# AYR Strategies: Transformative Year for Leading Operator

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**Rating: Buy**
**Price Target: $38**

**AYR Investment Thesis**

- Industry leading execution
- Expansion into new markets through acquisitions
- Profitable growth in core markets
- Unjustified discount to peer group valuation

We initiate coverage of AYR Strategies (OTC: AYRWF) with a Buy Rating and $38 price target. AYR is a proven top operator in US cannabis delivering profitability and cash flows in line with or exceeding those of the best known companies in the space through its core operations in Massachusetts and Nevada. Due in part to its presence to-date in only two states and lack of recreational retail licenses in Massachusetts, the company has been discounted by investors and given a valuation incommensurate with its industry leading execution.

Following recent capital raises (~$215M) and with plans to enter five new markets this year (AZ, OH, PA, FL and NJ), AYR is poised for a transformative 2021. We expect outperforming stock returns as the company closes outstanding transactions and for AYR's historical discount to the peer group to be eliminated. Our $38 price target reflects the improved valuation while also leaving room for additional upside.

**Consistent profitability and execution:** In our view, AYR management has proven to be top operators in cannabis. The company has been profitable from an adjusted EBITDA standpoint in every quarter as a public entity and has consistently generated cash to a level in line with or exceeding the other top operators in the space despite facing a disproportionate share of macro challenges. We expect execution to continue with AYR expanding margins and cash flows as revenues scale.

**Acquisitions expand significantly:** In late 2020, AYR announced multiple acquisitions to expand into Arizona, Ohio, Pennsylvania, Florida and New Jersey. These states are some of the largest markets in the US and provide AYR the opportunity to significantly scale revenues and profits. While most acquisitions remain outstanding, AYR has the capital available to complete transactions and invest in expansion initiatives within each market. We expect AYR to build upon successes in MA and NV and quickly develop a formidable business in each new state, taking share from legacy operators and entrenching the company for long term success. Upon completing acquisitions, AYR management has highlighted 2022 attainable revenues and adjusted EBITDA to be $725M and $325M respectively or ~4x and 5x our 2020 estimates (and >2x our 2022 forecasts). At these levels AYR will be one of the largest and most profitable operators in the industry..

**Anticipate profitable growth in core markets:** In MA and NV, we anticipate strong growth and margin expansion. For NV, our estimates reflect improved market conditions, continued wholesale penetration and a full year's contribution from new dispensaries this year. In MA, we anticipate growth to come from the long-awaited receipt of recreational retail licenses. AYR has three recreational store openings planned for locations in Greater Boston this year. In addition to retail expansion in MA, we expect AYR to increase capacity at its production facilities (licensed to increase ~3X), particularly after the company's recently announced equity offering. A capacity expansion will further solidify AYR's position as the top wholesaler at a time when the supply/demand imbalance is not going away.

**Valuation:** Our $38 price target presents >30% upside to current levels and represents an EV/EBITDA multiple in line with the broader peer group of US cannabis companies at 16.7x '21E. Our price target reflects a continuation of AYR's discount to other leading operators (20.5x for largest five MSOs) presenting an opportunity for additional upside with the completion of acquisitions and buildout of assets in expansion markets. Our $38 price target reflects an EV/EBITDA multiple of 13.4x our 2022 and EV/Sales at 5.7x.

Click the Link to Subscribe to the Viridian Cannabis Deal Tracker

# AYR Strategies (US OTC: AYRWF: Buy Rating: $38 Price Target)

We initiate coverage on AYR with a Buy Rating and $38 price target.

**AYR trades on the US OTC at a price of $29.08 and on the CSE at C$36.80.**

Viridian Estimates:

- Revenues: Q4/20E at $47M; 2020E at $154.3M; 2021E at $249.1M; 2022E at $299.8M.
- Adjusted EBITDA: Q4/20E at $20.1M; 2020E at $56.9M; 2021E at $102.4M; 2022E at $127.5M.

Valuation:

Our $38 price target represents an EV/Sales multiple relative to our 2021 estimate of 6.9x and 5.7x our 2022. Based on EV/EBITDA our price target reflects a multiple of 16.7x our 2021 estimate and 13.4x 2022.

Our 2021 EV/EBITDA price target multiple is in line with the broader peer group of cannabis operators (16.7x) while continuing to reflect a discount to other perceived leading multistate operators trading at 20.8x (Columbia Care, Cresco Labs, Curaleaf Green Thumb, Harvest Health, Jushi, Terrascend and Trulieve). As AYR closes additional outstanding acquisitions and commences operations in expansion markets we believe the valuation should be in line with or exceeding that of top peers presenting the potential for additional upside to our price target expectations. We do not anticipate any issue to be forthcoming in completing acquisitions however we note that there could be delays related to the closing of transactions beyond the company's stated time frames due to regulatory requirements.

We note that our valuation assumptions factor in the closing of AYRs' Pennsylvania acquisitions, the company's debt financing and the recently announced equity offering. Our valuation methodology does not include contributions from the Pennsylvania business nor does it include dilution or contributions from other outstanding acquisitions. We expect each of the company's outstanding acquisitions to be completed this year and anticipate additional color on the timing and scale of contributions as subsequent transactions close and when the company reports Q4/20 earnings results in the coming months.

Significant dilution and investment forthcoming:

We note that with outstanding acquisitions and growth initiatives, AYR has significant investment ahead in the form of equity issuance and cash spending to complete transactions and build- out acquired assets. At current levels we believe dilution from outstanding transactions translates to a market cap increase of roughly 32% from current levels. AYR management has stated that upon completion of acquisitions and the requisite buildout, the company can achieve revenues and adjusted EBITDA of $725M and $325M respectively.

Relative to 2022 target expectations, we believe AYR's planned expansion initiatives translate to an EV/Sales multiple of 2.6x and 5.8x EV/EBITDA at current levels. Our $38 price target would represent an EV/EBITDA multiple of 7.6x and EV/Sales at 3.4x.

AYR Current Valuation

| | | |
|---|---|---|
| Price (US OTC) | 29.08 | |
| Fully Diluted Shares (M) | 47 | |
| Cash ($M) | 235 | |
| Debt ($M) | 168 | |
| Market Cap | 1358 | |
| Enterprise Value | 1291 | |
| | 21E | 22E |
| EV/Sales | 5.2 | 4.3 |
| EV/EBITDA | 12.6 | 10.1 |

Source: Viridian Capital Estimates, Priced 1/25/2021

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# Company Overview

AYR is a leading multi-state operator in the US Cannabis industry with vertically integrated assets serving the Massachusetts and Nevada markets. Through acquisitions announced in late 2020, the company plans to expand into in Arizona, Florida, New Jersey, Ohio and Pennsylvania with initial contributions expected this year. The company has closed acquistions to expand in Pennsylvania while we expect remaining acquisitions will close this year.

AYR generates revenues through retail and wholesale sales of its branded cannabis products. The company was formed via a SPAC investment (sponsored by Cannabis Strategies Acquisition Corp.) with initial transactions closed in May 2019.

Today AYR operates seven dispensaries and has more than 60K sq. feet of canopy. By the end of next year, AYR plans to have more than seventeen dispensaries and a cultivation footprint of nearly 400K sq. feet, giving the company one of the most significant footprints in the industry.

AYR currently trades on the US OTC market under the ticker AYRWF and the CSE with AYR.

AYR Strategies

ayr

Source: Company Reports

# Risks

Risks to our investment thesis and outlook on AYR include:

- The inability to close outstanding transactions: While we are not yet factoring in contributions from acquired businesses into our estimates, we believe that issues related to the closing of outstanding transactions or the requisite financing to fund transactions would alter the outlook for the company.
- Challenges in building out acquired assets: Along with completing transactions, AYR has significant buildout plans for its target acquisitions. Given uncertainty over timing and costs related to any expansion project and particularly in the cannabis sector it is reasonable to assume that delays on anticipated time lines and higher than expected expenses are likely and could have an impact on the outlook for the company.
- Continued delays in Massachusetts recreational retail licensing: We are confident that AYR will receive licenses to open recreational dispensaries in Massachusetts next year however we note that the licensing process is well-beyond management's control and could be delayed for any number of reasons. Given the persistent delays to date, we believe unanticipated delay would likely not be seen favorably by investors and would have an impact on anticipated results and our forecast.
- Changes in competitive landscape: AYR could be impacted by the introduction or expansion of new competitors in the market. Increased wholesale capacity coming on line in Massachusetts could impact AYR results relative to our expectations particularly if increased wholesale production in the state outpaces retail demand and thus there is an impact on wholesale pricing. Similarly, other operators receiving recreational dispensary licenses ahead of AYR's planned retail offerings in key markets could impact anticipated results for retail contributions in the future.
- 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 AYR 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. AYR 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.
- 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

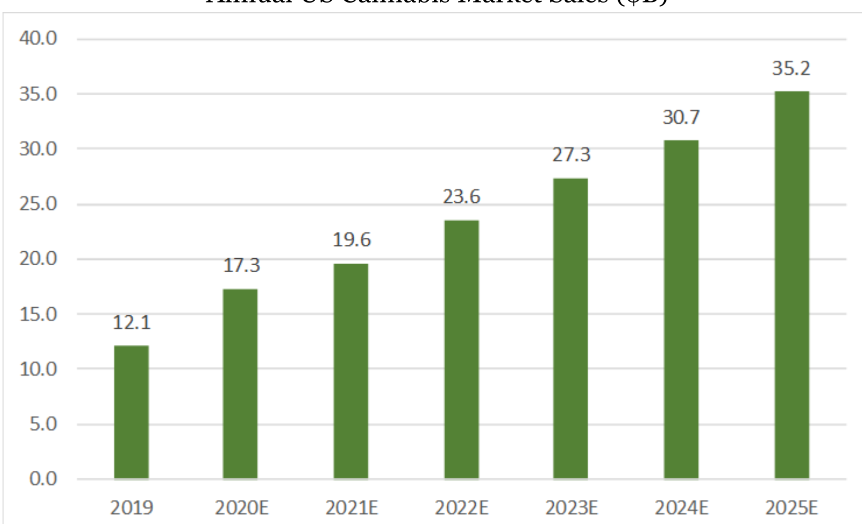
Given an attractive growth outlook for both medical and recreational markets in the US, improved execution by operators and current valuation trends which seem out of whack, we believe now is an attractive time to invest (or reinvest) in the US cannabis market. We believe the most attractive companies 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).

**As a leading operator to date within its core Massachusetts and Nevada markets and now in being poised for significant expansion with outstanding acquisitions, we believe AYR is one of the best positioned operators in cannabis to capitalize on the upcoming market opportunity. We anticipate a scaling of revenues, profits and cash flows in the near term and expect the company to take significant share within each of its expansion states. We believe the legacy valuation discount relative to its peer will soon be eliminated providing outperforming returns for AYR investors.**

## 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.

Annual US Cannabis Market Sales ($B)




**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

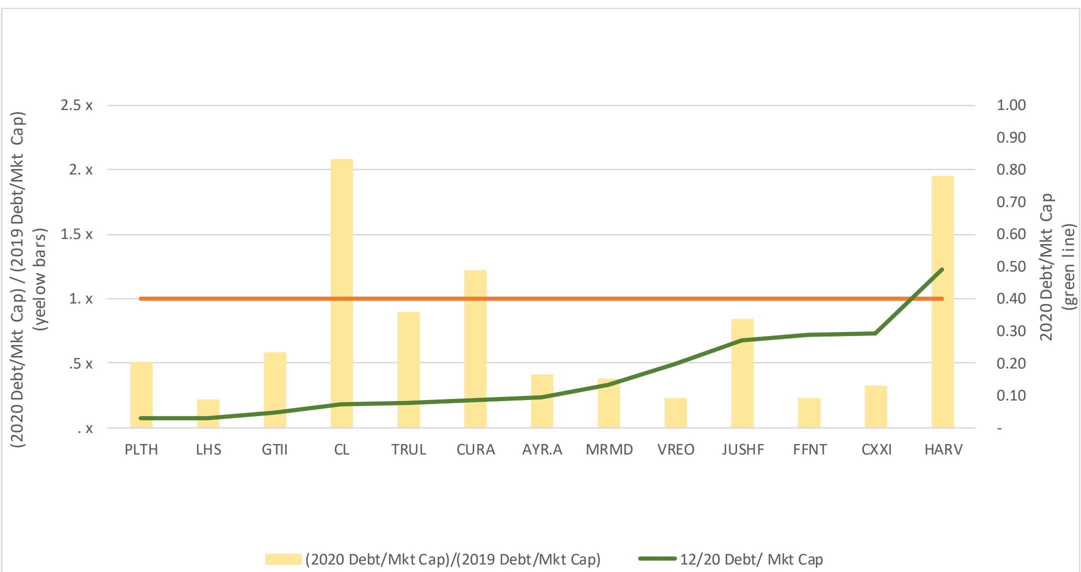
Not all developing markets will be equal with opportunity discrepancies between states arising based on population, government regulation and transparency at the state and local level, the size and scale of the existing market and presence of established operators. Expansion of some markets presents 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.

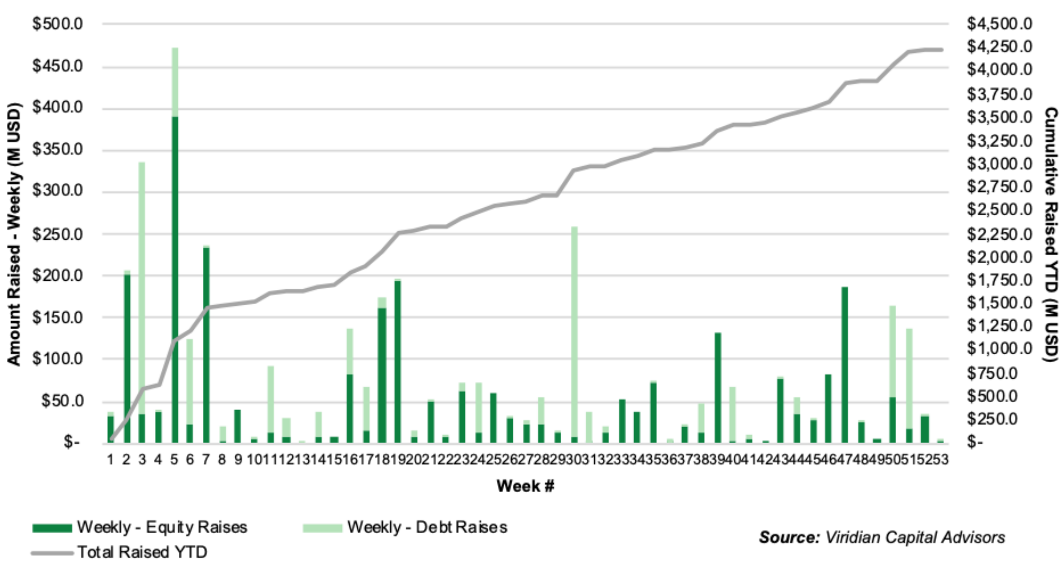
Given the positive macro backdrop, we expect growth to continue this year and beyond with the average public operator expected to grow revenues by 88% Y/Y in 2021. Coinciding with revenue growth we expect a scaling of profits with the average operator in the space expected to report an adjusted EBITDA 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.

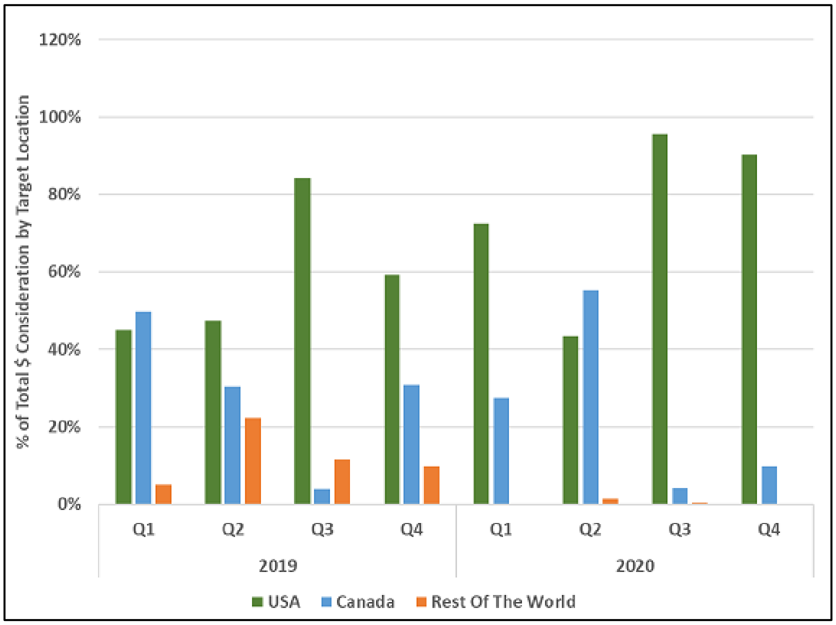
2020 Capital Raise Activity




***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

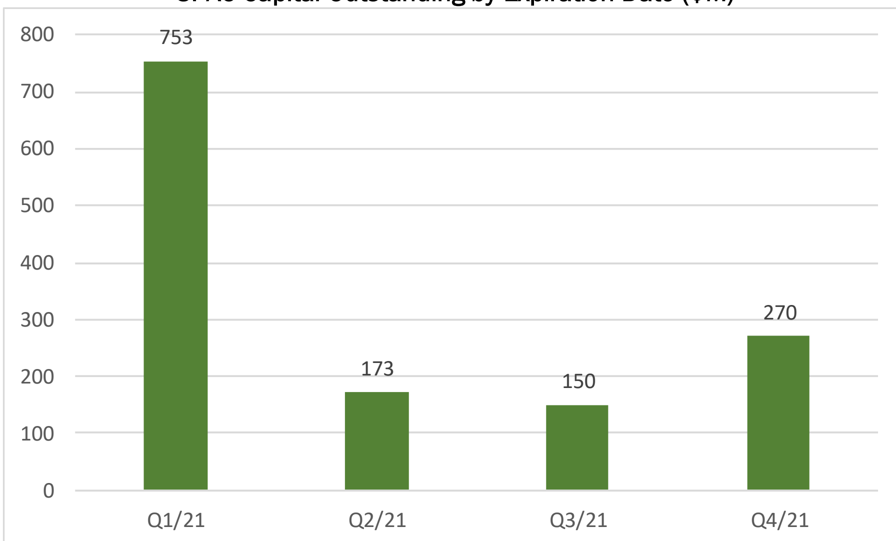
Two focus areas for investment in the cannabis market were software and branded products. Software was an investment focus area particularly for private companies with several having been able to raise significant capital during the year. With compliance with state regulations likely to continue to be 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)**

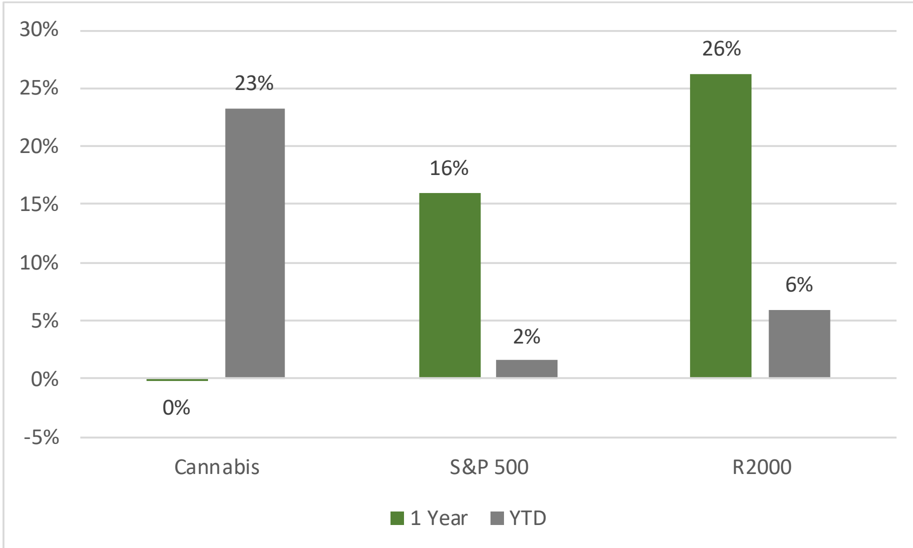



**Source: Viridian Cannabis Deal Tracker**

# 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 1/11/2021**

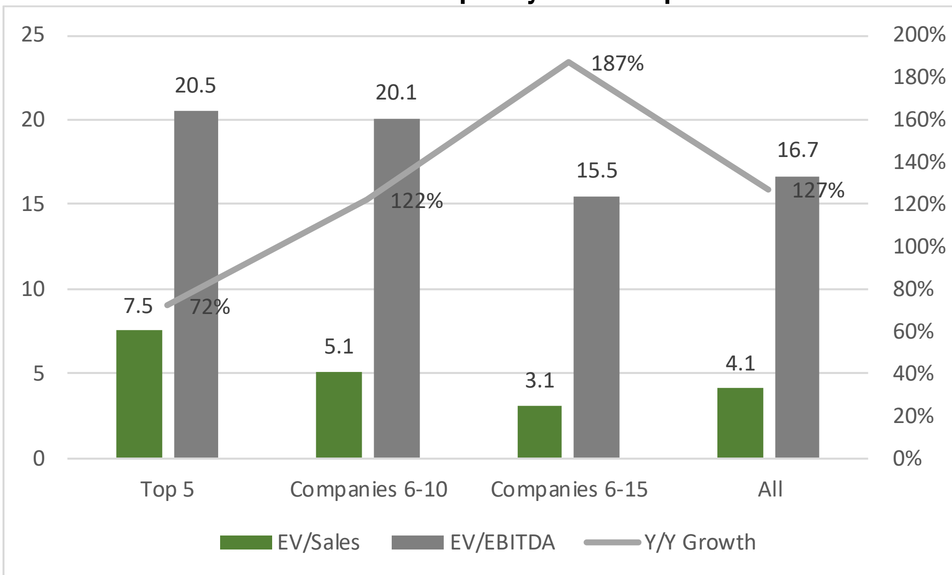
Additionally, we believe institutional investor interest driven by looming SPAC liquidation deadlines and on-going expansion initiatives by operators will increase M&A activity overall in 2021 and enhance values for public and private companies. Further, we expect traditional institutional investor interest 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.

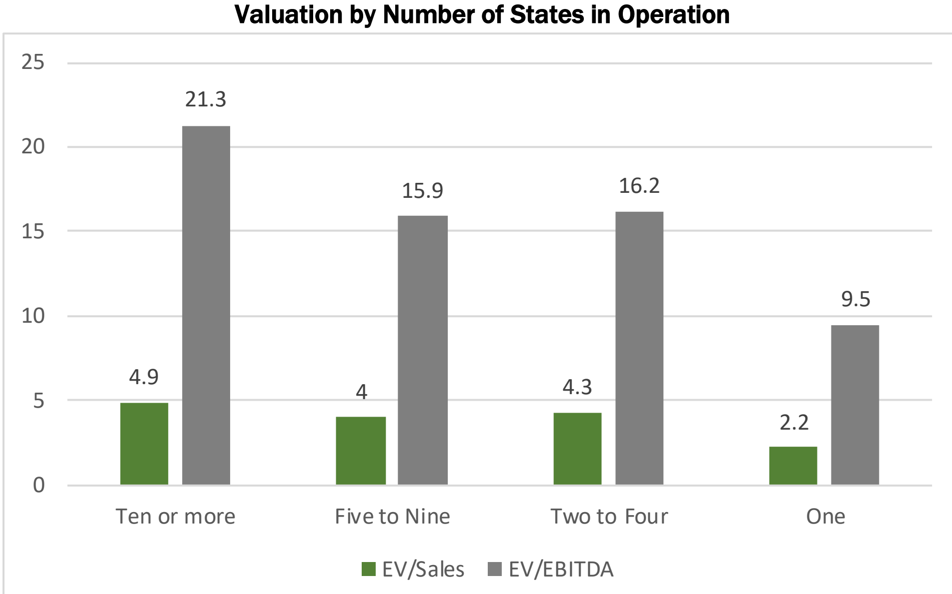
**Valuation Multiples by Market Cap**




**Source: Viridian Cannabis Deal Tracker, 1/8/2021**

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**

# AYR Strategies (US OTC: AYRWF: Buy Rating: $38 Price Target)

## Multi-state footprint

AYR currently operates in Massachusetts and Nevada. Through a series of acquisitions announced in late 2020, the company plans to expand into Arizona, Florida, Ohio, Pennsylvania and New Jersey. Acquisitions in Pennsylvania have closed while transactions in the remaining states are expected to close this year. In each expansion market, the company plans to build upon existing assets for both retail dispensaries and production capacity.

Following the completion of acquisitions and planned expansion initiatives, AYR will have one of the largest portfolios of cannabis assets in the industry. In total the company will have more than one million sq. feet of cultivation and processing facility space, 57 dispensaries and roughly 1,300 employees. AYR management has highlighted the opportunity to generate 2022 revenues of $725M and $325M in adjusted EBITDA through owned and assets acquired through announced transactions.

**Massachusetts**
AYR operates two medical dispensaries in greater Boston and has one of the leading wholesale businesses in the state. As of Q3/20, AYR generates wholesale revenues at an approximate $48M annual run rate.

At current levels, AYR branded products sold through wholesale would represent roughly 17% of all products sold in the Massachusetts market this year.

To support its retail and wholesale businesses in the state, AYR has two cultivation facilities with a total 50K sq. ft. foot print and more than 32K sq. feet of cultivation. The company is licensed to expand canopy up to 100K sq. feet.

Along with existing operations, AYR recently announced host agreements for three recreational dispensaries to be in the metro Boston area. In Massachusetts, local host agreements are a pre-requisite to obtaining final licenses and AYR management expects to open its dispensaries for recreational sales in the first half.

**Nevada**
AYR operates five dispensaries located in Henderson and Reno, NV. The company plans to open an additional dispensary this year. AYR also maintains the right to open an additional Henderson location in the future following the lifting of a prohibition on new dispensaries at the local level.

In addition to its retail offering, AYR has a cultivation facility with 31K sq. feet of canopy that it can expand by an additional 20K sq. feet. The company utilizes its cultivation and production assets to manufacture house brands for sale at its Nevada dispensaries and for wholesale sales.

**Pennsylvania**
AYR recently completed the acquisition of two companies in Pennsylvania.

With the first acquisition, AYR acquired a 38.4K sq. foot cultivation facility near Allentown, PA. The facility has the capacity to be expanded to more than 74K sq. feet. The facility will be used to make product for sale through wholesale channels and at its dispensaries in the state.

With the second completed transaction, AYR acquired CannTech PA, a licensed operator in Pennsylvania with a 143K sq. feet cultivation and processing facility under development (initial harvest expected in 2021), one recently opened dispensary and the right to open five additional dispensaries pending local host agreements and final approvals.

Management expects to have three dispensaries opened in early 2021.

**Arizona**
AYR recently announced the acquisition of an established operator in Arizona. Upon completion of the transaction, AYR will have three dispensaries in the Greater Phoenix and a 10K sq. foot cultivation facility which the company plans to expand by an additional 20K sq. feet. The three dispensaries recently received recreational licenses in the state's first round of licensing approvals.

AYR management expects to complete the transaction in early 2021.

**Florida**
AYR recently announced the acquisition of Liberty Health Sciences (US OTC: LHSIF, CSE: LHS), a leading public operator serving the Florida medical market. The transaction is expected to close in Q1/2021.

Liberty Health is a vertically integrated operator with a roughly 300K sq. feet of cultivation located in Gainesville, FL. The company currently has twenty-eight dispensaries in the state with seven additional dispensaries expected to open in the near term and another seven dispensaries under construction.

**New Jersey**
AYR has an outstanding acquisition to acquire Garden State Dispensary, one of only twelve vertical license holders in the New Jersey market. Garden State currently has three medical dispensaries (in Eatontown, Union and Woodbridge, NJ) and a 30K sq. feet cultivation facility which can be expanded by an additional 75K.

AYR's acquisition of Garden State Dispensary is expected to close in Q3/2021.

**Ohio**
AYR has two outstanding acquisitions in Ohio which the company expects to complete in early 2021. Upon completion of the transactions and an on-going buildout of facilities, AYR will have roughly 70K sq. feet of cultivation facilities in the state through which the company can conduct wholesale operations, supplying the state's medical market.

# Investment Highlights

## Top performing operator in core markets

### Execution despite macro headwinds

In the past two years, AYR faced market related headwinds well beyond the company's control. Headwinds included: delays in the Massachusetts recreational dispensary licensing receipt (on-going), the vape crisis which impacted wholesale results, litigation related to the second round of Nevada recreational dispensary licenses, and COVID-19 related shutdowns of operations. Never-the-less the company has been a consistent profitable business which is now poised for significant growth and margin expansion in the years ahead as headwinds subside.

Specifically related to COVID-19 challenges, AYR operates in the two states in which regulators abruptly changed the business for operators in the early days of COVID-19. In Massachusetts, all recreational sales were fully prohibited between late March and Memorial Day while in Nevada recreational sales were limited to delivery-only between late March and the middle of May. Delivery had previously been an afterthought for most Nevada operators accounting for only a small portion of sales while AYR had no home delivery business up to that point.

With each headwind, AYR management has been able to nimbly pivot the company's focus and execute as a profitable entity and positive cash generator. Execution to date has included, developing a branded product portfolio which consumers trust and seek out in both Massachusetts and Nevada, enhancing the efficiency of retail operations in Nevada, establishing what we believe to be the top wholesale business in the Massachusetts market and quickly implementing a home delivery platform in Nevada during the early days of COVID-19. The implementation of a home delivery platform resulted in there being limited disruption to Q2/20 results and the development of a new higher margin tool for generating revenues which can be leveraged moving forward.

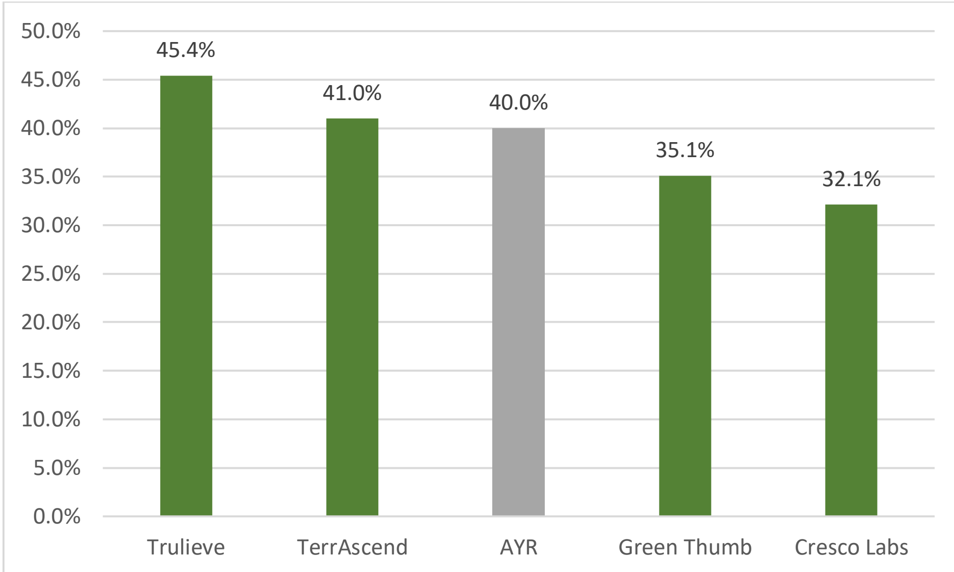
### Outperforming on key operating metrics

AYR has reported positive adjusted EBITDA results in each quarter of operations and has consistently been one of the most profitable and top cash producing companies in the space.

In Q3/20, AYR reported $19M in adjusted EBITDA and generated $13M in operating cash flows ($7M in cash overall). Amongst a peer group of leading MSOs including: Columbia Care, Cresco, Curaleaf, Green Thumb, Harvest, MedMen and Trulieve, AYR's Q3 adjusted EBITDA as a percentage of revenues was second only to Trulieve's while AYR's operating cash flow as a percentage of revenues was the highest in the group.

The company's industry leading results are expected to continue into next year with AYR estimated to report the third highest adjusted EBITDA margin in 2021 (40%) of all plant-touching cannabis companies according to consensus estimates. AYR is expected to trail only Trulieve (45%) and TerrAscend (41%). We forecast adjusted EBITDA margins for the company's core Massachusetts and Nevada operations to be 41% in 2021.

2021E Consensus Adjusted EBITDA Margins (top five operators by profitability)




Source: Viridian Cannabis Deal Tracker

## Attractive and growing market footprint

For AYR, Massachusetts and Nevada are flagship markets. We believe Massachusetts and Nevada continue to represent attractive markets in which to operate. We estimate Massachusetts market sales to be roughly $930M this year growing to more than $1.3B in 2025 and forecast Nevada sales to be $860M this year growing to roughly $1B in 2025.

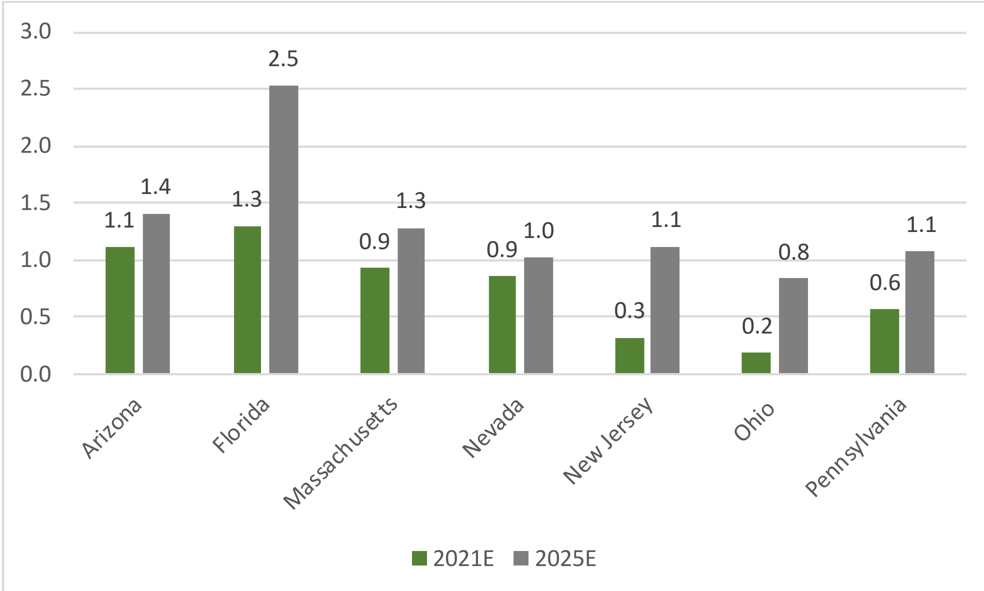
For Massachusetts, we believe growth will stem from continued strong demand and supported by an easing of regulatory hurdles at both the state and local level which we expect to result in new businesses being opened.

Massachusetts regulations have slowed market expansion to date particularly in and around Boston. 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). This comes despite the fact that more than 60% of the state's population lives in the area. AYR plans to add three stores in greater Boston in early 2021.

In Nevada, we expect growth to be driven by the addition of new operators in the state following the long-awaited settlement of the licensing lawsuit this summer and through a return to pre-pandemic tourism levels to Las Vegas. We note that despite limited tourism, Nevada cannabis sales have remained strong reflecting higher than anticipated demand from local customers. We expect enhanced local purchasing levels to continue even as tourism returns and believe the increased acceptance of cannabis across the country to result in greater tourist demand when they do return to Las Vegas.

Meanwhile, through a series of announced acquisitions, AYR plans to expand in the near term into Arizona, Florida, New Jersey, Ohio and Pennsylvania. Upon completion of acquisitions, AYR will have one of the most extensive geographic footprints in the industry with an addressable population of more than 70M people. All told we expect these five markets to have $3.5B in sales this year growing to $7B in 2025. For AYR, each of the expansion markets represents a different but attractive growth opportunity.

State Sales Estimates ($B)




Source: Viridian Capital Estimates

**Transformative acquisitions scale revenue and adjusted EBITDA potential**

Upon completing acquisitions and expansion projects within each market, AYR will increase its retail and cultivation scale significantly. From year-end 2020 to the end of this year, AYR will go from having eight dispensaries in three states and 120K sq. feet of cultivation and production space, to being an operator with sixty-four dispensaries and more than 770K sq. feet of cultivation and production space across seven states.

With the expanded footprint and through execution of operations, AYR management has highlighted the ability to generate 2022 revenues of $725M and adjusted EBITDA of $325M. The projected estimates for the company's first full year of operations represents a nearly 4x growth to our 2020 revenue forecast and 5x expansion to adjusted EBITDA levels.

Operating Footprint

| | | AZ | FL | MA | NV | NJ | OH | PA | AYR |
|---|---|---|---|---|---|---|---|---|---|
| Dispensaries | Today | | | 2 | 5 | | | 1 | 8 |
| | Yr. End | 3 | 42 | 4 | 6 | 3 | | 6 | 64 |
| Cultivation Space (sq. ft) | Today | | | 50 | 72 | | | | 122 |
| | Yr. End | 90 | 67 | 120 | 72 | 105 | 67 | 253 | 774 |

Source: Company Reports

**Arizona: Turnkey opportunity in large and newly minted recreational market**

Arizona has one of the largest medical cannabis markets in the country with estimated sales of approximately $1.1B this year.

In November, the state passed a recreational law through ballot initiative and the state permitted initial rec sales last week. While we do not expect growth to be as high in Arizona, with the opening of recreational sales, as has occurred in some other less established states (most recently Illinois), we never the less expect strong growth for the market in the years ahead and estimate 2025 Arizona sales to exceed $1.4B.

AYR's acquisition strategy in Arizona is more turn key than in other states. From the outset, the company will have three dispensaries (each attractively positioned in the Phoenix market (two in Chandler, AZ and one in Glendale)) and more than 90K sq. feet of cultivation footprint with limited needs for buildout upon closing of the company's outstanding transaction. Each of the three dispensaries received recreational licenses in the state's first wave of licensing (total 86 in the state).

We expect AYR to utilize its acquired cultivation asset for both wholesale sales and to produce house branded products for sale at its own dispensaries. For the acquisition, AYR will pay roughly $110M ($10M in cash, $70M equity and $30M vendor notes). In Arizona, we believe AYR can generate roughly $40M in revenues in 2021 on initial retail and wholesale sales growing to $68M in 2022 on higher retail revenue per store with the transition to rec and on greater wholesale capacity with the production buildout.

**Florida: Acquiring leading operator**

Florida is one of the largest and fastest growth cannabis markets in the US and is the largest medical market. Florida sales are estimated to be $1.3B this year, growing to $2.5B in 2025. We expect Florida to remain a medical-only market until at least 2025 however we believe growth will stem from continued patient growth and an eventual opening of a wholesale supply channel in the state.

In Florida, AYR is acquiring Liberty Health Sciences a leading operator in the state. Liberty Health has twenty-eight dispensaries in Florida and a 300K sq. foot cultivation and production facility.

Based on FQ2/21 (August), Liberty currently is generating annualized revenues of $73M and more than $20M in adjusted EBITDA. We expect AYR to expand upon these results through building out new dispensaries, increasing cultivation capacity and implementing cost controls to get margins more in line with the company's corporate average. AYR plans to invest $15M to build out production capacity and new dispensaries.

Florida Dispensaries by company

| | Dispensaries | % Total |
|---|---|---|
| Trulieve | 71 | 25% |
| Surterra | 39 | 14% |
| Curaleaf | 36 | 13% |
| **Liberty Health** | **28** | **10%** |
| Cansortium | 24 | 8% |
| Alt Med | 24 | 8% |
| Harvest Health | 7 | 2% |
| Green Thumb | 6 | 2% |

Source: Company reports

## New Jersey: Vertically integrated opportunity in country's newest recreational market

New Jersey passed a recreational cannabis law in November and state regulators have already made significant progress in implementing regulations to initiate sales in the state. We expect initial recreational sales this year and total sales for the state to be roughly $320M. Given New Jersey's large population and to date limited scale, we expect New Jersey to become one of the fastest growth markets in the US over the next five years. We forecast sales to exceed $1.1B by 2025.

In New Jersey, AYR is acquiring Garden State Dispensaries. Garden State Dispensaries is one of only twelve operators in the state with a vertical license. Of those twelve operators, Garden State is the only one to have three dispensaries open with stores currently operating in the central part of the state (Eatontown, Union and Woodridge).

Along with retail operations, Garden State Dispensaries currently has 30K sq. feet of cultivation and production facility space with an additional 70K sq. feet under construction. For the New Jersey acquisition AYR will pay $101M with the potential for an additional $97M in cost in the form of earnouts based on 2022 performance. AYR plans to spend an additional $15M to complete the buildout of the cultivation and production facility expansion. In announcing the transaction, AYR management highlighted that the cost of the transaction inclusive of the earnout cost is roughly 4x 2022 estimated adjusted EBITDA implying a potential $49.5M projected adjusted EBITDA contribution (and roughly $118M in revenues based on Q3/2020 corporate margins).

## Ohio: Long play in underpenetrated market

Ohio remains an underdeveloped medical market that has been slow to gain traction due to limited supply and delays in the licensing process. We expect total sales in Ohio this year to be $190M.

For AYR, Ohio represents an opportunity to establish itself longer term ahead of likely expansion of the medical program and an eventual opening of sales for recreational consumption. While we do not expect recreation sales in Ohio to come into place until 2025, we note that a passage of recreational laws in bordering states (most likely Pennsylvania or West Virginia to go along with Michigan to Ohio's north) could expedite the motivation for Ohio legislators.

Given the sizable population, Ohio could quickly become a key market with sales at a scale in line with Illinois or Michigan's. For now, we estimate 2025 sales in the state to be roughly $830M.

For the two Ohio acquisitions, AYR will pay $18M ($10M in cash and $8M in vendor notes). We estimate AYR to generate roughly $2M in revenues from its Ohio acquisition in 2021 growing to $8M in 2022.

## Pennsylvania: Participating in large scale growth opportunity

Pennsylvania, had been an underdeveloped medical market however that has changed with regulators lifting restrictions in the past year. We believe Pennsylvania is one of the most likely states in the country to be fast tracked for recreational sales in the near term as Governor Wolf and other legislators in the state have been candid about wanting cannabis and more specifically the implementation of a recreational program to help ease some of the financial hardships caused by COVID-19. The desire to implement a recreational program to help the state's economy is exacerbated by the recent passage of a recreational law in neighboring New Jersey as legislators do not want to miss out as consumers cross state lines to purchase legal cannabis.

Given these motivations, we believe the passage of a recreational law is likely in 2021 and we forecast initial recreational sales in 2022. Pennsylvania is likely to quickly become one of the biggest growth markets in the US in the years ahead. We estimate Pennsylvania sales to be $570M this year growing to nearly $1.1B in 2025.

In Pennsylvania, AYR is making an aggressive push with plans to acquire and buildout six dispensaries and more than 250 sq. feet of cultivation footprint to capitalize on the anticipated growth opportunity. As mentioned, AYR's Pennsylvania acquisitions are complete. AYR paid $78M for the two acquisitions ($44M in cash, $17M each in equity and vendors notes). We expect AYR to generate roughly $27M in revenues in Pennsylvania next year on scaling to $62M in 2022. We expect growth in 2022 to be driven by a full year's contribution from all six retail stores and the expanded production facility.

## Growing opportunity in Massachusetts

**Massachusetts recreational retail licenses likely forth coming**

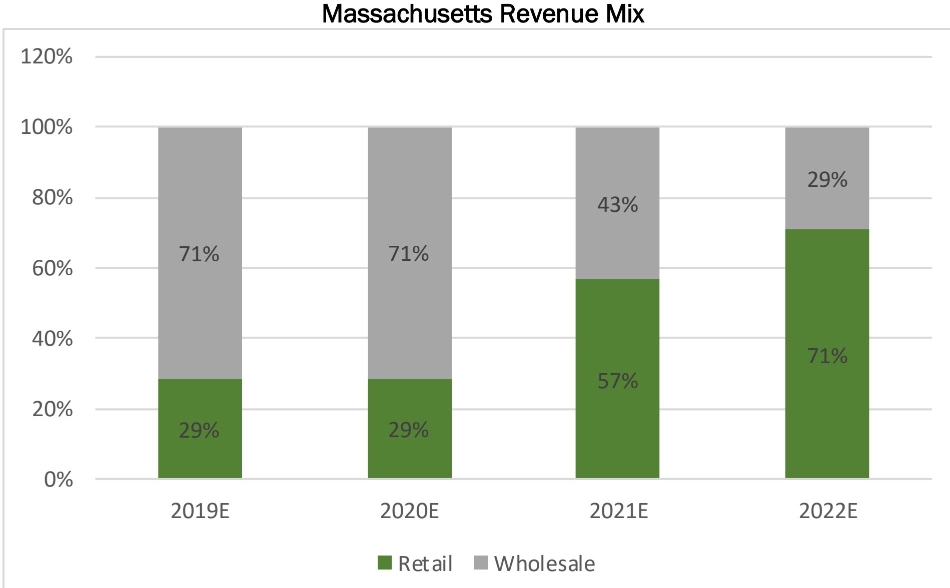
AYR operates two medical dispensaries in Massachusetts which generate annual revenues of $10M. In November, AYR announced three separate community host approvals to open recreational dispensaries in Boston's Back Bay, Somerville and Watertown, MA. In Massachusetts, a local host agreement is a pre-requisite for the final receipt of a recreational license to operate, so the announcements reflect continued progress in AYR's effort to open for recreational sales this year (following a long delay).

Importantly, the three dispensaries will service the greater Boston metro area which has to date been underpenetrated. As previously mentioned, according to the Massachusetts Cannabis Control Commission, there are currently only five licensed recreational dispensaries in Boston and the surrounding cities and towns (two in Boston, two in Brookline and one in Newton).

While timing remains uncertain, we are confident that AYR will receive final licenses in 2021 and commence recreational sales this year. We believe AYR's Back Bay location which is located across from the city's Prudential Center will quickly become one of the highest volume dispensaries in Massachusetts particularly as normalized tourism levels return to the state. For AYR, we believe sales from the new recreational dispensaries will take away from existing wholesale sales but drive margin expansion given the higher margin profile of retail sales.

Moving forward with an expansion of its cultivation facility, we expect AYR can both scale wholesale revenues and sell a greater proportion of house brands at its retail store.

**Massachusetts Revenue Mix**




Source: Company reports, Viridian Estimates

**Wholesale business in Massachusetts remains attractive**

With a production footprint of 32K sq. feet of cultivation and in servicing sixty of the eighty-one dispensaries in the state, AYR has built out one of the top wholesale businesses in Massachusetts at a time when wholesale continues to be a highly attractive business. Due to an under-developed supply chain, Massachusetts has one of the highest wholesale flower prices in the country (roughly 1.2x the national average according to Cannabis Benchmarks) making sustainable high margins possible for wholesalers.

We expect the attractive pricing dynamics to continue for wholesalers even as more production comes on line in the next few years due to continued strong demand particularly as Boston stores open. Additionally, we expect on-going social justice/economic empowerment programs will result in more non-vertically integrated dispensaries coming online in the near term. Cultivation and production operations tend to be more expensive so historically social justice/economic empowerment candidates tend to target other areas of the industry. These dispensaries will be reliant on third party wholesale suppliers.

AYR currently generates wholesale revenues at a rate of $4M per month and while we expect a greater proportion of sales to go to the company's higher margin retail business as recreational sales commence next year, we note that AYR holds a license to scale production capacity by roughly 3x current levels (to get to 100K sq. feet of canopy). Particularly in light of the company's recent equity financing, we believe an expansion is likely to come in the near term with the company looking to capitalize on its wholesale leadership position and overall strong demand in the market.

As is, AYR produces the top flower and concentrates brands in Massachusetts according to BDS Analytics. At its current $48M annual wholesale revenue run rate we believe AYR products would represent roughly 17% of all cannabis sold in the state this year.

## Attractive Valuation

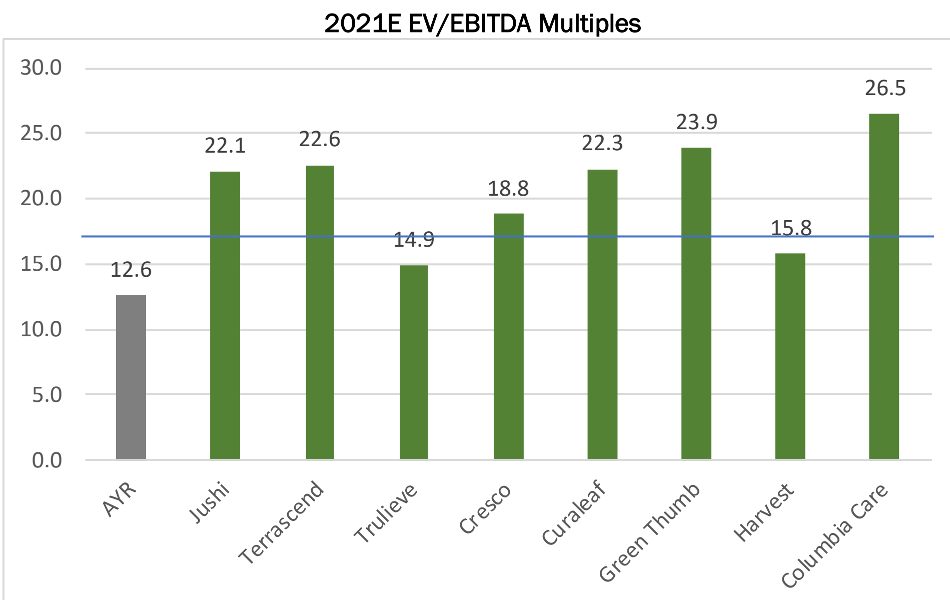
**Unjustified discount to peer group**

Despite strong execution and its position as a top operator in the space, AYR continues to be overlooked in terms of valuation.

To date, it is our belief that AYR's valuation discount has been impacted by its position in only two markets at a time when investors had expected expansion and due to the company's lack of Massachusetts recreational retail license. Frankly, an investor had to be paying very close attention to understand just how valuable AYR's Massachusetts and Nevada businesses were and willing to overlook the fact that the company was different than what had been originally promised. We believe the discount was and continues to be unjustified given AYR's strong execution but particularly so given the company's planned expansion initiatives in the near term.

Based on our estimates, AYR currently trades at an EV/EBITDA multiple of 12.6x our 2021 estimates and has an EV/Sales of 5.2x. We note that our assumptions include dilution from the recently completed Pennsylvania acquisitions, the debt financing completed in December and the recently announced equity transaction. Contributions from Pennsylvania or any other expansion market are not yet factoring in contributions for 2021 given uncertainty regarding timing. AYR's current EV/EBITDA multiple represents a significant discount to the average multiple for US plant touching operators of 16.7x while offering a modest premium on an EV/Sales basis (4.1x for the peer group). Relative to a peer group of top quality MSOs the discount is even more pronounced.

The average EV/EBITDA valuation relative to consensus 2021 estimates for a peer group of top quality MSOs including Colombia Care, Cresco Labs, Curaleaf, Green Thumb, Harvest Health, Jushi, Terrascend and Trulieve is 20.8x.




Source: Viridian Cannabis Deal Tracker

## Capital Position and Financial outlook

**Financing in place to support growth initiatives**

AYR ended Q3/20 with approximately $23M in cash, and limited capital needs to fund near term initiatives for the company's core operations in Massachusetts and Nevada.

To complete the company's outstanding acquisitions and the requisite buildout, AYR will invest nearly $600M including more than $130M in cash ($62M for the transactions and an additional $69M in capex).

To fund these transactions, AYR recently completed a $110M debt offering and announced a 4M share equity offering with gross proceeds of C$137M. The debt financing has a four-year term and an annual interest rate of 12.5%. Additionally, AYR announced the receipt of an additional $41M from warrant conversions in the form of open market transactions and through the incentive program. In total, we believe AYR has roughly $235M in cash.

With financing in place, we look for AYR to announce the closing of additional acquisitions in the near term with all but the company's New Jersey transaction expected to be completed in early 2021.

Outside of acquisitions, we expect AYR's primary capital expense during our forecast period will be the expansion of its cultivation facility in Massachusetts. To expand its facility to the licensed 100K sq. feet of canopy (currently 32K) we believe the company will have to invest roughly $30M.

Cost of Expansion transactions

| | AZ | OH 1 | OH2 | PA 1 | PA 2 | FL | NJ | Total |
|---|---|---|---|---|---|---|---|---|
| Cash | 10 | 9 | 1 | 27 | 17 | | 41 | 105 |
| Equity | 70 | | | 15 | 2 | 290 | 30 | 407 |
| Notes | 30 | 8 | | 15 | 2 | | 30 | 85 |
| **Total** | **110** | **17** | **1** | **57.4** | **21** | **290** | **101** | **597** |
| Capex | | 12 | | 16 | 11 | 15 | 15 | 69 |
| Status | Q1/21 | Q1/21 | Q1/21 | Closed | Closed | Q1/21 | Q3/21 | |

Source: Company reports

Strong growth and margin expansion

We expect AYR to report Q4/20 earnings of $47M in revenues and adjusted EBITDA of $20.1M. Revenues for the quarter will be up 46% Y/Y and modestly from Q3/20. Adjusted EBITDA margins of 43% compare with 29% last year and 42% in Q3/20. The Y/Y margin improvement stems from higher gross margins and overall lower operating expenses despite the scaling of operations due to implemented cost cuts. For full year 2020, our estimates are $154M in revenues and adjusted EBITDA of $57M.

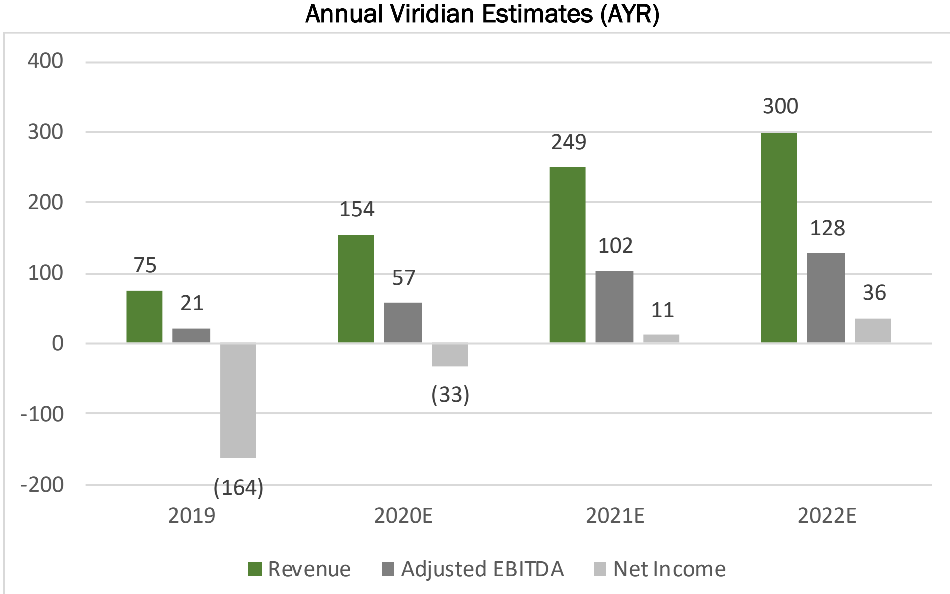
For 2021, we forecast revenues to grow to $249M and adjusted EBITDA to be $102M. Our estimates reflect continued improvements on AYR's current revenue and adjusted EBITDA run rate ($182M and $77M).

Growth in 2021 will come from higher dispensary sales in Nevada, on enhanced customer traffic in general and the addition of another dispensary. Additionally, we expect wholesale sales growth in Nevada on positive market growth in general and continued customer penetration for the company. For Massachusetts we also anticipate contributions from initial recreational retail sales with store openings to come in the late first half. As previously mentioned, we expect recreational retail sales to be $35M in 2021 with the strong start for the company attributed to the attractive location of planned retail stores. While the increase in retail sales in Massachusetts will take away from wholesale capacity until the company again expands cultivation assets, we expect recreational retail sales to come at higher margins.

For 2022, we forecast revenues at $300M and adjusted EBITDA at $128M. Our estimates reflect continued growth and margin expansion within core markets.

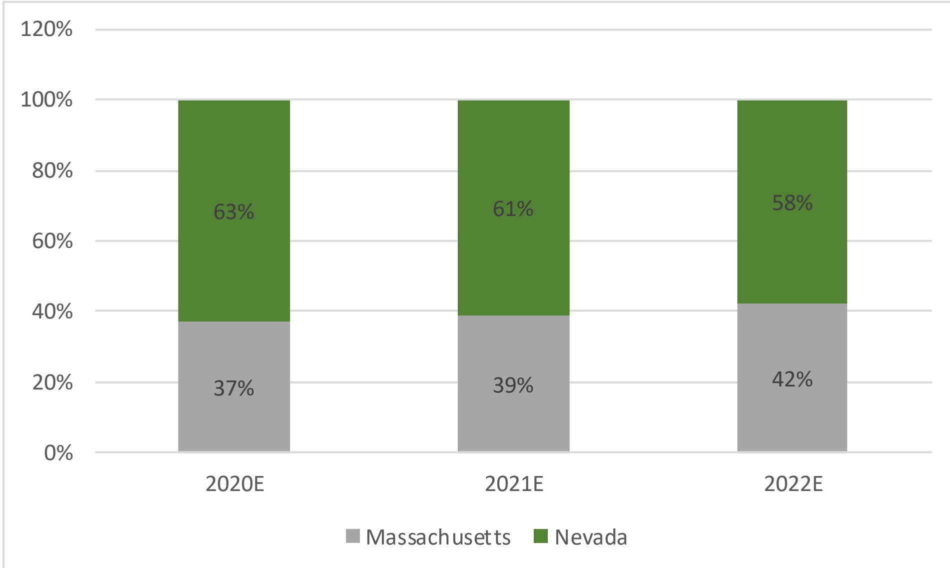
As previously mentioned, we are taking a conservative approach to outstanding acquisitions and are not yet factoring in contributions from acquired operations due to uncertain timing of the close of anticipated transactions and the buildout of operations. Contributions from additional states beyond Massachusetts and Nevada will provide upside to our forecasts.

Annual Viridian Estimates (AYR)




Source: Viridian Estimates

State Revenue Mix (AYR)




Source: Viridian Estimates

### Capitalization and valuation

We estimate AYR to have roughly 47M shares outstanding, $235M in cash and $168M in debt. Our assumptions include cash raised through the recent debt financing ($110M), the recent 4M share equity offering ($105M) and proceeds from recently converted warrants ($41M). We believe AYR has roughly 11M warrants outstanding. Our assumptions translate to a market cap of $1.3B and an enterprise value of $1.2B.

Based on our capitalization assumptions, AYR is currently trading at an EV/Sales multiple of 5.2x our 2021 estimate and 4.3x 2022. On an EV/EBITDA basis our assumptions reflect a 2021 multiple of 12.6x and 2022 at 10.1x. We note that our multiple assumptions do not consider revenue and EBITDA contributions from the acquired Pennsylvania business.

To fund outstanding acquisitions and growth initiatives, we expect AYR to issue roughly 15M shares over the next year, invest $130M in cash to complete transactions and capex and take on $68M in notes. We believe this translates to a market cap of $1.7B and enterprise value of $1.8B. Following acquisitions and investment AYR would be trading at an EV/Sales multiple of 12.2x our 2021 estimate and 33.2x EV/EBITDA. Relative to our 2022 estimates the multiples would be 7.6x and 18.5x respectively. Relative to 2022 targets however ($725M in revenues and $325M in adjusted EBITDA) the multiples would be 2.6x EV/Sales and 5.8x EV/EBITDA.

**Current Capital Structure and Valuation**

| | | |
|---|---|---|
| Price (US OTC) | 29.08 | |
| **Fully Diluted Shares (M)** | **47** | |
| Q3/20 | 23 | |
| PA Acquisition Doc House | 17 | |
| PA Acquisition CannTECH | 27 | |
| Warrants Exercise Incentive Program | 25 | |
| Warrants Exercise Open Market | 16 | |
| Debt Financing ($M) | 110 | |
| Equity Offering Proceeds ($M) | 105 | |
| **Cash ($M)** | **235** | |
| Q3/20 | 41 | |
| PA Acquisition Doc House | 2 | |
| PA Acquisition CannTECH | 15 | |
| Financing | 110 | |
| **Debt ($M)** | **168** | |
| **Market Cap** | **1358** | |
| **Enterprise Value** | **1291** | |
| | **21E** | **22E** |
| **EV/Sales** | **5.2** | **4.3** |
| **EV/EBITDA** | **12.6** | **10.1** |

Source: Company Reports and Viridian Estimates

**Anticipated acquisition impact**

| | |
|---|---|
| Subsequent Dilution from Outstanding Acquisitions (M Shs) | |
| Arizona | 2 |
| Florida | 10 |
| New Jersey | 1 |
| Ohio | 0 |
| **Total** | **13.8** |
| Outstanding Acquisiton Notes ($M) | |
| Arizona | 30 |
| Ohio | 8 |
| New Jersey | 30 |
| **Total** | **68** |
| Outstanding Acquisition Cash Cost ($M) | |
| Arizona | 10 |
| Ohio | 10 |
| New Jersey | 41 |
| **Total** | **61** |
| **Capex** | |
| Arizona | 0 |
| Ohio | 12 |
| Pennsylvania | 27 |
| Florida | 15 |
| New Jersey | 15 |
| **Total** | **69** |
| Post Transaction | |
| **Market Cap** | **1758** |
| **Enterprise Value** | **1889** |

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 |
| **Revenues** | **154.3** | **49.3** | **53.2** | **73.7** | **72.9** | **249.1** | **66.1** | **68.1** | **81.8** | **83.8** | **299.8** |
| COGS | 63.6 | 21.5 | 23.0 | 31.9 | 31.3 | 107.7 | 28.4 | 29.2 | 34.4 | 35.2 | 127.2 |
| Gross Profit | 114.1 | 27.9 | 30.2 | 41.8 | 41.5 | 141.4 | 37.7 | 38.9 | 47.4 | 48.6 | 172.6 |
| G&A | 36.7 | 10.0 | 10.5 | 11.0 | 11.0 | 42.5 | 11.4 | 11.7 | 11.7 | 11.7 | 46.5 |
| Sales & Marketing | 2.3 | 0.9 | 1.0 | 1.6 | 1.6 | 5.1 | 1.6 | 1.8 | 2.0 | 1.8 | 7.2 |
| Depreciation | 2.1 | 0.5 | 0.5 | 0.5 | 0.5 | 2.0 | 0.5 | 0.5 | 0.6 | 0.6 | 2.2 |
| Amortization | 12.0 | 3.0 | 3.0 | 3.0 | 3.0 | 12.0 | 3.0 | 3.0 | 3.0 | 3.0 | 12.0 |
| Stock based Comp | 30.9 | 5.0 | 5.0 | 5.0 | 5.0 | 20.0 | 5.0 | 5.0 | 5.0 | 5.0 | 20.0 |
| Opex | 85.1 | 19.4 | 20.0 | 21.1 | 21.1 | 81.6 | 21.5 | 22.0 | 22.3 | 22.1 | 87.9 |
| Income from operations | 29.0 | 8.5 | 10.2 | 20.7 | 20.4 | 59.8 | 16.2 | 16.9 | 25.1 | 26.5 | 84.7 |
| Total Other Expense | (32.4) | (2.2) | (2.2) | (2.2) | (2.2) | (8.6) | (2.2) | (2.2) | (2.2) | (2.2) | (8.6) |
| Pre-tax Income | (3.4) | 6.3 | 8.0 | 18.5 | 18.3 | 51.2 | 14.0 | 14.8 | 23.0 | 24.3 | 76.1 |
| Net Income | (33.2) | (3.7) | (2.0) | 8.5 | 8.3 | 11.2 | 4.0 | 4.8 | 13.0 | 14.3 | 36.1 |
| EPS | (1.2) | (0.1) | (0.1) | 0.3 | 0.3 | 0.4 | 0.1 | 0.2 | 0.4 | 0.5 | 1.2 |
| Shares | 28.2 | 28.2 | 28.3 | 28.5 | 28.6 | 28.4 | 28.8 | 28.9 | 29.0 | 29.2 | 29.0 |
| **Adjusted EBITDA** | **56.9** | **19.1** | **20.8** | **31.3** | **31.1** | **102.4** | **26.8** | **27.6** | **35.9** | **37.2** | **127.5** |
| <u>% Revenues</u> | | | | | | | | | | | |
| Gross Margin | 74% | 57% | 57% | 57% | 57% | 57% | 57% | 57% | 58% | 58% | 58% |
| G&A | 24% | 20% | 20% | 15% | 15% | 17% | 17% | 17% | 14% | 14% | 16% |
| S&M | 1% | 2% | 2% | 2% | 2% | 2% | 2% | 3% | 2% | 2% | 2% |
| Opex | 55% | 39% | 38% | 29% | 29% | 33% | 33% | 32% | 27% | 26% | 29% |
| Operating Income | 19% | 17% | 19% | 28% | 28% | 24% | 24% | 25% | 31% | 32% | 28% |
| Net Income | | | | 12% | 11% | 4% | 6% | 7% | 16% | 17% | 12% |
| Adjusted EBITDA | 37% | 39% | 39% | 43% | 43% | 41% | 41% | 40% | 44% | 44% | 43% |
| <u>Growth Rates</u> | | | | | | | | | | | |
| Revenues | | | | | | | | | | | |
| Y/Y | 105% | 47% | 88% | 62% | 55% | 61% | 34% | 28% | 11% | 15% | 20% |
| Q/Q | | 5% | 13% | -52% | 48% | | -9% | -6% | -67% | 27% | |
| Adjusted EBITDA | | | | | | | | | | | |
| Y/Y | 172% | 127% | 128% | 63% | 55% | 80% | 40% | 32% | 15% | 20% | 25% |
| Q/Q | | -5% | 4% | -45% | 63% | | -14% | -11% | -65% | 39% | |

Source: Company Reports, Viridian Capital Investments

Balance Sheet ($M)

| | Q4/2019 | Q1/2020 | Q2/2020 | Q3/2020 |
|---|---|---|---|---|
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
| Cash & Equivalents | 1.3 | 0.6 | 6.7 | 6.5 |
| Accounts Recievable | 6.9 | 5.8 | 4.8 | 4.2 |
| Inventory | 9.4 | 7.9 | 8.4 | 11.2 |
| Biological Assets | 1.7 | 5.6 | 8.6 | 10.3 |
| Prepaid Expenses | 2.7 | 3.2 | 6.4 | 5.8 |
| **Current Assets** | **22.1** | **23.1** | **34.9** | **37.9** |
| Long term Investments | 0.4 | 0.5 | 0.8 | 0.7 |
| PP&E | 43.0 | 43.3 | 41.1 | 41.7 |
| Goodwill | 0.4 | 0.4 | 0.4 | 0.4 |
| Other Intangibles | 1.2 | 1.1 | 0.6 | 0.6 |
| Other Assets | 2.3 | 2.3 | 0.3 | 0.3 |
| **Total Assets** | **69.2** | **70.6** | **77.9** | **81.5** |
| Accounts Payable | 7.1 | 3.6 | 3.2 | 1.2 |
| Accrued Payroll & Benefits | 0.5 | 0.7 | 1.0 | 1.0 |
| Notes Payable | 0.1 | 0.1 | 0.2 | 1.1 |
| Lease Obligation | 2.3 | 2.4 | 2.8 | 2.9 |
| Other Current Liabilities | 1.9 | 6.4 | 7.8 | 10.2 |
| **Current Liabilities** | **12.1** | **13.2** | **14.9** | **16.4** |
| Notes Payable | 0.4 | 3.6 | 0.5 | 0.5 |
| Lease Obligation | 31.5 | 31.1 | 30.0 | 29.3 |
| Convertible Debentures | . | | 13.7 | 13.8 |
| Other LT Liabilities | 0.9 | 0.9 | 0.1 | |
| **Long Term Liabilities** | **32.8** | **35.6** | **44.2** | **43.6** |
| **Total Liabilities** | **44.8** | **48.8** | **59.1** | **60.0** |
| **Equity** | **24.4** | **21.8** | **18.8** | **21.5** |

Source: Company Reports

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The box on the chart above displays the date, rating and price target after a rating or price target change.

| 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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