Equity Research

U.S. Cannabis Industry

4 Front Ventures: Poised to Execute in Attractive Markets

January 26, 2021

We initiate coverage on 4Front Ventures (US OTC: FFNTF) with a Buy rating and $1.55 price target. 4Front is a branded products company and leading 3rd party supplier in Washington. Despite challenging market dynamics in Washington (lowest wholesale prices in the country), the company is profitable in the state through low-cost, high yield cultivation and production. 4Front is leveraging its proven production capabilities in expansion markets where wholesale dynamics are more favorable. In these markets, the company compliments product sales by owning retail operations.

After a slow rollout of state expansion initiatives due to macro-headwinds and some financing challenges (which have now been resolved), 4Front is finally able to execute. With its now fully-funded presence in five of the largest markets in the US, and in being a rare retailer with multiple recreational dispensaries in Massachusetts and Illinois (including Greater-Boston and Chicago), 4Front has a portfolio of operations that is be enviable to any operator in the industry. Unlike many operators in the space which require additional state expansion for growth, 4Front is positioned for outperforming growth within current markets. Execution on operations and growth initiatives will translate to outperforming investor returns.

Exposure to large markets: 4Front operates in five of the largest US cannabis markets (California, Illinois, Massachusetts, Michigan and Washington). These markets are expected to have more than $9B in sales this year growing to $11B by 2025. In each state market 4Front has an attainable path for significant growth.

Scaling profitability: 4Front became cash flow positive in August and in Q3/20 the company achieved initial profitability. We expect Q3/20 results to be just the beginning forecasting strong growth and margin expansion in the coming quarters. Our 2021 estimates are in line with guidance calling for revenues to more than double Y/Y and for adjusted EBITDA margins to increase to 26% (from 6% in 2020).

2021 and 2022 Growth: We expect top line growth this year to be driven by a full year's contribution from rec sales in MA (including a third store opening in Q2) and IL (where the company's Chicago store was closed due to protest damage for parts of 2020 and a second store opened in December). Additionally, we anticipate initial contributions from the CA production business (online in late 1H/21). In 2022, we believe CA production will be a key contributor to results .Longer term, management has highlighted a market opportunity with its existing state footprint of roughly $650M in revenues (more than 10x 2020 results).

Capitalized to fund core-operations: 4Front has shored up its balance sheet and its ability to fund on-going operations and iCA expansion. We believe a financing transaction related to an IL cultivation expansion project could be forthcoming (management's "Big Daddy" project which is likely to cost ~$50M for a phase one buildout) and may be a non-dilutive financing. Even with a financing, we view an expansion favorably given attractive pricing and demand dynamics in that market.

Valuation: Our $1.55 price target reflects ~30% upside to current levels and an EV/EBITDA multiple of 11.5x our 2022 estimate and EV/Sales at 4.6x. Relative to 2021 estimates, 4Front's valuation multiple represents a premium to the market average (EV/EBITDA at 20.9x vs. 16.7x and EV/Sales at 5.5x vs. 4.1x). We believe the premium is justified given the company's attractive states exposure, forecasted outperforming revenue growth this year, and additional upside longer term given expansion opportunities within core markets.

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Rating: Buy
Price Target: $1.55

4Front Investment Thesis

- Proven execution in challenging market
- Attractive exposure to large markets
- Achieved initial profitability, scaling results moving forward
- Capitalized to fund core-operations
- Premium valuation justified

Click the Link to Subscribe to the Viridian Cannabis Deal Tracker

4Front Ventures (US OTC: FFNTF: Buy Rating: $1.55 Price Target)

We initiate coverage on FFNTF with a Buy Rating and $1.55 price target

4Front trades on the US OTC at a price of $1.20 and on the CSE at C$1.51.

Viridian Estimates:

- Revenues: Q4/20E at $22.4M; 2020E at $64.5M; 2021E at $170M; 2022E at $252M.
- Adjusted EBITDA: Q4/20E at $3.6M; 2020E at $4.1M; 2021E at $44.9M; 2022E at $101.2M.

Valuation:
Our $1.55 price target represents an EV/Sales multiple relative to our 2021 estimate of 6.8x and 4.6x 2022. Based on EV/EBITDA our price target reflects a multiple of 25.9x our 2021 estimate and 11.5x 2022.

Relative to 2021 estimates our price target reflects a premium to current peer group multiples of 4.1x EV/Sales and 16.7x EV/EBITDA. We believe the premium is justified given the strong growth anticipated with guidance and our expectation that there is significant potential upside in near-term results. Importantly, we view our forecast period as only the beginning for 4Front's growth story given the company's multiple shots on goal for expansion with the current footprint particularly in light of the California production rollout and the potential cultivation expansion in Illinois.

Further, as 4Front scales the business, we expect profitability to outpace topline growth as the company brings on the California production facility and as the mix shifts to include a greater proportion of results from expansion markets (Illinois, Massachusetts, Michigan and California).

4Front Current Valuation ($M)

Price (US OTC)	1.20	
Fully Diluted Shares (M)	747	
Cash ($M)	22	
Debt ($M)	25	
Market Cap	897	
Enterprise Value	900	
	21E	22E
EV/Sales	5.3	3.6
EV/EBITDA	20.0	8.9

Source: Viridian Capital Estimates

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Company Overview

4Front is a multi-state cannabis operator with operations in Illinois, Massachusetts, Michigan and Washington. The company plans to commence production operations in California this year. The company is a leading wholesaler and manufacturer of branded cannabis products with operations based on low-cost, high yield production.

4Front manufactures and develops a full range of products for sale to 3rd party retailers and through its owned dispensaries in Illinois and Massachusetts. The company's product portfolio consists of twenty-five brands including Crystal Clear, Funky Monkey, Marmas and Pure Ratios. 4Front's dispensaries in Illinois, Massachusetts and Michigan are named under the Mission brand.

4Front trades on the US OTC market under the ticker FFNTF and the CSE with FFNT.

4Front Ventures

Source: Company Reports

Risks

Risks to our investment thesis and outlook on 4Front include:

- Delays in expansion initiatives: Within 2021 guidance is contributions from planned expansion initiatives with the opening of a third recreational dispensary in Massachusetts and the California production facility. Any delay related to the opening of these assets could result in an adverse impact to near term expectations.
- Execution in expansion markets: 4Front's strategy is based on the ability to replicate its Washington production capabilities within expansion markets. The in ability to translate the company's production yields and low cost of production could result in slower than expected growth and/or profitability.
- Changes in competitive landscape: 4Front could be impacted by the introduction or expansion of new competitors in the market.
- Changes to wholesale pricing: An unanticipated change in the wholesale pricing dynamics particularly within Illinois and Massachusetts could result in lower than anticipated profitability.
- Changes in regulatory outlook: Regulations continue to evolve both at the state and local level. The introduction of onerous new laws could present challenges for operators like 4Front and lead to an impact to results.
- Changes to consumer demand: Changes to consumer demand for cannabis more broadly or within specific product types could impact results. 4Front offers a diversified product offering however any unexpected shift in consumer demand could result in a near term underperformance relative to expectations and a long-term shift in operations. We note that this has occurred for many in the industry following the 2019 vape crisis.
- Inability to raise capital: The inability to raise capital required to complete the Illinois cultivation expansion initiative could negatively impact the investor sentiment for 4Front.
- Negative investor sentiment: A change in investor attitudes toward cannabis companies or a lack of new investor interest in the market could impact stock performance of related companies and investor returns.
- Federal prohibition: While we find this unlikely particularly considering on-going trends with the federal government, a change in sentiment at the federal level could prompt a reversal of sentiment toward state cannabis markets and lead to a shutdown of operations.

The Time to Invest in U.S. Cannabis is Now

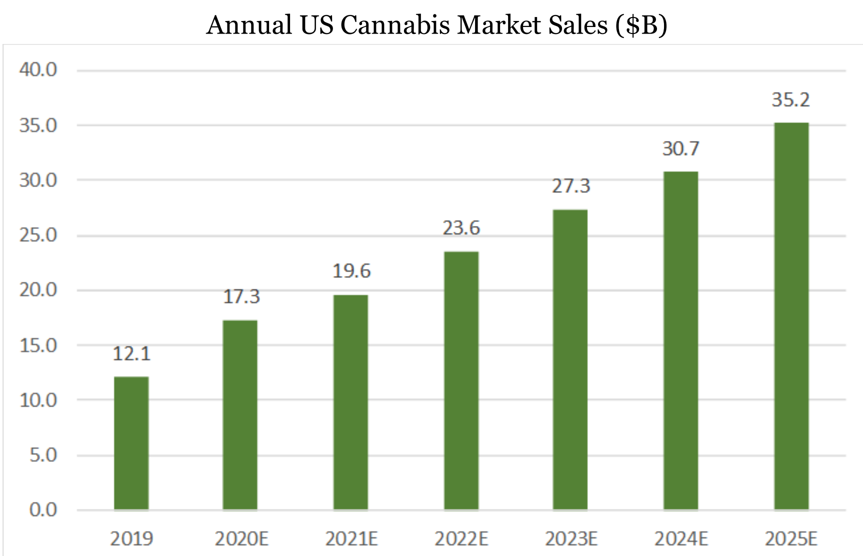
Given an attractive growth outlook for both medical and recreational markets in the US, improved execution by operators and current valuation trends which seem out of whack, we believe now is an attractive time to invest (or reinvest) in the US cannabis market. We believe the most attractive companies for investment are those with established profitable and growing businesses in core markets which are now poised for additional state expansion (both in terms of financing and given the macro-opportunity).

We believe 4Front is ready and capable to participate in the developing and sustainable positive macro trends in cannabis. Further, we expect the cream is finally ready to rise to the top in terms of execution and we believe 4Front has proven capable as a top executer within its core Washington market. We expect the company's experience in Washington to translate to success with expansion opportunities particularly in California, Illinois and Massachusetts. We forecast a scaling of revenues and profits over the next two years as assets come more fully online (and lack the interruptions to operations that have plagued prior year's results). We expect execution of results to translate to outperforming returns for 4Front stock.

We note that a potential looming Illinois cultivation expansion could present a game changing incremental opportunity for the company and upside to our estimates and investment thesis.

Forecasting Strong Industry Growth

In 2020, cannabis sales were stronger than expected. We estimate 2020 sales to be more than $17B, +43% Y/Y. We anticipate strong growth to continue in the years ahead forecasting $20B in sales this year and $35B by 2025. We believe growth will stem in large part from two themes that arose in 2020, a broadening acceptance and acknowledgement for medicinal cannabis and the economic hardship caused by COVID-19.



Source: Viridian Capital Advisors

Regarding the first theme, according to recent Gallop Polling, more than 90% of Americans are in favor of legalized medicinal cannabis while numerous international agencies including the World Health Organization and United Nations acknowledged the benefits of medicinal cannabis last year. It has become increasingly unfavorable for states that have been unwilling to implement medical cannabis programs or willing only to implement heavily restricted medical programs to justify doing so without legislators being considered punitive to their constituents which may be helped by cannabis. In 2020, sixteen states lacked material medical cannabis sales within our forecast. States without medical cannabis sales in our forecasts included some with large populations such as Georgia, North Carolina, Virginia and Wisconsin. Even Texas, the country's largest state, only had $55M in medical cannabis sales (roughly in line with smaller states like Idaho and Vermont). For most of these non-contributing states, medicinal cannabis laws were in place however an infrastructure for sales and distribution was not yet established. We expect many of these markets to begin medical sales this year. By the end of our forecast period, we expect medical cannabis to be made available in all fifty states. For to-date restricted markets, we expect cannabis to be made more broadly available in terms of registered patients and qualifying conditions enabling the potential for significant growth in sales.

Anticipated Initial Rec Sales by Year (2020-2025E)

2020	2021	2022	2023	2024	2025
		Connecticut			
		Maryland			
		Montana			Georgia
		New Mexico			Hawaii
		New York			Idaho
		Pennsylvania		Florida	New Hampshire
Illinois	Arizona	Rhode Island	Delaware	Louisiana	North Carolina
Maine	Montana	South Dakota	Oklahoma	Virginia	Ohio
Michigan	New Jersey	Vermont	West Virgina	Wisconsin	Tennessee

Source: Viridian Capital Estimates

We believe recreational cannabis programs will be used to offset economic hardship for states. We expect economic hardship in the form of high unemployment and budgetary shortfalls to result in the development of new recreational cannabis programs and the expansion of existing markets (and particularly those that have experienced limited growth to date due to regulations and/or underdeveloped supply chains). Cannabis presents a rare opportunity for states to generate new tax revenue and create jobs (worth noting that cannabis remains a very labor-intensive industry at every level). Over the course of our forecast period we expect twenty-five states to commence initial recreational sales (compared with eleven today) including the four states which passed new recreational laws during the 2020 election (Arizona, Montana, New Jersey and South Dakota). We expect each of these four states to commence recreational sales to some degree this year. With new states coming online in the near term we believe most laws will be passed through legislative action rather than ballot measure resulting in a more streamlined and successful rollout of programs given that legislators should be cooperating from the outset.

Not all developing market opportunities are equal

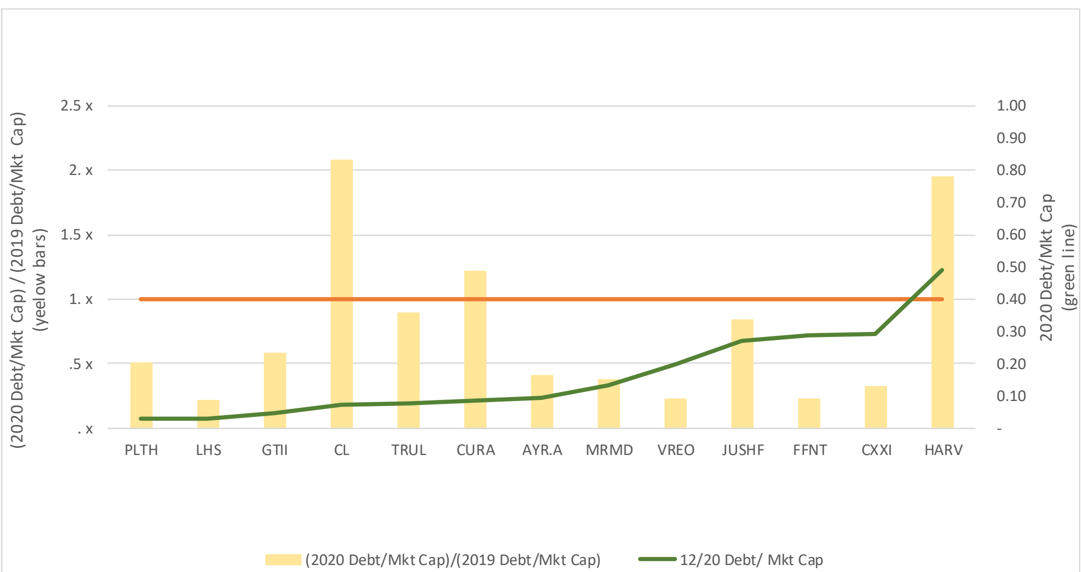
Not all developing markets will be equal with opportunity discrepancies between states arising based on population, government regulation and transparency at the state and local level, the size and scale of the existing market and presence of established operators. Expansion of some markets presents a true greenfield opportunity given limited existing scale (New Jersey for example) and others less so due to the large existing medical sales (Arizona). The inequality between markets on the previously listed factors has led to challenging rollout of some markets (Massachusetts for example) versus a smoother start in others (Illinois). For both operators and investors in more challenging states slower than anticipated growth and even losses have occurred in recent years. Even in the most challenged situations though some well-run operators have been able to carve out niches with sustainable profits.

In terms of expansion markets, we believe Missouri, New Jersey, New York, Ohio, Oklahoma and Pennsylvania present significant opportunities for near term growth while populous states. The mostly nascent medical markets in the South and Midwest present the most greenfield opportunity for growth longer term.

Stronger Liquidity, Profitability and Poised to Execute

In considering the ratio of total debt to market cap as a leading measure of corporate credit quality, the ***Viridian Cannabis Deal Tracker*** recently analyzed the credit quality of fourteen of the largest public cannabis companies. Thirteen companies had a total debt level valued at less than 50% of equity and of those companies ten had improved ratios in relation to those of 2019.

Debt/Market Cap Analysis



Source: Viridian Cannabis Deal Tracker

Prompted by a tightening of capital markets beginning in late 2019 and lasting for much of last year, cannabis operators were forced to execute on core operations in 2020. This marked a major change in the industry as previously the focus of companies was primarily on licensing and expansion. Even many of the largest (and most bankable) multistate operators in the market had little plan for successful operating beyond initial expansion and capital raise.

The execution requirement of 2020 resulted in many companies narrowing their business plans, cutting overhead expenses and paying down debt. Coinciding with the strong consumer demand for cannabis last year, the execution initiatives translated to many cannabis operators becoming profitable in 2020 and generating positive cash flows for the first time. Further, through paying down and/or renegotiating debt, operators are now in dramatically improved credit standing.

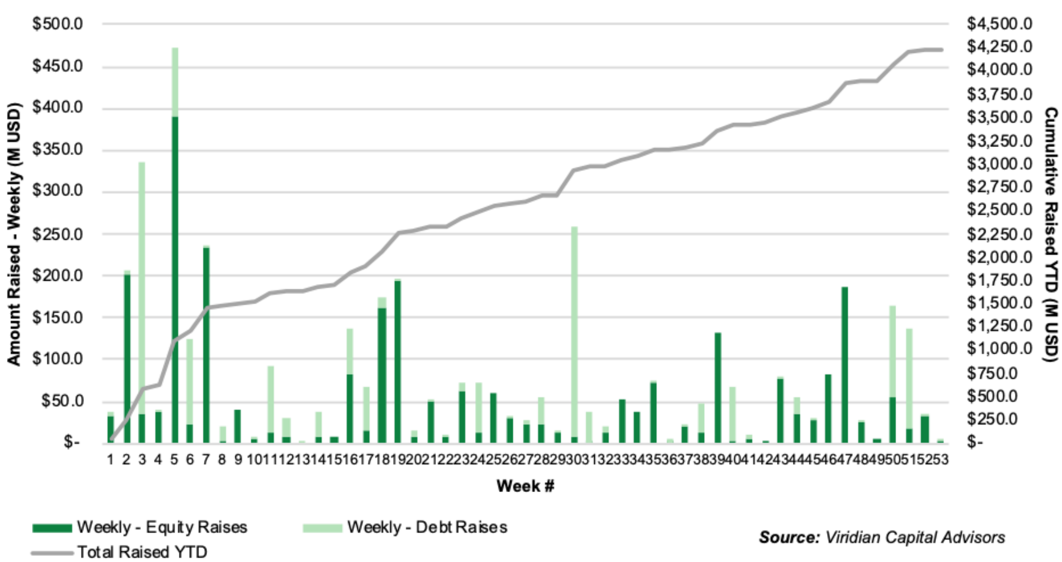
Given the positive macro backdrop, we expect growth to continue this year and beyond with the average public operator expected to grow revenues by 88% Y/Y in 2021. Coinciding with revenue growth we expect a scaling of profits with the average operator in the space expected to report an adjusted EBITDA margin of 24% this year, up from an estimated 8% for 2020. Given escalating profits and less burdened by cumbersome debt, we expect cash flows to accelerate in 2021 and beyond.

Today, in having developed profitable operations in core markets and in cleaning up balance sheets, cannabis companies are now positioned to execute on expansion initiatives into potential growth markets. Further, as capital is required to support growth initiatives we believe the capital markets will again open for well-run operators but importantly in a manner that is more supportive of long term success and better aligned with investor interest. This factor is highlighted by AYR Strategies' recent $110M debt financing. According to the ***Viridian Cannabis Deal Tracker***, AYR's debt financing was only the third ever non-dilutive financing for a major plant touching US operator and the first since the beginning of the pandemic. The transaction reflects the credit-worthiness of AYR as a company but also the industry overall. Only days after AYR closed this transaction, Terrascend announced the closing of a similar non-dilutive financing with a value of $120M.

Capital Markets Rebound Benefitting U.S. Cannabis Operators and Investors

Resulting from a combination of company underperformance in previous years and economic uncertainty from COVID-19 and the November election, capital was harder to come by for cannabis operators in 2020 than in previous years. However as the chart below shows,capital raise activity increased meaningfully in the second half of 2020.

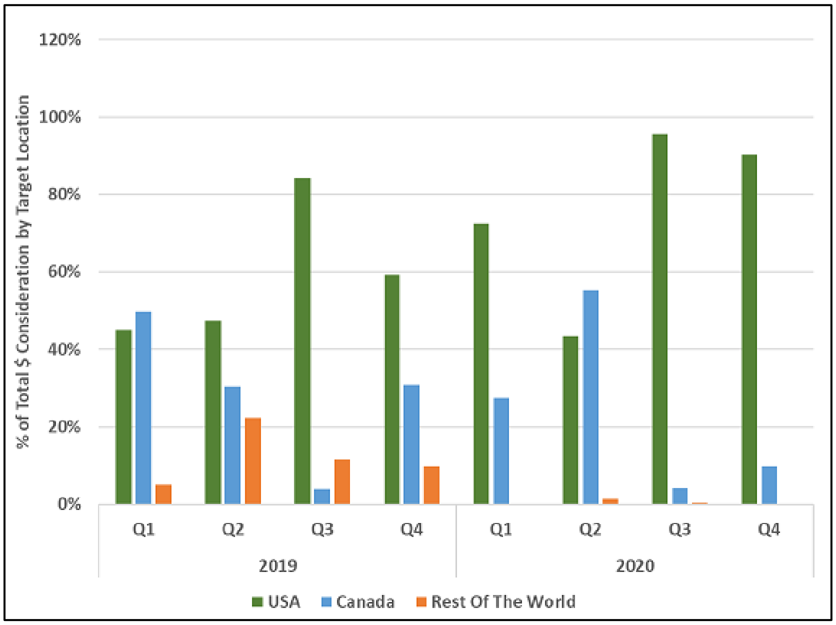
2020 Capital Raise Activity



Source: *Viridian Capital Advisors*

Capital access impacted M&A activity as well with transactions slowing as operators lacked the requisite capital to complete many transactions. Capital raise and M&A trends improved in recent months particularly following the election when the path for new state expansion became clearer however levels are still deflated from prior years. Interest in the US market outpaced that of other geographies in a change from years past.

M&A Activity Recovers and the U.S. Dominates



Source: Viridian Cannabis Deal Tracker

According to the ***Viridian Cannabis Deal Tracker***, 90% of all M&A transactions in the 2H/20 were for US companies. We believe this reflects the improved execution (including in having cleaned up balance sheets) by US operators and the expectation for improved market conditions in upcoming years. Worth noting, much of the M&A activity that did occur involved stock transactions highlighting the confidence that sellers have in the long-term success of operators in the US markets. We expect recent more positive trends to continue moving forward and anticipate an acceleration of activity this year as investors return to cannabis with greater comfort levels and as operators look to grow into new expansion markets.

Investors Drive Sector Rotation

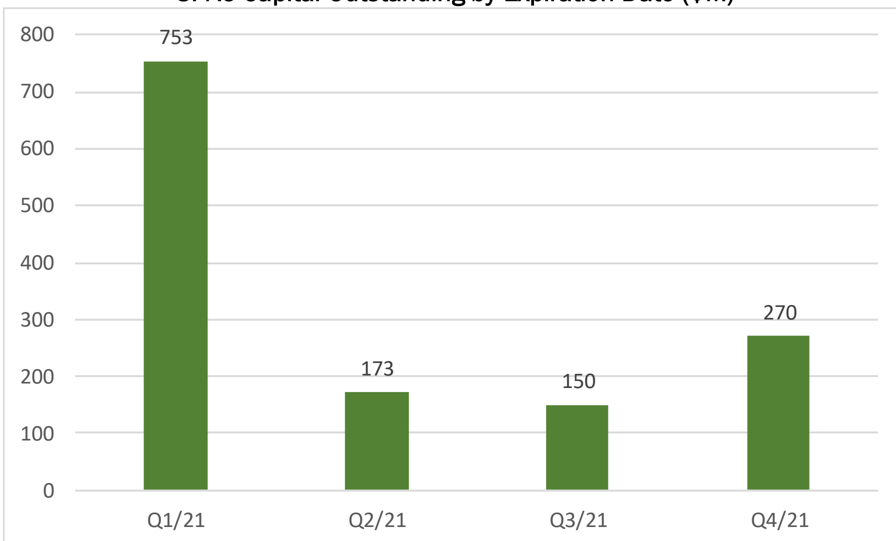
Two focus areas for investment in the cannabis market were software and branded products. Software was an investment focus area particularly for private companies with several having been able to raise significant capital during the year. With compliance with state regulations likely to continue to be a challenge and with home delivery and online ordering becoming a greater consideration for the industry, we expect the focus on software to persist in coming years both with operators looking to enhance their capabilities and from investors. Importantly, software and technology as an ancillary service can provide a means for institutional investors to invest in the space without encountering restrictions. As for branded products, three of the largest M&A transactions in 2020 were related to cannabis brands while one of the top financed private companies was a branded products companies. We believe the increased emphasis on brand investment will gain increased importance in coming years.

Another area where capital became more available for operators was from real estate investors with the industry's lone REIT (Innovative Industrial Properties) specifically increasing its investment activity. While tenants in traditional industries struggled to meet debt obligations, cannabis companies have not making cannabis real estate investment a safe alternative. In 2020 the interest from Innovative Industrial Properties translated to multiple operators completing sizable sale/lease back transactions. We expect this trend to continue resulting in far more cannabis real estate investment this year and beyond. For operators increased real estate investment interest is likely to lead to cheaper capital being available and enable a scaling of operations.

The Cannabis SPAC Emerges

Meanwhile, in the form of institutional investment another important shift occurred in the market with SPACs becoming much more common in the space. SPACs have raised significant capital for use in the cannabis market over the past two years even as transactions have been hard to come by until recently. With liquidation dates on the horizon, we saw an increase in SPAC led transaction activity in late 2020 and expect a further acceleration early this year. We believe that there is more than $1.3B in SPAC money which needs to be spent this year with more than $900M needing to be put to work in the first half.

SPAC Capital Outstanding by Expiration Date ($M)

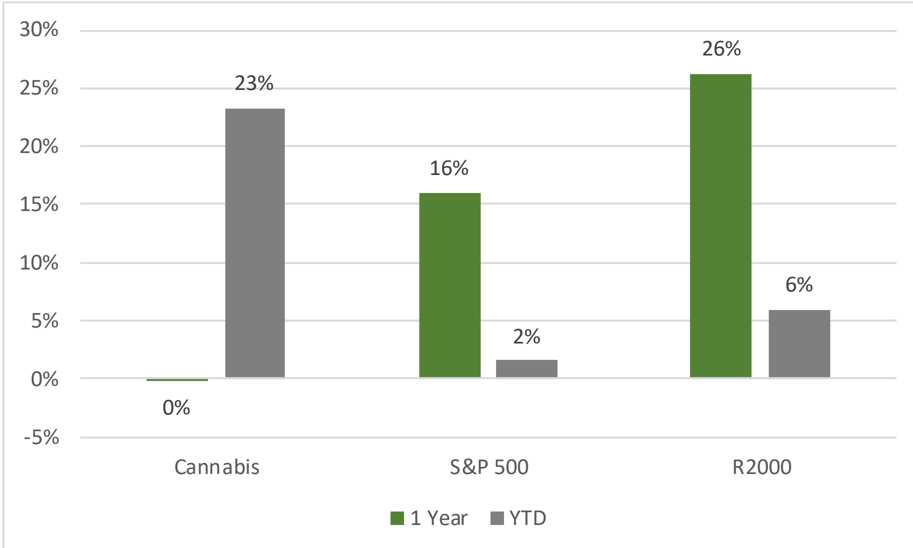


Source: Viridian Cannabis Deal Tracker

Investor Returns and Valuation Opportunity

Despite outperforming returns since the November election (and particularly YTD), cannabis stocks as reflected by the Alternative Harvest ETF (the industry's largest ETF) have significantly underperformed the S&P 500 and Russell 2000 over the last year with a breakeven one-year return versus +16% and +26% gains for the indexes respectively. Meanwhile, forward looking valuation levels for cannabis companies are largely in line with where they were last year as multiples do not adequately reflect the improved outlook and anticipated growth in reported results. We expect valuation levels and stock returns to improve in the near term driven by continued execution by operators, state market expansions and enhanced investor awareness. With the improved execution and positioning by operators, investors can worry less about operators potentially defaulting on debt obligations or of dilution from prohibitive financings in the near term. With many companies, these worries have certainly been warranted in previous years.

ETF and Index Returns



Source: Priced Intraday 1/20/2021

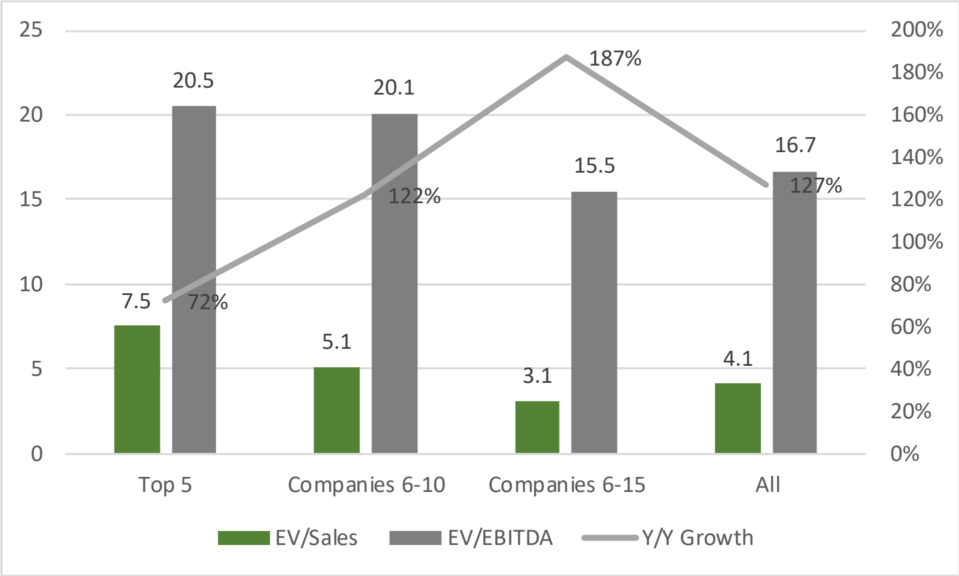
Additionally, we believe institutional investor interest driven by looming SPAC liquidation deadlines and on-going expansion initiatives by operators will increase M&A activity overall in 2021 and enhance values for public and private companies. Further, we expect traditional institutional investor interest to continue for technology-oriented plays on the space while an easing of up-listing requirements for ancillary service providers is likely to prompt further investor interest for all operators.

Within existing valuations, we believe there is value to be had for well-run operators which have been to date overlooked relative to the largest companies in the US Cannabis market.

As reflected in a recent **Viridian Cannabis Deal Tracker** "chart of the week" publishing, smaller capped companies in cannabis market are valued at a sizable discount to the largest operators in the space despite possessing a more favorable growth outlook. The top five US companies by market cap have an average EV/Sales multiple of 7.5x 2021 estimates and EV/EBITDA at 20.5x. This compared with multiples for the broader market at 4.1x and 16.7x respectively and multiples of 3.1x and 15.5x for all companies smaller than the top five. Meanwhile, the companies with the sixth through tenth largest market caps trade on average at a 5.1x EV/Sales multiple and 20.1x EV/EBITDA. The relative discount for this grouping comes despite having an average Y/Y sales growth this year of 122% versus 72% for the top five largest companies.

We will add, these smaller companies in many cases also have been to date more strategic in expansion initiatives and thus carry less overhead expenses as they begin to participate more broadly in growth opportunities through additional state expansion. These companies will be less challenged in developing profitable businesses than some overspread peers. The current valuation disparity by market cap goes against the norm for most traditional industries where higher anticipated growth typically translates to higher valuation levels. Given the fact that we believe profitability through execution is achievable and that growth capital will become more broadly available for all, we believe this valuation trend is unjustified. We believe the current disparity stems from the fact that only the largest operators in the space have been broadly covered by sell-side analysts and introduced to investors. Smaller (albeit well run operators) have not been to the same extent. We believe the trend will be flipped in the near term presenting investors which seek out well-run but to date overlooked companies in the space with the opportunity for outperforming returns.

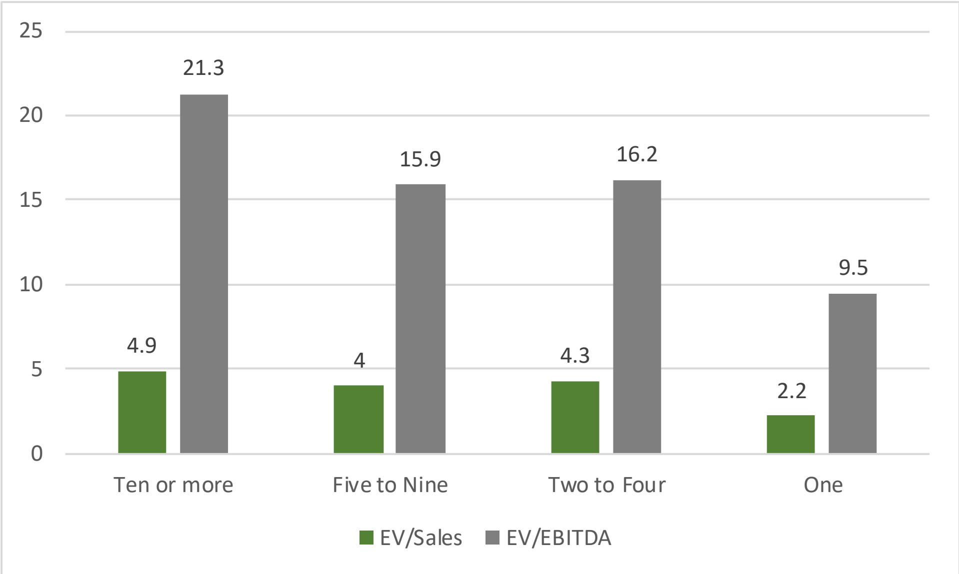
Valuation Multiples by Market Cap



Source: Viridian Cannabis Deal Tracker

Beyond considering the size of companies, we believe there is also opportunity for investors in seeking out under represented companies based on anticipated growth, state exposure, profitability and liquidity position. In many cases, positioning is not yet reflected in valuation multiples.

Valuation by Number of States in Operation



Source: Viridian Cannabis Deal Tracker

4Front Ventures (US OTC: FFNTF: Buy Rating: $1.55 Price Target)

Multi-state footprint

4Front's legacy business is as a wholesale branded products manufacturer in Washington where the company has operated since 2011. Through on-going expansion initiatives 4Front is in the process of building-out and scaling operations in California, Illinois, Massachusetts and Michigan. We note that the company does also have an outstanding medical license application in New Jersey but we do not expect New Jersey to represent a focus area for the company in the near term even if a license is received.

California

This year, 4Front will produce branded products in California. The company is nearing completion on the buildout of a 185K sq. foot production facility in Commerce, CA. Commerce is located just outside Los Angeles.

The facility is expected to be completed in early Q2/21 and management expects to have initial edibles, tinctures and vape products on retail shelves in May. Once fully operational, management expects the Commerce production facility to be one of the biggest and high-volume producers of branded cannabis in the state.

Illinois

In Illinois, 4Front has recreational dispensaries in the South-side of Chicago and in Calumet City (approximately twenty miles from the city). The recently opened Calumet store (December 15th) is the closest dispensary in Illinois to the Indiana border. In addition to retail assets, 4Front has a 40K sq. foot cultivation facility in Chicago with roughly 9K sq. feet of canopy which the company plans to expand to roughly 250K over the next few years (licensed to get to 250K sq. feet).

Currently, 4Front sells all its manufactured product within its retail stores however with the expansion of the cultivation footprint the company can also sell as a wholesale supplier to the Illinois market.

Massachusetts

In Massachusetts, 4Front has vertically integrated operations. The company has retail stores in Georgetown and Worcester, MA and two cultivation facilities with a total of 15K sq. feet of canopy. The company is licensed to expand to roughly 100K sq. feet of canopy. We expect a further cultivation buildout to be likely over the next year.

4Front's Georgetown store opened for recreational sales this past August while the Worcester opened for recreational sales in September. The company is currently one of few operators in the state with multiple recreational retail licenses.

4Front plans to open its third recreational retail store, in Brookline, MA (adjacent to downtown Boston). The company recently announced an approval to commence construction on the dispensary location and plans to open for sales in Q2/21.

Michigan

In Michigan, 4Front has a 5,300 sq. foot retail dispensary in Ann Arbor. The dispensary is less than one mile from the University of Michigan main campus and is the longest continuously operating dispensary in the Eastern United States.

Washington

Washington represents 4Front's legacy business acquired through the Cannex transaction.

The company has a 120K sq. foot cultivation facility in Washington and is one of leading wholesalers in the state.

4Front is the number two wholesale producer in Washington by total market rank and is the top edibles manufacturer and the number two flower producer in the state. Currently, 4Front supplies more than 260 dispensaries in the state.

Branded Products Portfolio: 4Front produces more than twenty-five cannabis brands and 2,800 SKUs ranging across product categories. The company's brands have gained significant traction in the Washington market with consistency of product being a key differentiating factor relative to competitive offerings.

Investment Highlights

Finally, ready to execute on expansion strategy

4Front completed a merger with Cannex in July of 2019. Through the merger, 4Front management planned to bring Cannex's industry leading cultivation and production expertise into expansion markets where the company had received licenses and/or acquired assets. At the time, 4Front had retail operations in various stages of development in seven states (Arizona, Arkansas, Illinois, Massachusetts, Maryland Michigan and Pennsylvania) and plans to buildout a production asset in California. As with many industry operators in recent years, the company's expansion plan was slow to get rolling due in large part to macro related challenges including licensing delays in Massachusetts, tightened capital markets and a pandemic, which were beyond management's control.

For roughly eighteen months, 4Front management weathered the storm and made considerable efforts to put the company in better position to delivery long-term success.

Management narrowed the company's focus to its current expansion markets (selling off assets in Maryland and Arkansas and walking away from opportunities in Arizona and Pennsylvania), cut overhead costs significantly and shored up the balance sheet (including with a recent capital raise and sale leaseback transaction). 4Front is now finally positioned to execute on its expansion strategy and scale revenues and generate profits to a level in line with some of the top operators in the space.

Mission Dispensary

Source: Company Reports

Attractive market opportunity

Positioned in largest cannabis markets

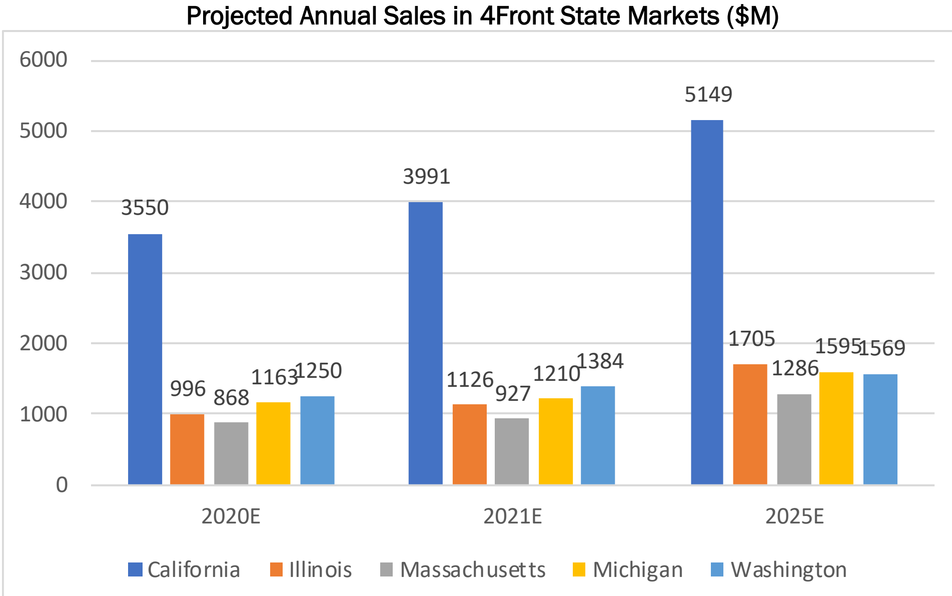
With existing operations in Illinois, Massachusetts, Michigan and Washington and its production facility in California coming online in the second quarter, 4Front is positioned in five of the largest cannabis markets in the US. Based on Viridian Capital sales projections, sales in 4Front's markets were roughly $8B in 2020, growing to $9B in 2021 and more than $11B in 2025. 4Front's state exposure represents 45% of all US sales in 2020, 44% in 2021 and 32% in 2025.

Within these markets based on existing expansion plans, 4Front management believes that a targeted long term annualized revenue of roughly $650M per year is achievable. The revenue target represents roughly 10x growth on 2020 results (and 7x the company's current ~$90M run rate). On a recent investor call, management highlighted that the annual top line revenue target is likely possible for a 2024 or 2025 timeframe. We believe that timing could be accelerated.

Along with top line targets, the company believes an annualized adusted EBITDA of $250M is achievable (reflecting a 38% adjusted EBITDA margin).

We note that some planned expansion initiatives (in particular the buildout of full Illinois cultivation capacity) required to achieve annual targets are not currently included within our forecasts as the company will need to raise additional capital in-order to fund these initiatives.

Projected Annual Sales in 4Front State Markets ($M)



Source: Viridian Capital Estimates

Growth initiatives across states

In each state market, 4Front has a legitimate and viable path for top line growth in both the near and long term.

- California: In California we expect the production asset to come online this year with initial contributions late in the first half. We expect outpacing growth in future years to stem from a scaling of capacity and consumer adoption for 4Front branded products in the state.

- Illnois: Growth this year will stem from contributions from the second dispensary (opened in December) and a full year's contribution from the Chicago store which was shutdown for several months due to protest damage in Spring 2020. Additionally, we believe the company's recently expanded cultivation capacity will support greater sales volumes as will the addition of more wholesale sales in the market in general (improving access to third party supply).

  Longer term, an expansion of cultivation capacity will drive topline growth both in terms of retail sales and initial contributions from wholesale operations.

- Massachusetts: In Massachusetts we expect growth this year to come from a full year's contribution from the company's existing dispensaries and the opening of a third dispensary this year. Regarding the soon to be opened dispensary, we expect 4Front'ss Brookline location near the Boston University campus to quickly make it the highest volume store for the company in the state.

  Longer term we expect additional growth to come from a cultivation expansion and greater yields in cultivation and production.

- Michigan: We expect growth in the near term to occur through operating efficiencies and an increase in third party supplier capacity in the state. In Michigan where there is a limited third party supply chain infrastructure the governor on growth to non-vertically integrated retailers has been the lack of third party supply. We expect that dynamic to improve some this year.

  Longer term we suspect growth in Michigan will stem from an eventual transition to a recreational license, the buildout of cultivation and production capacity and the opening of additional stores.

- Washington: Growth in 4Front's legacy state will come from continued market share gains and efficiency of operations as market demand in the state remains strong.

Growth markets offer more favorable pricing dynamics

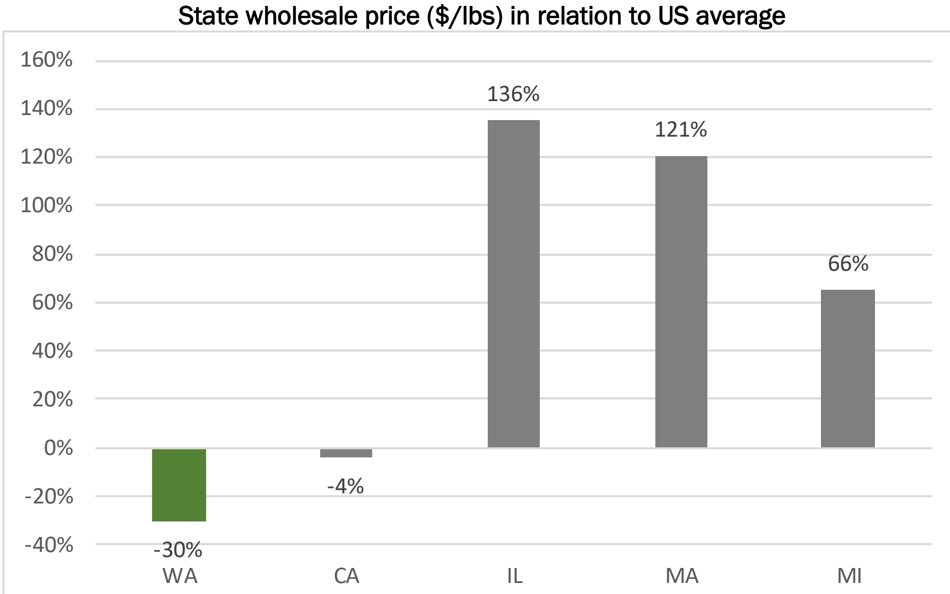
Washington has the lowest wholesale cannabis prices in the US with flower priced at a more than 30% discount to the national average on a $/lbs. basis according to industry data. The next lowest priced state (Oregon) has flower at a 15% discount. The low-price dynamics for Washington, imply that the state is relatively saturated for wholesale flower and that profitable results are difficult to be had for wholesale operators.

Despite challenging market conditions, 4Front has established a consistently profitable wholesale business in Washington (~25% EBITDA margins) through execution of low cost cultivation and production and by developing branded products that are sought after by consumers.

To expansion markets, 4Front brings its established expertise into markets with less established wholesale pricing dynamics. The company will look to mimic its low-cost production levels but generate enhanced profits due to the more attractive pricing dynamics. In California, wholesale flower prices are largely in line with the national average, while Illinois, Massachusetts and Michigan have some of the highest prices in the country (at a more than 107% premium). We expect prices to increase in California in the coming years due to strong market demand and an anticipated crackdown on the state's illicit black market and an opening of licensing opportunities. Meanwhile, we do not expect the current supply/demand imbalance in any of Illinois, Massachusetts or Michigan to be eliminated in the near term.

Coupled with production efficiencies, in having retail assets in Illinois, Massachusetts and Michigan, 4Front will generate additional profits through vertical integration.

State wholesale price ($/lbs) in relation to US average



Source: Cannabis Benchmarks

Improving competitive dynamics for CA wholesalers

As previously mentioned, 4Front plans to commence branded product sales in California this year with the completion of its production facility in Commerce, CA. We expect initial sales from the production facility to come in the second half of this year with the California business contributing roughly $20M in revenues in 2021 and more than $80M in 2022. We believe now is an attractive time to be a branded products producer in the California market.

Numerous factors have created the fragmented California wholesale market but particularly it is the existence of the sizable open black market. California's black market and high taxes imposed on legal operators have created an unequal playing field for wholesalers in the state. Legal wholesalers must pay state and local taxes and invest to comply with evolving regulatory requirements. Black market competitors incur no such expenses.

The additional expenses lead to historically lower wholesale prices in the state and low margins for legal wholesalers. Historically wholesale prices have been at a discount to the US average by closer to 10% to 15% based on pricing from Cannabis Benchmarks despite strong demand and particularly demand for high priced premium flower in the state. We believe this flower pricing discount translates to the sale of manufactured products as well.

We feel that the wholesale business in California can become a more attractive area of the market, particularly in the near term.

As mentioned, we are forecasting continued strength in California cannabis sales with the market growing to more than $5.1B by 2025. We believe sales growth in California will in large part be driven by a crackdown on the black market and an easing of the licensing process in the state for opening new businesses. California's economy has been significantly impacted by COVID-19 and we expect economic hardship to be the motivating factor in the state's eventual crack down on the black market and allowing for new licenses to be granted. As for new licenses being granted we expect new licenses to go to social equity and economic empowerment candidates which disproportionately tend to be for dispensary licenses and licenses without plans for cultivation (and thus reliant on wholesale suppliers). We are confident that the two factors (a reduction in black market competition and an increase in dispensaries in the state needing supply) will increase wholesale prices in California and provide the opportunity for well-run wholesale companies like 4Front to operate profitable businesses.

"Big Daddy" project to significantly scale production capacity in Illinois

In Illinois, 4Front holds one of twenty cultivation licenses which allow for up to 210K sq. ft of flowering canopy. To date no operator in the state has anywhere close to that cultivation and following a recent expansion of its Elk Grove, IL facility the company currently has 9K sq. feet of canopy in the state.

Management has openly discussed acquiring acreage for construction and we believe additional news could be forthcoming. The cultivation expansion project has been referred to as the "Big Daddy" project by the company. We expect a buildout would likely occur over multiple phases with an initial phase getting the company to roughly 65K sq. feet and costing roughly $50M. If successful with even an initial expansion, we believe that given attractive pricing dynamics in the state and the company's expertise as a cultivator and producer, we expect the facility would quickly be one of the most attractive individual assets in the industry capable of generating significant revenues and high profitability. We do not anticipate a change to the Illinois supply demand imbalance to occur at any point in the near term.

Management has highlighted the belief that the facility longer term would be capable of generating between $300M and $350M in revenues.

Rare operator with multiple recreational dispensary licenses in MA

4Front recently commenced recreational sales at its Georgetown and Worcerster dispensaries and will open a third dispensary in Brookline, MA this year. With its existing stores, 4Front is only one of twenty two operators in the state with multiple recreational dispensaries and one of only two public companies to hold that distinction (Curaleaf holds three).

Brookline is located adjacent to Boston and given the stores attractive location near the Boston University campus we expect the Brookline store to be 4Front's highest volume dispensary in the state. According to the Massachusetts Cannabis Control Commission there are currently only five recreational dispensary licenses outstanding in Boston and the surrounding towns and cities (including populous cities such as Brookline, Cambridge, Quincy and Sommerville). We expect the Brookline store to generate roughly $15M this year in three quarters and for Massachusetts retail sales to be approximately $45M in 2021, up $12M in 2020.

Massachusetts Operators with Multiple Recreational Dispensary Licenses

4Front	INSA
Alternative Therapies Group (3)	Mass Alternative Care
Apothca	New England Treatment Access
Berkshire Roots	Patriot Care
Canna Provisions	Pharmacannis
CNA Stores	Resinate
Cultivate Holdings	Sanctuary Medicinals
Curaleaf (3)	Silver Therapeutics
Four Daughters	Temescal Wellness (3)
Garden Remedies	Botanist
Green Biz	Theory Wellness
Holistic	

Source: MA Cannabis Control Commission

Michigan a non-core market, but attractive asset

For Michigan we estimate 4Front to generate roughly $2M in revenues this year and $3M in 2022. In terms of profitability we forecast mostly immaterial contributions from the state. Michigan represents a non-core portion of the business with the company lacking the requisite cultivation and production capacity to significantly expand upon contributions in the near term.

Regarding capital investment to grow Michigan operations, we expect management to instead focus on growth initiatives in other markets including Illinois and Massachusetts where the company has planned cultivation and expansion initiatives and where there is more of an established presence of operations. With that said, if management does choose to expand operations in Michigan we believe the company's Ann Arbor location (near near University of Michigan campus) could quickly become a significant contributor to results and provide upside to estimates.

Meanwhile, we note that given the size of the Michigan market, we believe 4Front could be in position to sell its Michigan dispensary to another operator in the state looking to scale revenues and consolidate that market. Michigan is a state with a limited number of public company operators however there are several well-financed private companies with significant scale in the state which may be interested in expanding further in the near term. For 4Front, the sale of Michigan assets could provide capital to fund other near-term growth initiatives.

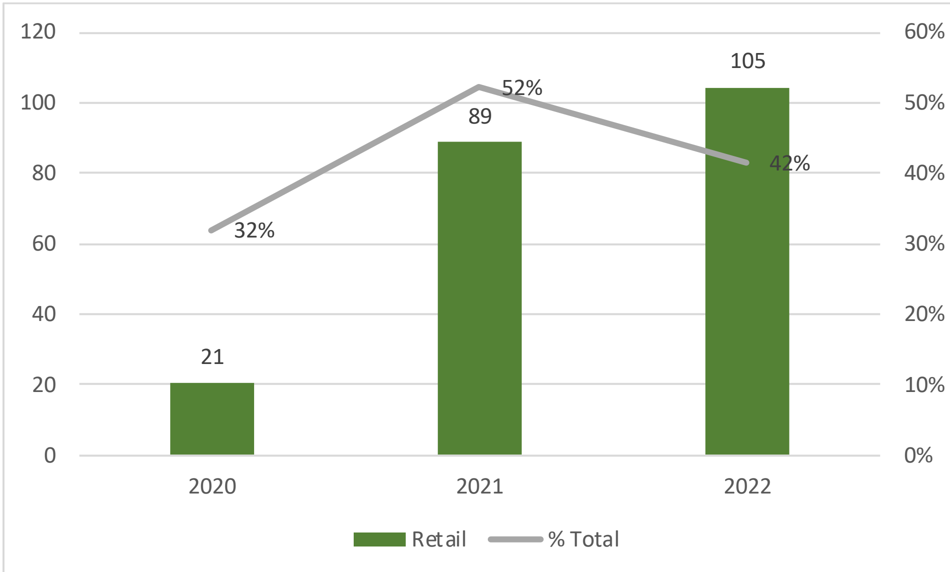
Retail poised to deliver strong growth

In Q3/20, 4Front commenced recreational sales at its two Massachusetts dispensaries (after a long delay in licensing) and re-opened its South Chicago store after it had been closed for several months following damaged caused during protests in the city this spring. To go along with the South Chicago store, the company recently opened a second Illinois dispensary approximately twenty minutes from Chicago near the Indiana border. We believe, each of these dispensaries is attractively positioned to be a high-volume contributor in the coming years and believe each can generate between $1M and $2M in sales per month. With each being vertically integrated, we expect contributions from these stores to be highly profitable, particularly as the company expands production capacity in Illinois and Massachusetts.

In addition to existing recreational dispensaries, 4Front has a retail store in Ann Arbor, Michigan and plans to open a third recreational retail store in Massachusetts this year. The Ann Arbor store is a medical only dispensary for now and is limited in scale due to the fact that the company is reliant on third party suppliers for product in the state. We expect the Michigan store to contribute roughly $200 to $300K per month until the company receives a recreational license and becomes vertically integrated. Given its location near the University of Michigan campus the store could become a significantly higher contributor in the near term with a change.

Meanwhile, 4Front's third dispensary in Massachusetts will be located in Brookline, MA near downtown Boston and attractively located near several local colleges. The store is expected to quickly become a strong contributor for the company and we expect annualized revenues of roughly $20M from the outset.
Overall, we expect revenues from retail operations to scale from roughly $21M in 2020 to nearly $90M in 2021 and more than $105M in 2022. As previously referenced, for 4Front the additional retail revenues bring higher margins than the company's legacy Washington business bring greater profitability for the company overall.

Retail Mix Shift



Source: Viridian Capital

Capital Position and Financial outlook

Funded for existing operations, "Big Daddy" requires financing

Over the past year, management has made significant strides in improving 4Front's capital position. The company ended the quarter with $8.5M in cash. Since quarter-end, the company raised $13M through a bought deal and completed a sale lease back transaction on its Washington and Massachusetts production facilities. The sale lease back is with an affiliate of Innovative Industrial Properties, Inc. and provided 4Front with $33M in cash to pay down an outstanding debt obligation.

Following the two transactions and including our estimate that the company burned roughly $1M in Q4/20, we believe 4Front ended 2020 with roughly $21M in cash. Given that we forecast profitable results moving forward and limited CAPEX required beyond expansion initiatives, we believe current cash levels are sufficient to fund near term growth initiatives with the company needing to pay roughly $10M to complete the California production facility this year and an additional $1M to build out the Brookline dispensary.

We note that in order to complete the buildout of an enhanced cultivation facility in Illinois, 4Front will likely have to raise capital with management recently highlighting a likely cost of $50M for a phase one buildout. We note that the expansion of these assets is not built into our forecasts.

Importantly as 4Front looks to raise capital, we expect financings to be less costly for companies on improved investor interest (particularly from institutional investors). We believe an uptick in debt financings in particular will continue, providing a powerful non-dilutive financing tool to support growth and highlighting improved execution by operators. In a significant change, we believe 4Front raising the requisite capital to buildout Illinois and Massachusetts production assets is now possible in a non-dilutive manner.

2021 and 2022 Projected Cash Flows

	Q1 '21E	Q2 '21E	Q3 '21E	Q4 '21E	2021	Q1 '22E	Q2 '22E	Q3 '22E	Q4 '22E	2022
EBITDA	4.8	11.8	14.3	14.0	44.9	18.2	27.8	28.5	26.6	101.2
Capex	10	2.5	2	2	16.3	3.0	3.0	3.0	3.0	12.0
FCFF	(5.9)	7.8	10.8	10.5	23.2	13.2	22.8	23.5	21.6	81.2
Capital Raise										
Beginning Cash	21	15	23	34	20.9	44.1	57.3	80.1	103.6	44.1
Ending Cash	15.0	22.8	33.6	44.1	44.1	57.3	80.1	103.6	125.3	125.3

Source: Viridian Capital

Q3/20 turning point; leverage in 2021 guidance

Q3/20 was a turning point for 4Front with the company reporting a positive adjusted EBITDA on a quarterly basis for the first time (+$3.7M adjusted EBITDA for the quarter). Positive adjusted EBITDA results came as the company scaled revenues ($22.3M reported, +18% Q/Q) with the reopening of the company's South Chicago store in July and the launch of recreational sales in Massachusetts. Additionally, results benefitted from lower overhead expenses with the company reducing total Opex by $300K from Q2/20 and more than $3M Y/Y.

We expect positive results to continue in Q4 and forecast revenues and adjusted EBITDA for the period of $22M and $4M respectively. Our revenue estimate calls for 80% growth Q/Q based on a full quarter's worth of contributions from rec retail sales in Massachusetts and from the South Chicago dispensary. We expect an additional ~$200K in sales from the new Illinois dispensary which opened last month.

Looking at 2021, management has guided full year revenues to be between $170M and $180M and adjusted EBITDA in the range of $40M to $50M. Guidance calls for continued operations at existing assets, the opening of a third retail store in Massachusetts and initial contributions from the California production facility coming late in the first half of the year. Our full year estimates are in line with guidance while we note that any delay in the Brookline dispensary or the California production facility beyond the spring could have an impact on results. Our adjusted EBITDA estimate reflects a margin of 26%, up from 6% in 2020.

For 2022, we forecast continued execution in Illinois and Massachusetts and a ramping of operations in California following the opening of the production facility this year. Overall, we estimate revenues to be $252M and adjusted EBITDA to be $101M in 2022 and note that any significant expansion of the company's cultivation footprint in Illinois (as has been discussed) or in Massachusetts could provide significant upside to our estimates on both the top and bottom line.

We note that with planned expansion initiatives and the company's existing footprint, 4Front management recently highlighted an annualized achievable revenue and adjusted EBITDA run rate of $650M and $250M respectively. The timeframe for these targets is beyond our forecast period (likely 2024 or 2025).

Capitalization and valuation

Following the bought deal and sale lease back transactions completed late last year, 4Front has roughly 750M fully diluted shares outstanding. The company has $22M in cash and $25M in debt outstanding with no debt maturing until at least 2024. We note that with sale lease back proceeds, 4Front paid down existing debt.

At current levels, 4Front stock is trading at an EV/Sales multiple of 3.6x our 2022 estimate and an EV/EBITDA multiple of 8.9x.

Relative to 2021 estimates, 4Front's valuation reflects an EV/Sales multiple of 5.3x and EV/EBITDA at 20.0x. This compares to an average for the peer group of US operators at 4.1x and 16.7x respectively.

Capital Structure and Valuation

Price (US OTC)	1.20	
Subordinate Voting Shares	384.4	
Proportionate Voting Shares	148.5	
Multiple Voting Shares	1.3	
Basic Shares	*534.2*	
Shares bought deal	24.7	
Convertible Debt	86	
Options	48	
Warrants	30	
Warrants bought deal	25	
Fully Diluted Shares (M)	**747**	
Q3/20	8	
Bought Deal	13	
Cash ($M)	**22**	
Q3/20	55	
Sale Lease Back	(30)	
Debt ($M)	**25**	
Market Cap	**897**	
Enterprise Value	**900**	
	21E	**22E**
EV/Sales	**5.3**	**3.6**
EV/EBITDA	**20.0**	**8.9**

Source: Company Reports and Viridian Estimates

FY Income Statement ($M)

	2020	2021					2022				
	2020	Q1 '21E	Q2 '21E	Q3 '21E	Q4 '21E	2021	Q1 '22E	Q2 '22E	Q3 '22E	Q4 '22E	2022
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22
Revenue	**64.5**	**31.8**	**42.8**	**47.9**	**47.5**	**170.0**	**53.2**	**67.2**	**67.3**	**64.0**	**251.7**
Gross Profit	35.8	19.1	26.5	30.2	29.9	105.7	33.5	43.3	44.0	42.1	163.0
Sales & Marketing	22.8	9.6	10.0	11.0	11.0	41.6	10.8	10.9	10.9	10.9	43.5
G&A	15.9	4.3	4.3	4.5	4.5	17.6	4.5	4.6	4.6	4.6	18.3
Depreciation	4.4	0.9	0.9	0.9	0.9	3.6	0.9	0.9	1.0	1.0	3.8
Stock based Comp		1.5	1.5	1.5	1.5	6.0	1.5	1.5	1.5	1.5	6.0
Opex	48.3	16.3	16.7	17.9	17.9	68.8	17.7	17.9	18.0	18.0	71.6
Income from operations	(9.7)	2.8	9.8	12.3	12.0	36.9	15.9	25.4	26.0	24.1	91.4
Total Other Income	0.8	(5.2)	(5.7)	(5.7)	(5.7)	(22.3)	0.0	0.0	0.0	0.0	0.0
Pre-tax Income	(8.8)	(2.4)	4.1	6.6	6.3	14.6	15.9	25.4	26.0	24.1	91.4
Taxes	7.2	2.0	2.0	2.0	2.0	8.0	2.0	2.0	2.0	2.0	8.0
Discontinued Operations											
NCI											
Net Income	(16.0)	(4.4)	2.1	4.6	4.3	6.6	13.9	23.4	24.0	22.1	83.4
EPS	(0.0)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Shares	511.4	506.3	508.8	511.4	513.9	510.1	516.5	519.1	521.7	524.3	520.4
Adjusted EBITDA	**4.1**	**4.8**	**11.8**	**14.3**	**14.0**	**44.9**	**18.2**	**27.8**	**28.5**	**26.6**	**101.2**
Net Income	**(16.1)**	**(4.42)**	**2.15**	**4.58**	**4.29**	**6.6**	**13.87**	**23.44**	**24.01**	**22.11**	**83.4**
<u>% Revenues</u>											
Gross Margin	55%	60%	62%	63%	63%	62%	63%	65%	65%	66%	65%
Sales & Marketing	35%	30%	23%	23%	23%	24%	20%	16%	16%	17%	17%
G&A	25%	14%	10%	9%	9%	10%	8%	7%	7%	7%	7%
Tax Rate	-82%	-83%	48%	30%	32%	55%	13%	8%	8%	8%	9%
Opex	75%	51%	39%	37%	38%	40%	33%	27%	27%	28%	28%
Operating Income	-15%	9%	23%	26%	25%	22%	30%	38%	39%	38%	36%
Net Income	-25%	-14%	5%	10%	9%	4%	26%	35%	36%	35%	33%
Adjusted EBITDA	6%	15%	28%	30%	29%	26%	34%	41%	42%	42%	40%
<u>Growth Rates</u>											
Revenues											
Y/Y	107%	42%	-34%	51%	11%	164%	67%	57%	41%	35%	48%
Q/Q		42%	35%	12%	-1%		12%	26%	0%	-5%	

Source: Company Reports, Viridian Capital Estimates

Balance Sheet ($M)

	Q4/2019	Q1/2020	Q2/2020	Q3/2020
	Dec-19	Mar-20	Jun-20	Sep-20
Cash & Equivalents	5.8	9.3	11.4	8.5
Accounts Recievable	0.7	0.8	0.6	0.7
Other Receivables	0.3	0.2	0.3	
Lease Receivables	9.6	11.2	10.8	11.6
Inventory	9.1	12.6	12.4	15.7
Biological Assets	2.2	1.2	2.2	2.2
Notes Receivables	1.9	1.6	1.4	4.1
Prepaid Expenses	2.2	1.9	1.8	1.7
Assets held for Sale			7.3	
Current Assets	**31.7**	**38.9**	**48.2**	**44.5**
Restricted Cash	2.4			
PP&E	41.8	45.1	41.0	45.7
Notes Receivable	1.0	1.1	0.5	0.4
Lease Receivables	23.9	22.5	22.9	22.2
Intangible Assets	41.4	41.8	39.9	39.2
Goodwill	34.0	27.8	28.9	28.9
Right of use assets	20.5	32.7	31.0	25.3
Investments	0.8	0.8	0.8	0.8
Deposits	6.3	4.9	3.5	3.1
Total Assets	**203.9**	**215.6**	**216.6**	**210.0**
Accounts Payable	8.1	9.4	6.6	5.3
Taxes Payable	1.6	2.6	4.2	7.3
Lease Liability	1.0	1.2	1.0	1.5
Deferred Rent				
Convertible Notes		2.7		
Contingent Consideration pa	0.8	0.8	2.1	2.1
Notes Payable	7.4	7.1	6.8	8.0
Liabilities held for sale			1.8	
Current Liabilities	**18.9**	**23.7**	**22.4**	**24.3**
Convertible Notes	35.6	36.0	45.6	43.3
Notes Payable	44.3	44.3	43.9	45.0
Long term Notes Payable	1.9	1.9	2.0	1.9
Long term Accounts Payable	1.6	1.6	1.6	1.6
Contingent Consideration	4.7	4.7	3.0	3.1
Deferred Tax Liability			2.0	2.1
Lease Liability	21.0	33.3	31.8	25.4
Long Term Liabilities	**109.1**	**121.9**	**129.9**	**122.4**
Total Liabilities	**127.9**	**145.6**	**152.2**	**146.7**
Equity	**76.0**	**70.0**	**64.4**	**63.2**

Source: Company Reports

Required Research Disclosures

4Front Ventures (FFRNT)

Distribution of Ratings/IB Services				
			IB Services in Past 12 months	
Rating	Count	Percent	Count	Percent
Buy (Buy)	3	100%	0	0%
Hold (Hold)	0	0%	0	0%
Sell (Sell)	0	0%	0	0%
Not Rated (NR)	0	0%	0	0%

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