

7/18/2023

Roadmap to Dec 2024

Cannabis Sector Equity Research



Key Highlights:

- Play the long game
- Ten predictions
- Our evaluation framework ("filter")
- Canada vs. U.S. vs. ROW

Pablo Zuanic

ZUANIC & ASSOCIATES

pablo.zuanic@zuanicgroup.com

420Odysseus; www.zuanicassociates.com



Dear reader: With this note, we are launching our cannabis equity research service. We will publish thematic/macro reports during the first month, then follow selectively with equity stock coverage. Here, we provide a blueprint for the various themes we will discuss in the year ahead.

Play the Long Game

Cannabis stocks are attractively valued, and we would be invested here, but very selectively, taking a long-term view, and willing to accept short term volatility up or down. We do not think much happens before mid-2024, but what if it does?

- We do not expect major breakthroughs at the federal level in the US before 3Q24, so, news flow from DC in the interim may at best result in ripples among US cannabis stocks (not waves).
- In our view, the bigger positive catalysts in the near term will revolve more around company initiatives, whether in terms of strategic partnerships (CPG?) or cross-border transactions, further industry consolidation, and potential TSX listings.
- But above all, whether among US, Canadian, or overseas stocks, in a sector generally attractively valued, we continue to look for those with sustainable franchise strength (and or unique know-how/insights), superior financial metrics (profitability, cash flow, balance sheet structure), and visionary (but financially disciplined) leadership.
- Dilution risk is probably the biggest near-term risk to the thesis of this being a sector bottom. As seen recently, offerings by the likes of Canopy Growth (CGC/NR) and Tilray (TLRY/NR) resulted in shareholder dilution and meaningful drops in the price of those stocks, so cash flow and balance sheet analysis matters.
- That said, if the global market is already north of \$200Bn (including illicit sales), we think companies in Canada and the US are well placed to tap into that opportunity. The challenge for investors and analysts is choosing the right ones, and not those that may end up being sold at the bottom, that may heavily dilute shareholders, or just not survive.
- The largest cannabis companies at best generate \$1Bn in cannabis sales. So, imagine a company with 20% global share (in a market larger than \$200Bn with global legalization by then) and a higher multiple than 5x EBITDA (~25% EBITDA margin).
- In short, play the long game (but, selectively, be invested now as we cannot predict the timing of the various catalysts discussed here). Leave the short-term game (in and out trades) for the social media influencers (we say so respectfully) that hog the sector's airtime and be prepared to tolerate the near-term volatility (up or down).



Ten Predictions for the Next 18 Months

SAFE Banking will drag on until the fall of 2024, but it will pass. So much has been written on this bill, with the play by play reported by the good folks at Marijuana Moment and Politico, with, in our opinion, key Senate players using the media to send messages to their colleagues and own constituencies. They are all aiming for a “midpoint” (compromise), that relates to the extent of add-ons (we think HOPE and GRAM are palatable and not deal breakers), and a compromise on the letter and spirit of Section 10. At least, we know now, the Senate Banking committee will not hold a vote until 60 votes are guaranteed (Sen Schumer instructed Sen Brown that he wants enough Republican sponsors to prevent a filibuster). With, say, Senate passage in the spring of 2024, the pressure will be on the House to follow suit. We realize it is difficult to predict the political climate by then (state of the Republican primary; legal matters affecting key candidates; position of strength of Speaker McCarthy), but we expect Senate passage to put enough pressure on the House Speaker, especially with half of his caucus in favor. After ten years of its inception, all sides are doing their homework, and we believe a compromise is possible. Still, the relevance of passage will depend on the context by then. *Likelihood: ~70%; Relevance (1 to 5, with 5 being highest): 3.*

The Biden White House will reschedule Cannabis (we are less sure if Schedule II or III) before the Nov’24 election, but it will open a Pandora’s Box in doing so. In our view, de-scheduling cannabis (tantamount to federal legalization of recreational cannabis) would require an accompanying regulatory framework, and we are doubtful this 118th Congress would play along. On the other hand, we see President Biden delivering on his promise to reschedule cannabis (we assume by mid 2024, but the DOJ/HHS/DEA process may play out “in public” with news flow impacting stocks in the interim up or down). The conventional wisdom view is that rescheduling would be good for the industry because it would do away with 280E. Well, be careful what you wish for. It would legalize medical cannabis at the federal level and bring the FDA into the fold. Legalization would likely mean interstate trade of med MJ, sales at pharmacies, and potentially bring in pharma to the industry (even if on the fringes). Also, FDA involvement may imply stiffer guidelines on prescribing and greater quality control standards. Would state med program rules prevent federal interference? Not if MJ is federally re-scheduled. Regarding the removal of 280E, that would apply only to medical cannabis earnings, and not to recreational cannabis. But to be clear, with US legal sales right now split 70% rec and 30% med, the removal of 280E would still make a positive impact on cash flows, but we just wonder about the accounting rules that may follow (i.e., transfer pricing and non-COGS allocation between operators’ rec/med businesses?). Potentially, we could see an emergence of specialization (rec or med). Med exports could also be allowed. *Likelihood: ~65%; Relevance (1 to 5): 5.*

A Cole Memo II will not be enacted. While not the same as SAFE Banking, we believe a new Cole Memo (DOJ guidelines on how federal offices should or should not enforce the federal law on cannabis) would also make it easier for banks to operate with the US cannabis industry and even provide cover for US exchanges (see the history of MJ finco IIPR[NR]’s NYSE listing). But if SAFE Banking is making its way through Congress and the DOJ/HHS/DEA deliver on the rescheduling promise, we think there would be significantly less pressure on the DOJ for a new Cole Memo. Sure, if SAFE does not happen, that could be something to consider after the election, but by then

it would depend on who is in the White House. So, we assign low probability to this catalyst. *Likelihood: 10%; Relevance (1 to 5): 5.*

Maryland was a key domino to fall – who is next? Because of the prevalence of the illicit market in the tri-state area, the small number of initial stores in NJ, and the messy rollout of rec in NY, it is arguable that the onset of rec in these three states has put pressure on neighboring markets to legalize. But the case of MD is different, with almost 90 stores selling rec from day 1 (7/1/23), and MD’s small geographic area allowing short car rides for consumers in DE, PA, VA, and WV (although rec was legalized, DE will not issue rec licenses until late 2024). While it is tough to predict local politics, we would keep an eye on PA given the large number of operators there (not just MSOs), both in the grow and retail side (also, if PA goes rec, what about OH?). VA is somewhat different (in terms of lobbying pressure), in our view, as there are only three operators there. That said, VA was supposed to start rec sales by 1/1/24 (yes, VA had legalized rec, unlike PA), and even though implementation has been delayed, the pressure will start mounting for a rec launch in VA sometime in 2024 or 2025, in our view. *Likelihood: >50%; Relevance (1 to 5): 4.*

Wave of TSX listings for MSOs, and impact on Canadian MJ asset prices (all partly on FOMO concerns). We praise the vision of TerrAscend’s (TSND/NR) Chairman, Jason Wild, in seeking a TSX listing. At the least, it opens strategic options for this (mostly) US operator and could/should result in greater capital access (starting with custody being offered by brokers/banks, a key requirement to tap into institutional capital). That said, we think others will follow, so those potential new investors will have more than one option regarding TSX-listed MSOs. In our view, strategically a company with global ambitions like Curaleaf (CURLF/NR) cannot afford to not seek the TSX path. True, a TSX listing has not prevented the fall in Charlotte’s Web’s shares (CWBHF/NR) or those of the larger Canadian LPs (most with dual listings in the TSX and NASDAQ), but at least in terms of market expectations, things have worked out for TSND (stock up 51% YTD vs. +18% for the S&P500 and -19% for the MSOS ETF; TSND is second only to Glass House Brands [GLASF/NR], up 58%, in terms of YTD performance). Importantly, given depressed valuations in Canada, the market cap of CURLF is now 2.5x that of TRLY, while in the past TLRY was 10x larger. Would investors holding NASDAQ shares want to take OTC shares of a US operator? Maybe 2-3 years ago the answer would have been no, but in the current context we think the answer is yes. Why? It opens attractive strategic opportunities for all involved. As discussed below, the TSX path could be one reason to expect reflation of (some) Canadian MJ assets. *Likelihood: >70% (more MSOs listing in the TSX); Relevance (1 to 5): 4.* Note: We will not opine at this point on the market chatter about Curaleaf and Cronos (CRON/NC).

The legal US cannabis industry will continue to grow (stores, sales, jobs) and that is encouraging for those companies providing ancillary services. We all tend to focus on the so-called “licensed-restricted states”, because that is where the MSOs tend to operate. But some of these states are starting to issue large number of licenses now (see NJ; of course, it remains to be seen whether licensees will have the funds to get up and running). We do not talk much about states with large numbers of retailers and growers (because supposedly they have weaker economics), but as those markets mature, they will also consolidate over time, and demand/supply dynamics will lead to price stabilization (albeit not necessarily price reflation). More stores (economically viable) is good news for tech vendors (see listed players like MAPS/NR and LFLY/NR). More economically viable

growers is good news for companies in the pix and shovels space. Importantly, when it comes to “ancillary” stocks, we would keep an eye on the finance companies (see the likes of IIPR/NR, NLCP/NR, REFI/NR). Why? Even though we have seen defaults in some cases, we think industry consolidation (better economics), market growth, and equity raises (yes, shareholder dilution, but lower credit risk) bode well for the risk profile of these companies – not to mention, the attractive spreads they enjoy. *Likelihood: >80%; Relevance (1 to 5): 3.*

Canada will become exciting again for cannabis investors – but be selective. We know what happened with Canadian cannabis stocks in 2017 and 2018, with the onset of rec legalization and floods of money flowing into the country. Now, it will be different, and not about empire building. We see five factors helping these stocks (but be selective): a) the larger and visionary US companies, as part of their TSX listing strategy, will likely need to buy Canadian assets and that will push up valuations (we think holders of NASDAQ-listed paper may be fine taking OTC-paper depending on the buyer); b) the development of the German wellness MJ market might entice buyers there to buy capacity in Canada; c) despite the much vaunted fragmentation, we are starting to see players build strong positions in key segments; we saw it first with cylinder-shaped pre-rolls, and now with infused pre-rolls, milled-flower, and organics (of course, the question is whether those positions can be sustained); d) almost five years into legalization, we think the pressure will mount on the regulators, Health Canada, and boards, to implement reform (taxes; packaging; THC inflation; more vertical integration, or shifting from a 3-tier system to two tiers; new regs for CBD); e) capacity is starting to come off the grid, albeit gradually, either due to financial pressure or M&A, and this will help stabilize pricing over time. *Likelihood: 70%; Relevance (1 to 5): 4.*

Wellness MJ market in Germany set to grow 10x, at least. Federal legalization of rec cannabis in Germany may still be five years out, mainly due to EU rules, which make us think a coordinated legalization effort by a group of key EU countries will be required, with lone wolf efforts unlikely to prosper. But all this will certainly take time. That said, we are encouraged by the prospects of growth in the “wellness market” in Germany. Phase one rules (as with many issues in this report, these topics will be explained in much greater detail in future separate notes) will make it easier for Drs. to prescribe, which will further boost the cash-market (non-reimbursed). The data shows the reimbursed market is not growing, and only accounts for 0.1% of the population. But telehealth and the rise of online clinics, the growth of online pharmacies, and ease of delivery (and low cost), are all helping to grow the “cash-market”. We estimate this is now at 0.2-0.3% of the population. In most developed US med MJ states, this is 3-4% of the population, even though some of these states do not allow telehealth, do not allow online services without a physical store, and have restrictions on delivery. Yes, there are over 80 licensed importers in Germany, and with increased flexibility on GMP rules (done in Germany or other places in Europe, and not necessarily in the point of origin), one would think the market would be fragmented, but the data shows increasing concentration. We think the rise of large online pharmacies is also contributing to this trend, despite their large SKU catalogs. *Likelihood: 70%; Relevance (1 to 5): 4.*

FDA rules on CBD? Unlikely in this 118th Congress. Let’s see what happens with the 2023 Farm Bill (although five years after the 2018 bill, a new one is due, we worry this may drag on to 2024 given the political cycle). The lack of a regulated rec cannabis (THC) market at the federal level, and the

growing political importance of hemp farmers, will make a federal level crack-down on hemp derivatives (Delta 8 and 9; THC-O, Kratom) difficult, in our view. As such, we do not expect new FDA regulatory guidelines or CBD being regulated as a dietary supplement for some time. Not before the Nov'24 election, at least. TSX-listed Charlotte's Web (CHWBF/NR) is way to play the CBD investment story, but little may happen on the regulatory front for now. *Likelihood: <50%; Relevance (1 to 5): 2.*

CPG and Pharma becoming more involved. Given depressed sector valuations and the likely rise of US/Canada alliances (giving credence to the rise of potential future global players), we would expect CPG to become more involved in the sector – as British American Tobacco (BATS.LN/NR) did recently with stakes in Organigram (OGI/NR) and Charlotte's Web (of 19.4% and 24.7%, respectively). True, the likes Constellation Brands (STZ/NR) with Canopy Growth, and Alimentation Couche-Tard (ATD.TO/NR) with Fire & Flower (FAF.TO/NR), did not enjoy a good experience and did not put in new capital to help these companies in the latest rounds. Imperial Brands (MB.LN/NR) still holds convertible debt on Auxly (XLY.TO/NR), but we wonder if that will ever be capitalized. Molson Coors (TAP/NR) and Anheuser-Busch (BUD/NR) walked away from drinks related deals with HEXO (HEXO/NR) and Tilray, respectively. To some extent, Altria (MO/NR) has fared better with Cronos (although cash burn remains an issue at CRON). If there are signs of true global players emerging, we do not expect CPG to sit this out. Pharma may be tougher to call (ex-biotech opportunities), but if we are right about re-scheduling, we would expect them to become involved too in some capacity. *Likelihood: >65%; Relevance (1 to 5): 5.*

Our Evaluation Framework (“Filter”)

We are not publishing investment ratings or financial estimates at this stage (see valuation comps tables in the appendix, all based on FactSet compiled consensus data). But as we prepare to cover stocks, we will be using at these factors as part of our evaluation framework (our “filter”),

- **Avoid highly levered companies (with negative cashflow trends).** The recent shareholder dilution seen with stocks like CGC (down 73% in the last three months vs. +6% for MSOS ETF) and TLRY (-32%), should serve as a cautionary tale for investors. That said, with some these North American companies, the question is about survival, so for minority equity investors the option is more about getting diluted or fully wiped out. Sure, most would prefer the former. Still, with the sector being inexpensive in general, we believe it is better to choose stocks with lower dilution risk (relatively speaking), rather than focusing on valuation multiples (LTM) or forward valuations (these often factor the wrong debt/cash flow assumptions and inflate the EBITDA outlook).
- **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 (unlikely 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, to name a few. In terms of M&A, one metric we factor is sales per share over time (we prefer scale, so no issue with M&A if it is accretive and grows a company's moat and strategic position. But if we take net sales per share for 1Q23 vs. 1Q21, we see this metric among MSOs grew 58% for Schwazze (SHWZ/NR) and 39% for MariMed (MRMD/NR), while it only grew 1% for Trulieve (TCNNF/NR) and was actually negative (-22%) for Verano (VRNOF/NC) and -17% for TerrAscend. In the same period, adj EBITDA per share is down for most MSOs, with few exceptions.

- **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 (PLHNF/NR) superstore in Vegas, or with niche strength, such as Decibel (DBBCF/NR) 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); states with low store caps make it tougher to build retail franchise strength (see MA). By the same token, Cresco Labs' (CRLBF/NR) leading wholesale presence (as per market data), also counts as franchise strength (and this is not just a function of retail presence – see its #1 position in MA). On the know-how front, we would highlight Village Farms' (VFF/NR) years of expertise in farming, and low production costs, at scale.
- **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. 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. Among Canada LPs, only Decibel reported positive FCF in CY23. In terms of positive adj EBITDA, both Avant Brands (AVNT.TO/NR) and Decibel have disclosed adj EBITDA margins north of 20% in recent quarters (Organigram [OGI/NR] and Tilray are in the positive high single digits, although Tilray does not split EBITDA by division and cannabis is less than half of sales). In Canada, companies with a net cash position include Aurora (ACB/NR), Cronos, and SNDL (NR); other Canadian operators with low net debt to sales (0.3x or less) include High Tide (HITI/NR), Rubicon Organics (ROMJF/NR), and Village Farms.
- **Visionary management (with financial discipline in mind, we would add).** We agree there are plenty of opportunities in the US for MSOs, and given financial restrictions (i.e., capital access, no US exchange listing), their options to expand internationally are more limited. That said, we value Curaleaf's forays into overseas markets via the EMMAC and Four20 Pharma deals (the latter is a leader importer in Germany). Tilray's plans to build a global powerhouse of CPG brands (not just THC), that are synergistic, also fits our vision filter (recent shareholder dilution notwithstanding). Plans to list in the TSX are also



forward thinking in several aspects, so kudos to TerrAscend for pulling this off, and to those that may follow (Curaleaf's recent filings imply it may be next).

Canada vs. U.S. vs. ROW?

We do not think this is about choosing a market/country vs. another. Sure, rec sales in Canada are only US\$3.5Bn compared with US\$25Bn in the US, but rec is federally legal in Canada and growers can export to legal overseas medical markets.

This is a global industry, with \$230Bn in sales as per some estimates (illicit market). While very early days, we believe the leading companies in the US and Canada could have a first mover advantage in building a global moat, doing so both organically and via M&A. In the US, we estimate the top 20 MSOs already account for close to half of legal sales. In Canada, eight companies had 50% of the market in June, if we go by the latest Hifyre data. Sure, this does not mean companies from Germany, Israel, Colombia, or Australia, could not become global players (we would keep an eye on the likes of INCR[NR] and CLVR [NR]), but based on the evidence, so far, we think the US and Canadian LPs may be better positioned as the industry globalizes. Vision/ambition combined with financial strength/discipline will be key.

Again, play the long game by being invested here, very selectively, and be tolerant of near-term volatility. We do not expect the catalysts discussed in this report to play out in a major way in the short term. But, if we are wrong (re near term timing), we think it is better to have exposure to this sector here and now.



Appendix I: Market Projections

18 July 2023

Road Map to Dec 2024

Exhibit 1: US Legal Cannabis Sales at Retail

US\$ Mn	CY20	1Q21	2Q21	3Q21	4Q21	CY21	1Q22	2Q22	3Q22	4Q22	CY22	1Q23	2Q23	3Q23e	4Q23e	CY23e	CY24e	CY25e
Total	17,888	5,675	6,455	6,428	6,372	24,930	6,152	6,610	6,573	6,629	25,964	6,528	7,044	7,078	7,206	27,856	31,240	36,486
rec	11,478	3,690	4,341	4,301	4,229	16,561	3,986	4,385	4,398	4,418	17,186	4,268	4,611	4,538	4,595	18,012	19,581	22,326
med	6,410	1,985	2,114	2,127	2,143	8,369	2,166	2,225	2,175	2,210	8,778	2,260	2,433	2,541	2,610	9,844	11,658	14,160
Total (med+rec)	17,888	5,675	6,455	6,428	6,372	24,930	6,152	6,610	6,573	6,629	25,964	6,528	7,044	7,078	7,206	27,856	31,240	36,486
AZ	1,034	419	517	493	505	1,934	480	470	443	451	1,844	418	414	413	418	1,663	1,677	1,695
CA	4,480	1,341	1,565	1,429	1,445	5,780	1,328	1,413	1,298	1,343	5,382	1,250	1,314	1,284	1,333	5,181	5,299	5,418
CO	2,191	562	588	577	503	2,229	459	447	451	411	1,769	394	398	403	398	1,593	1,629	1,680
CT	117	37	40	42	44	163	45	45	45	45	182	59	68	77	90	294	429	593
FLA	842	308	360	385	403	1,456	428	446	416	450	1,740	437	477	524	534	1,973	2,231	2,418
GA	0	0	0	0	0	1	2	2	5	7	16	9	12	16	23	60	198	312
IL	1,035	377	448	471	481	1,776	452	479	482	494	1,907	467	471	498	508	1,944	2,020	2,113
MA	921	346	407	452	439	1,644	426	425	458	446	1,755	423	441	461	455	1,780	1,813	1,847
MD	453	138	140	137	136	551	134	132	125	119	509	118	123	155	178	575	938	1,232
ME	41	14	20	32	30	96	32	39	53	47	171	48	47	62	56	214	254	302
MI	985	359	451	498	484	1,793	461	569	630	635	2,294	642	792	635	622	2,690	2,810	2,901
MN	20	5	5	7	8	25	10	12	15	18	55	25	28	34	41	128	219	275
MO	21	24	41	66	79	210	84	94	101	111	390	117	233	252	272	875	1,325	1,803
NH	35	11	11	11	11	44	12	13	13	13	50	13	14	14	14	54	55	60
NJ	196	50	52	56	59	217	56	139	178	183	556	179	187	199	210	776	923	1,057
NM	119	29	30	30	30	119	32	78	86	90	285	92	94	97	99	382	416	444
NV	780	253	284	259	246	1,042	234	227	211	211	882	213	215	211	207	846	866	890
NY	200	60	61	63	66	250	72	74	75	80	300	82	88	95	109	374	739	1,421
OH	223	83	95	97	104	379	114	120	116	118	467	120	120	130	134	504	552	614
OK	428	123	125	125	128	502	144	147	147	150	588	169	173	173	176	690	810	950
OR	1,111	299	317	299	269	1,184	253	258	248	235	994	231	241	253	239	965	984	1,004
PA	765	307	350	360	377	1,394	359	377	375	373	1,483	374	364	354	344	1,436	1,379	1,777
RI	50	15	15	14	14	58	15	16	16	19	66	42	48	58	69	217	365	567
VA	10	1	4	9	12	27	16	20	29	36	101	44	51	58	65	218	372	1,032
VT	37	13	13	13	13	52	18	18	18	19	73	23	24	24	24	94	108	117
WA	1,380	371	381	368	345	1,464	326	386	374	350	1,436	331	392	379	355	1,457	1,479	1,502
WV	0	4	4	4	3	15	3	4	5	7	20	10	12	14	16	52	73	85
Other states	414	127	131	132	135	526	156	162	163	168	648	197	205	206	214	822	1,275	2,378

Source: Official state data, Headset, company reports and Z&A estimates

18 July 2023

Road Map to Dec 2024

Exhibit 2: Canadian Cannabis Sales

Mn	2020	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23e	3Q23e	4Q23e	2023e	2024e	2025e
Our projections														
Rec (US\$)	1,955	3,092	813	880	901	877	3,470	862	940	981	998	3,782	4,187	4,606
Rec (C\$)	2,620	3,875	1,030	1,123	1,175	1,190	4,518	1,166	1,263	1,304	1,327	5,060	5,567	6,123
yoy ch %	121%	48%	23%	20%	12%	13%	17%	13%	12%	11%	11%	12%	10%	10%
qoq ch %	na	na	-2%	9%	5%	1%	na	-2%	8%	3%	2%	na	na	na
FX	0.746	0.798	0.789	0.783	0.767	0.737	0.762	0.739	0.744	0.752	0.752	0.747	0.752	0.752
Total			1,030	1,123	1,175	1,190	4,518	1,166	1,263	1,304	1,327	5,060	5,567	6,123
Flower pre-rolls			718	806	833	837	3,195	821						
derivatives (inc oil)			312	317	342	354	1,324	345						
Sales by province	2,620	3,875	1,030	1,123	1,175	1,190	4,518	1,166	1,263	1,304	1,327	5,060	5,567	6,123
Ontario	722	1,423	412	451	467	474	1,803	456						
Alberta	575	717	182	199	205	211	797	206						
British Columbia	370	551	153	162	178	177	670	181						
Quebec	496	601	132	151	151	153	586	145						
Rest	457	583	151	161	174	176	662	178						

Source: StatCan, Hifyre, company reports, and Z&A estimates



Appendix II: Valuation Comps

18 July 2023

Road Map to Dec 2024

Exhibit 3: Valuation Comps – Part I

			7/18/2023		1yF Estimates (US\$ Mn)								
Company name	Ticker	Listing	Price US\$	Mkt Cap	shares	net (debt)	Ent Value	EV/Sales 1yF	EV/EBITDA 1yF	Sales	EBITDA	EBITDA mgn %	Net debt EBITDA
US MSOs													
4Front Ventures Corp.	FFNTF	US OTC	0.16	103	643	-226	329	2.2x	9.0x	153	36	24%	-6.2x
Acreage Holdings, Inc. Class D	ACRDF	US OTC	0.19	6	34	-215	221	0.9x	4.7x	237	47	20%	-4.6x
Ascend Wellness Holdings LLC Class A	AAWH	US OTC	0.69	130	188	-489	619	1.2x	5.2x	512	118	23%	-4.1x
Ayr Wellness, Inc.	AYRWF	US OTC	1.18	71	60	-577	648	1.2x	4.8x	544	135	25%	-4.3x
Columbia Care, Inc.	CCHWF	US OTC	0.45	177	391	-519	696	1.3x	6.5x	551	107	19%	-4.9x
Cresco Labs, Inc.	CRLBF	US OTC	1.78	500	281	-549	1,049	1.3x	6.3x	827	166	20%	-3.3x
Curaleaf Holdings, Inc.	CURLF	US OTC	3.57	2,226	624	-988	3,214	2.3x	9.0x	1,414	358	25%	-2.8x
Glass House Brands Inc	GLASF	US OTC	3.02	168	56	-59	228	1.2x	12.4x	194	18	9%	-3.2x
GOLD FLORA CORPORATION	GRAMF	US OTC	0.16	17	108	30	-13	-0.2x	0.3x	76	-43	-56%	-0.7x
Goodness Growth Holdings, Inc.	GDNSF	US OTC	0.16	14	87	-124	138	1.5x	7.9x	95	17	18%	-7.1x
Green Thumb Industries Inc.	GTBIF	US OTC	7.18	1,485	207	-358	1,843	1.7x	5.4x	1,107	341	31%	-1.1x
Grown Rogue International Inc.	GRUSF	US OTC	0.19	33	171	-3	36	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Jushi Holdings Inc Class B	JUSHF	US OTC	0.47	93	197	-295	388	1.2x	7.3x	316	53	17%	-5.5x
Lowell Farms Inc	LOWFL	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
MariMed Inc	MRMD	US OTC	0.39	133	341	-26	159	1.0x	3.7x	164	43	26%	-0.6x
Planet 13 Holdings, Inc.	PLNHF	US OTC	0.59	130	220	25	104	0.9x	13.2x	112	8	7%	3.2x
Red White & Bloom Brands, Inc.	RWBYF	US OTC	0.05	21	470	-142	163	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Schwazze	SHWZ	US OTC	0.99	55	55	-114	168	0.8x	2.3x	213	74	35%	-1.5x
StateHouse Holdings Inc	STHZF	US OTC	0.03	9	252	-140	149	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
TerrAscend Corp.	TSNDF	US OTC	1.70	441	260	-216	658	2.0x	9.4x	328	70	21%	-3.1x
TILT Holdings, Inc.	TLLTF	US OTC	0.03	11	334	-102	114	0.6x	20.3x	191	6	3%	-18.3x
Trulieve Cannabis Corp.	TCNNF	US OTC	4.30	686	160	-269	955	0.8x	2.9x	1,174	326	28%	-0.8x
Verano Holdings Corp. Class A	VRNOF	US OTC	2.89	944	327	-414	1,358	1.3x	4.2x	1,006	326	32%	-1.3x
Vext Science, Inc.	VEXTF	US OTC	0.20	16	82	-30	46	0.8x	2.3x	55	20	36%	-1.5x

Source: FactSet, company reports, and Z&A estimates

18 July 2023

Road Map to Dec 2024

Exhibit 4: Valuation Comps – Part II

			7/18/2023			1yF Estimates (US\$ Mn)							
Company name	Ticker	Listing	Price US\$	Mkt Cap	shares	net (debt)	Ent Value	EV/Sales 1yF	EV/EBITDA 1yF	Sales	EBITDA	EBITDA mgn %	Net debt EBITDA
Canada													
Aleafia Health, Inc.	ALEAF	US OTC	0.02	7	403	-34	40	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Aurora Cannabis Inc.	ACB	NASDAQ	0.52	181	345	54	127	0.6x	10.8x	196	12	6%	4.6x
Auxly Cannabis Group Inc.	CBWTF	US OTC	0.01	13	906	-132	145	1.3x	70.2x	114	2	2%	-63.8x
Avant Brands Inc	AVTBF	US OTC	0.12	25	206	3	22	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
BZAM Ltd	BZAMF	US OTC	0.15	24	157	0	24	0.2x	54.5x	111	0	0%	0.0x
Canopy Growth Corporation	CGC	NASDAQ	0.39	201	517	-459	660	2.1x	-4.7x	309	-141	-46%	3.3x
Cronos Group Inc	CRON	NASDAQ	1.90	723	381	874	-151	-1.4x	3.3x	106	-46	-44%	-19.0x
Decibel Cannabis Company Inc	DBCCF	US OTC	0.11	43	405	-34	77	0.6x	2.4x	123	33	26%	-1.0x
Entourage Health Corp	ETRGF	US OTC	0.01	4	307	-91	95	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
High Tide, Inc.	HITI	NASDAQ	1.29	92	71	-33	124	0.2x	3.8x	524	33	6%	-1.0x
Nova Cannabis Inc	NVACF	US OTC	0.38	22	57	-40	62	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
OrganiGram Holdings Inc	OGI	NASDAQ	1.48	116	78	73	43	0.3x	4.2x	133	10	8%	7.0x
Rubicon Organics, Inc.	ROMJF	US OTC	0.36	20	56	-1	21	0.4x	2.3x	54	9	18%	-0.2x
SNDL Inc.	SNDL	NASDAQ	1.43	335	235	116	219	0.3x	9.2x	750	24	3%	4.9x
Tilray Brands, Inc.	TLRY	NASDAQ	1.69	902	533	-208	1,110	1.6x	13.9x	678	80	12%	-2.6x
Village Farms International, Inc.	VFF	NASDAQ	0.61	56	92	-49	105	0.4x	27.6x	286	4	1%	-12.9x

Source: FactSet, company reports, and Z&A estimates

18 July 2023

Road Map to Dec 2024

Exhibit 5: Valuation Comps – Part III

			7/18/2023		1yF Estimates (US\$ Mn)								
Company name	Ticker	Listing	Price US\$	Mkt Cap	shares	net (debt)	Ent Value	EV/Sales 1yF	EV/EBITDA 1yF	Sales	EBITDA	EBITDA mgn %	Net debt EBITDA
Service Providers													
AFC Gamma, Inc.	AFCG	NASDAQ	13.31	271	20	-17	288	4.0x	5.3x	72	54	75%	-0.3x
Agrify Corp.	AGFY	NASDAQ	2.87	0	0	54	-53	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
C21 Investments Inc	CXXIF	US OTC	0.34	41	120	0	41	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Chicago Atlantic Real Estate Finance, Inc.	REFI	NASDAQ	15.35	273	18	-52	325	5.2x	#N/A	63	#N/A	#N/A	#N/A
GrowGeneration Corp.	GRWG	NASDAQ	3.73	227	61	23	204	0.7x	94.8x	276	2	1%	10.7x
Hydrofarm Holdings Group, Inc.	HYFM	NASDAQ	1.10	50	45	-165	214	0.7x	25.0x	302	9	3%	-19.2x
Innovative Industrial Properties Inc	IIPR	NYSE	78.08	2,184	28	-14	2,198	7.4x	9.0x	297	244	82%	-0.1x
Leafly Holdings, Inc.	LFLY	NASDAQ	0.29	12	43	-4	16	0.3x	-2.7x	48	-6	-12%	0.6x
NewLake Capital Partners, Inc.	NLCP	US OTC	14.87	318	21	42	276	5.8x	#N/A	48	#N/A	#N/A	#N/A
Power REIT	PW	IYSE America	1.65	6	3	-34	40	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
RiverNorth Opportunities Fund, Inc.	RIV	NYSE	11.24	208	18	18	190	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Scotts Miracle-Gro Company Class A	SMG	NYSE	65.83	3,654	56	-3,183	6,837	1.8x	11.5x	3,731	594	16%	-5.4x
Silver Spike Investment Corp.	SSIC	NASDAQ	8.40	52	6	85	-33	-2.2x	#N/A	15	#N/A	#N/A	#N/A
SpringBig Holdings, Inc.	SBIG	NASDAQ	0.39	10	27	-6	16	0.4x	12.5x	36	1	4%	-4.3x
urban-gro Inc	UGRO	NASDAQ	1.40	15	11	6	10	0.1x	-16.5x	117	-1	0%	-9.5x
WM Technology, Inc. Class A	MAPS	NASDAQ	0.99	92	92	-11	102	0.5x	4.7x	201	22	11%	-0.5x
CBD, Pharma, International													
Cardiol Therapeutics Inc. Class A	CRDL	NASDAQ	0.80	51	64	44	7	#DIV/0!	-0.4x	0	-19	#DIV/0!	-2.4x
cbdMD, Inc.	YCBD	IYSE America	1.42	2	1	3	-1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Charlotte's Web Holdings, Inc.	CWBHF	US OTC	0.23	35	152	9	26	0.3x	-2.7x	83	-10	-12%	-0.9x
Clever Leaves Holdings, Inc.	CLVR	NASDAQ	0.23	10	44	9	1	0.0x	-0.1x	20	-11	-55%	-0.8x
CV Sciences, Inc.	CVSI	US OTC	0.05	7	152	-1	8	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Hempfusion Wellness, Inc.	CBDHF	US OTC	0.00	0	100	0	0	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
IM Cannabis Corp	IMCC	NASDAQ	0.90	7	8	-7	14	0.3x	54.2x	45	0	1%	-26.9x
InterCure Ltd.	INCR	NASDAQ	1.64	75	46	-2	77	0.5x	3.1x	146	25	17%	-0.1x
Jazz Pharmaceuticals Public Limited Company	JAZZ	NASDAQ	128.73	8,138	63	-4,936	13,073	3.3x	7.1x	3,920	1,854	47%	-2.7x
Little Green Pharma Ltd.	LGPPF	US OTC	#N/A	#N/A	298	0	#N/A	#N/A	#N/A	39	4	10%	0.0x
PharmaCielo Ltd.	PCLOF	US OTC	0.12	18	155	-9	27	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A

Source: FactSet, company reports, and Z&A estimates



Appendix III: Bio and Disclaimers



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). 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.



Disclosures and Disclaimers

About the firm: Zuanic & Associates is a domestic limited liability company (LLC) registered in the state of New Jersey. The company's registered address is Five Greentree Centre, 525 Route 73, N Suite 104, Marlton, New Jersey 08053, USA. Pablo Zuanic is the registered agent. The firm publishes equity research on selected stocks in the cannabis and psychedelics sector, as well as thematic macro industry notes. The firm also provides consulting and advisory services. Potential conflicts of interest are duly reflected in the respective specific company reports.

Analyst Certification: The publishing analyst, whose name appears on the front page of this report, certifies that the views expressed in this research report accurately reflects his personal views about the subject securities or issuers discussed in this report. His opinions and estimates are based on his best judgement at the time of publication and are subject to change without notice. As per the company's policy, the author of this report does not own shares in any company he covers.

Other: This report is for use by professional and or institutional investors only, and it is deemed impersonal investment advice, published on a bona fide and regular basis. This report is for informational purposes only and is based on publicly available data believed to be reliable, but no representation is made that such data are accurate or complete. As such, this report should not be regarded by its recipients as a substitute for obtaining independent investment advice and/or exercise of their own judgement. When making an investment decision this information should be viewed as just one factor in the investment decision process. Neither the publishing analyst, nor any of the company's officers and directors, accept any liability for any loss or damage arising out of the use of all or any part of the analyst's research.

Risks: The financial instruments mentioned in this report may not be suitable for all investors and investors must make their own investment decisions based on their specific investment objectives. Past performance should not be taken as an indication or guarantee of future performance. The price, value of and income from, any of the financial instruments featured in this report can rise as well as fall and be affected by changes in political, financial, and economic factors. If a financial instrument is denominated in a currency other than the investor's currency, a change in exchange rates may adversely affect the price or value of, or income derived from, the financial instrument, and such investors effectively assume currency risk.

Copyright: No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the author.