

## (4Front Ventures: US OTCQX: FFNTF: \$1.39): Poised for Growth in Illinois

March 17, 2021

4Front announced an agreement between Innovative Industrial Properties (IIPR) and an Illinois landowner to develop the company's planned "Big Daddy" cultivation and production facility. Phase one of the build out will give 4Front the largest cultivation and production footprint in Illinois. Based on attractive pricing dynamics in the state and 4Front's expertise as a leading low-cost producer, we believe the Illinois facility will quickly become a top asset in the industry.

The Illinois news, reinforces our Buy Rating and thesis that 4Front is one of the best positioned operators in cannabis for growth and margin expansion through the buildout of existing assets in key markets. This is different than most other leading operators which require new licenses and acquisitions to hit growth targets. Unlike with these other operators, 4Front's execution is primarily within management's control. As we have previously mentioned, we believe results this year will include contributions from 4Front's soon to be opened recreational dispensary near Boston and the California production facility. Contributions beginning in 2022 from the new facility and the looming potential receipt of licenses in New Jersey are incremental to our forecasts. Our estimates are unchanged for now while we raise our price target from \$1.55 to \$2.00. Our updated price target reflects a justifiable modest premium to the broader peer group.

### Expanding cultivation and production capacity in Illinois

4Front announced an agreement between IIPR, the cannabis industry's leading REIT and an Illinois landowner to develop a 558K sq. foot cultivation and production facility. IIPR will acquire the land for \$6.5M and fund the \$45m buildout of phase one of the facility (258K sq. feet). For its part, 4Front will lease the facility from IIPR through a twenty-year lease agreement with ten years of extension potential.

The phase one buildout will give 4Front roughly 65K sq. feet of cultivation (vs. current footprint of 9K today) and 70K of manufacturing space. The expanded production capabilities will allow 4Front to sell a greater proportion of house brands at its two Illinois dispensaries while also becoming a wholesaler in the state. 4Front is licensed for up to 210K sq. ft of flowering canopy in Illinois (one of only 20 full license holders) so the expanded production capabilities from phase one are likely just the beginning of expansion initiatives. Management has stated that a fully built-out facility would can generate between \$300M and \$350M in revenues.

### Dry powder remains for further growth initiatives

Beyond the growth opportunity, we are pleased to see that 4Front is building the production facility without diluting the stock or spending cash. We believe 4Front ended Q4/20 with roughly \$21M in cash and expect the company to generate ~\$20M in cash this year despite first half investment to open the new Massachusetts dispensary and the California production facility. 4Front's cash position leaves management with ample dry powder to complete small to medium scale expansion initiatives that might come available in the near term while we note that IIPR could again be a source of non-dilutive financing to support more aggressive additional expansion initiatives moving forward. The IIPR agreement is 4Front's second in the past three months (completed \$33M sale lease back in December). In the near term, we would expect the most likely significant expansion initiatives for 4Front would be to build out the company's Massachusetts cultivation footprint further to launch a wholesale business in the state (currently 15K sq. ft of canopy but licensed for 100K).

### Viridian Capital Advisors

[www.viridianca.com](http://www.viridianca.com)

Jonathan DeCoursey

Director Equity Research

[jdecoursey@viridianca.com](mailto:jdecoursey@viridianca.com)

(781) 724.6869

### 4Front Ventures

**Rating: Buy**

**Price Target: \$2 (previously \$1.55)**

### Investment Highlights

- Announced agreement related to Illinois production expansion. "Big Daddy" initiative to enable significant profitable growth in the state.
- Dry powder remains for further growth initiatives.
- Estimates unchanged, continue to anticipate strong growth and margin expansion.
- New Jersey license application could offer opportunity.
- Raise price target to reflect premium valuation.

Click the Link to Subscribe to the [Viridian Cannabis Deal Tracker](#)

### **Maintain growth outlook with near term results; could see upside following stimulus payments**

4Front will announce Q4/20 results in early April. Our forecasts for the quarter call for revenues of \$22.4M and adjusted EBITDA at \$3.6M. Looking at this year, our estimates of \$170M in revenues and \$44.9M in adjusted EBITDA are in line with 2021 guidance and reflect the opening of the Brookline dispensary (adjacent to Boston) and initial contributions from the California production facility coming late in the first half. Additionally, 2021 will see a full year of recreational sales from 4Front's other two Massachusetts dispensaries which opened in 2H/20 and the company's two Illinois stores (Chicago store was closed throughout the summer due to protest related damage and second store opened near Indiana border in December). We recently caught up with management and are confident on the time line of the Brookline dispensary and Commerce, CA production facility openings.

Our 2021 forecast calls for revenue growth of 164% Y/Y and adjusted EBITDA margin expansion from 6% in 2019 to 26%.

As we highlighted in a note earlier this week, we believe 4Front could be a beneficiary of higher sales in Q1/21 following stimulus payments. Increased demand for cannabis driven by stimulus payouts could provide upside to our Q1/21 and full year forecasts.

### **New Jersey could present an expansion opportunity**

4Front, applied for a vertically integrated license in New Jersey in 2019. A lawsuit regarding that process involving other operators resulted in that license application as well as those of other operators to remain in limbo since with the state halting the issuance of any new licenses. A February ruling by the New Jersey supreme court removed the stay on new licenses and again 4Front's application is to be reviewed.

Prior to becoming an operator, itself, 4Front was a consultant to early cannabis operators helping them obtain licenses. The company was successful in obtaining sixty licenses across numerous states, so it is safe to assume that 4Front's New Jersey application was viable.

We are watching the license review process carefully as the opportunity could become significant for 4Front. As applications are reviewed, 4Front is likely to have as good a shot as any operator to receive licenses which could be valuable given the dearth of existing operators in the state and the significant forecasted growth with the kick-off of recreational sales in the near term. The license in question would permit 4Front the ability to open a medical dispensary and a cultivation footprint up to 30K sq. feet. As has occurred in most markets, upon the state's flip to rec, existing medical license holders will likely be given early mover advantages toward the receipt of rec licenses. If 4Front receives a license but chooses not to buildout the assets, the company could sell the license for a likely premium price. New Jersey exposure is very sought after amongst the leading MSOs.

### **Raise price target to reflect justifiable premium valuation**

We raise our price target from \$1.55 to \$2.00. Our \$2.00 price target reflects an EV/Sales multiple of 6.0x our 2022 estimate and EV/EBITDA of 14.8x. The price target valuation multiples compare with the broader peer group at 4.4x and 14.4x respectively.

We believe a modest premium valuation for 4Front is warranted given our belief that even in 2022 the company will still be in the early innings of its growth opportunity with management having targeted achievable revenues of \$650M (or 2.6x our 2022 forecast) and because growth and margin expansion does not require the receipt of licenses or completion of acquisition. Any expansion through acquisition or license receipt (including in New Jersey) would present upside to our forecasts.

**FY Income Statement (\$M)**

	2020	2021					2022				
	2020 Dec-20	Q1 '21E Mar-21	Q2 '21E Jun-21	Q3 '21E Sep-21	Q4 '21E Dec-21	2021 Dec-21	Q1 '22E Mar-22	Q2 '22E Jun-22	Q3 '22E Sep-22	Q4 '22E Dec-22	2022 Dec-22
<b>Revenue</b>	<b>64.5</b>	<b>31.8</b>	<b>42.8</b>	<b>47.9</b>	<b>47.5</b>	<b>170.0</b>	<b>53.2</b>	<b>67.2</b>	<b>67.3</b>	<b>64.0</b>	<b>251.7</b>
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
<b>Adjusted EBITDA</b>	<b>4.1</b>	<b>4.8</b>	<b>11.8</b>	<b>14.3</b>	<b>14.0</b>	<b>44.9</b>	<b>18.2</b>	<b>27.8</b>	<b>28.5</b>	<b>26.6</b>	<b>101.2</b>
<b>Net Income</b>	<b>(16.1)</b>	<b>(4.42)</b>	<b>2.15</b>	<b>4.58</b>	<b>4.29</b>	<b>6.6</b>	<b>13.87</b>	<b>23.44</b>	<b>24.01</b>	<b>22.11</b>	<b>83.4</b>
<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

## Required Research Disclosures

Distribution of Ratings/IB Services				
Rating	Count	Percent	IB Services in Past 12 months	
			Count	Percent
Buy (Buy)	6	100%	0	0%
Hold (Hold)	0	0%	0	0%
Sell (Sell)	0	0%	0	0%
Not Rated (NR)	0	0%	0	0%

### Analyst Certification

The research analyst responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to Bradley Woods & Co. Ltd.; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in this report.

### Meaning of Ratings

Bradley Woods & Co. Ltd.'s rating system of **Buy, Hold, Sell, Not Rated** reflects the analyst's best judgment of risk-adjusted assessment of a security's 24-month performance.

**Buy:** A Buy recommendation is assigned to stocks with low risk and approximately 10% expected return or stocks with high risk and approximately 25% expected return. The analyst recommends investors add to their position.

**Hold:** A Hold recommendation is assigned to stocks with low risk and less than 10% upside or less than 15% downside or to stock with high risk and less than 25% upside or less than 15% downside.

**Sell:** A Sell recommendation is assigned to stocks with an expected negative return of approximately 15%. The analyst recommends investors reduce their position.

**Not Rated:** A Not Rated recommendation makes no specific Buy, Hold or Sell recommendation.

### Compensation or Securities Ownership

The analyst(s) responsible for covering the securities in this report receives compensation based upon, among other factors, the overall profitability of Bradley Woods & Co. Ltd. including profits derived from investment banking revenue and securities trading and market making revenue. Unless noted in the Company Specific Disclosures section above, the analyst(s) that prepared the research report did not receive any compensation from the Company or any other companies mentioned in this report in the previous 12 months, or in connection with the preparation of this report. Unless noted in the Company Specific Disclosures section above, neither the analyst(s) responsible for covering the securities in this report, nor members of the analyst(s)' household, has a financial interest in the Company, but in the future may from time to time engage in transactions with respect to the Company or other companies mentioned in the report.

For compendium reports (a research report covering six or more subject companies) please see the latest published research to view company specific disclosures.

### Other Important Disclosures

This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell a solicitation of an offer to buy or sell any financial instruments or to particular trading strategy in any jurisdiction. The information and opinions in this report were prepared by registered employees of Bradley Woods & Co. Ltd. The information herein is believed by Bradley Woods & Co. Ltd. to be reliable and has been obtained from public sources believed to be reliable, but Bradley Woods & Co. Ltd. makes no representation as to the accuracy or completeness of such information.

Bradley Woods & Co. Ltd. is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers.

Opinions, estimates, and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Bradley Woods & Co. Ltd. and are subject to change without notice. In addition, opinions, estimates and projections in this report may differ from or be contrary to those expressed by other business areas or group of Bradley Woods & Co. Ltd. and its affiliates. Bradley Woods & Co. Ltd. has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Bradley Woods & Co. Ltd. does not provide individually tailored investment advice in research reports. This report has been prepared without regard to the particular investments and circumstances of the recipient. The securities discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. Estimates of future performance are based on assumptions that may not be realized. Furthermore, past performance is not necessarily indicative of future performance. Investment involves risk. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Bradley Woods & Co. Ltd. salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed in this research. Bradley Woods & Co. Ltd. may seek to offer investment banking services to all companies under research coverage. Bradley Woods & Co. Ltd. and/or its affiliates expect to receive or intend to seek investment-banking related compensation from the company or companies mentioned in this report within the next three months.

This research report (the "Report") is investment research, which has been prepared on an independent basis by Bradley Woods & Co. Ltd., a member of FINRA and SIPC, with offices at 805 Third Avenue, 18th Floor, New York, NY USA, 10022. Electronic research is simultaneously available to all clients. This research report is provided to Bradley Woods & Co. Ltd. clients and may not be redistributed, retransmitted, disclosed, copied, photocopied, or duplicated, in whole or in part, or in any form or manner, without the express written consent of Bradley Woods & Co. Ltd. Receipt and review of this research report constituted your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion or information contained in this report (including any investment recommendations, estimates, or target prices) without first obtaining express permission from Bradley Woods & Co. Ltd. In the event that this research report is sent to you by a party other than Bradley Woods & Co. Ltd., please note that the contents may have been altered from the original, or comments may have been added, which may not be the opinions of Bradley Woods & Co. Ltd. In such case, neither Bradley Woods & Co. Ltd., nor its affiliates or associated persons, are responsible for the altered research report.

This report and any recommendation contained herein speak only as of the date of this report and are subject to change without notice. Bradley Woods & Co. Ltd. and its affiliated companies and employees shall have no obligation to update or amend any information or opinion contained in this report, and the frequency of subsequent reports, if any, remain in the discretion of the author and Bradley Woods & Co. Ltd.

Bradley Woods & Co. Ltd. may effect transactions in the securities of companies discussed in this research report on a riskless principal or agency basis. Bradley Woods & Co. Ltd.'s affiliated entities may, at any time, hold a trading position (long or short) in the securities of the companies discussed in this report. Bradley Woods & Co. Ltd. and its affiliates may engage in such trading in a manner inconsistent with this research report. All intellectual property rights in the research report belong to Bradley Woods & Co. Ltd. Any and all matters related to this research report shall be governed by and construed in accordance with the laws of the State of New York.

This report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability, or use would be contrary to law or regulation or which would subject Bradley Woods & Co. Ltd. and its affiliates to any registration or licensing requirements within such jurisdictions.

The Bradley Woods Form CRS, Client Relationship Summary, can be accessed [here](#).