the past four years he launched coverage of over 35 companies (MSOs, LPs, CBD, ancillary, psychedelics), kept close track of sectoral trends, and followed the reform process in the US and elsewhere. His firm Zuanic & Associates publishes equity research on the cannabis and psychedelics sectors, both from a macro/sectoral level in a thematic manner, as well as specific reports on listed stocks. The research service is aimed at institutional investors and corporations. The firm is also available for short term consulting and research advisory projects ([www.zuanicassociates.com](http://www.zuanicassociates.com)). At various points in his career, Pablo was II ranked and 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. Pablo can be contacted at [pablo.zuanic@zuanicgroup.com](mailto:pablo.zuanic@zuanicgroup.com).



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