

Planet 13 (US OTCQX: PLNHF; \$6.38): Q4/20 Headwinds on Capacity Restrictions; Anticipate Ramping Results with Return of Vegas Travel and California Expansion

April 6, 2021

Planet 13 reported Q4/20 results of \$20.1M in revenues and \$300K in adjusted EBITDA last night. Results came in below our estimate of \$25M/\$6.6M with revenues hit by store capacity restrictions imposed for much of the quarter (operating at 25% capacity for November and December) while the adjusted EBITDA drag stemmed from lower gross margins on local customer discounts and higher than anticipated Opex. The higher Opex was tied to the reopening of the Medizin store and preparation for the planned Santa Ana, CA dispensary opening. In addition to 2020 results, management reported Q1/21 revenue of \$23.8M. The Q1/21 result included a record monthly revenue number for March (\$9.7M) which we believe is just the beginning of record results for the company.

The March uptick in revenues was boosted in part by the receipt of stimulus payments for local customers but also reflected increased tourism to Las Vegas. As we have previously referenced, we expect tourist travel to Las Vegas to accelerate in the coming weeks and months as more Americans get vaccinated and look to return to normalcy. As tourism returns, Las Vegas and Planet 13 will be ready with regulators planning to permit full capacity in the city on May 1st and Planet 13 set to open an expanded footprint at the Superstore later this spring. We expect Planet 13 to benefit disproportionately as tourists seek out the type of cannabis entertainment offering that the Superstore uniquely provides. Beyond Las Vegas, we expect top line growth to accelerate with the opening of the Santa Ana store in 2H/21 and are confident that meaningful acquisition news looms. We adjust our estimates to reflect results while our rating and price target remain Buy and \$9.00 respectively.

Continue to forecast ramping results

As previously mentioned, management reported Q1/21 revenues of \$23.8M. Q1 revenues are below our prior estimate of \$28M but reflect meaningful sequential growth from Q4/20 and importantly, demonstrate the early signs of improved demand for Las Vegas. In March, Planet 13 recorded a record monthly sales quarter at the Superstore (\$9.7M). Beyond Q1/21, we forecast meaningful growth beginning in Q2/21 with continued sequential Superstore and wholesale sales growth on improved market conditions in Nevada. We expect increased demand to translate both to higher revenues and improved margins given the higher average ticket (and lack of local discount) associated with tourist spending. We also expect Planet 13 will benefit from having expanded the Superstore's retail footprint in recent months despite having to deal with lower capacity levels. Additionally, we expect increased cultivation capacity coming online throughout this year will allow Planet 13 to achieve its goal of ~50% of product sold in the Superstore coming from in house production. Meanwhile, in California we expect the Santa Ana store to quickly become one of the top revenue generating dispensaries in the state and for sales to be boosted by the launch of Planet 13's home delivery offering. For now, we reduce our 2021 revenue estimate from \$154M to \$149M while our adjusted EBITDA is lowered from \$45M to \$42M. Our 2022 estimates are unchanged at \$210M in revenues and \$173M in adjusted EBITDA.

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Planet 13
Rating: Buy
Price Target: \$9

Investment Highlights

- Q4/20 results reflect continued headwinds on the market and inflated spending to support growth initiatives.
- Q1/21 revenue demonstrates early recovery in Las Vegas and stimulus boost. March monthly revenues set record for company.
- Anticipate accelerating growth in subsequent quarters on higher tourist volumes and California store opening.
- Planet 13 maintains a war-chest of capital (>\$140M in cash) to complete acquisitions and expansion initiatives.

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Capitalized for meaningful expansion

Planet 13 has \$142M in cash and roughly \$8M in capex needs in the near term. We anticipate additional expansion is forthcoming and expect multiple acquisitions of either licenses or vertically integrated operators with a position in a major city for which retail operations can be expanded. In terms of geography, we feel the most likely targets for expansion include Boston, Chicago, Detroit, New York, Phoenix, San Diego and San Francisco. Along with geographic expansion, we believe cultivation and production assets in California will be a focus enabling vertical integration for the Santa Ana asset.

We note, the \$142M in capital could be significantly upsized through including equity in any M&A transaction or in raising debt. Planet 13 has no long-term debt.

We revise our estimates and reiterate our price target

- Revenues: Q1/21E from \$28M to \$23.8M; 2021E from \$154M to \$148.8M; 2022E remains \$210M.
- Adjusted EBITDA: Q1/21E from \$7M to \$3.9M; 2021E from \$45.4M to \$42.3M; 2022E remains \$73M.

Our \$9 price target represents an EV/EBITDA multiple of 23.5x our 2022 estimate.

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	2021E Dec-21	Q1 '22E Mar-22	Q2 '22E Jun-22	Q3 '22E Sep-22	Q4 '22E Dec-22	2022E Dec-22
Revenues	70.5	23.8	32.0	47.0	46.0	148.8	47.0	54.0	56.0	53.0	210
COGS	36.3	12.0	15.6	22.0	21.2	70.8	21.4	24.2	25.1	23.9	94.6
Gross Profit	35.4	11.8	16.4	25.0	24.8	78.0	25.6	29.8	30.9	29.2	115.4
G&A	24.7	7	6.7	7.6	7.7	29.0	8	8	8	8	32.0
Sales & Marketing	3.3	0.9	1.65	1.9	2	6.5	2.5	2.6	2.6	2.5	10.2
Depreciation	4.2	1	1	1	1	4.0	1	1	1	1	4.0
Stock Based Comp	2.5	0.5	0.6	0.6	0.6	2.3	0.6	0.6	0.6	0.6	2.4
Opex	34.6	9.4	10.0	11.1	11.3	41.8	12.1	12.2	12.2	12.1	48.6
Operating Income	0.7	2.4	6.5	13.9	13.5	36.3	13.5	17.6	18.7	17.1	66.8
Interest	1.8	0.4	0.4	0.5	0.5	1.8	0.5	0.5	0.5	0.5	2.0
FX Gain	0.0										
Other Income	-0.2										
Other Income	1.6	-0.4	-0.4	-0.5	-0.5	-1.8	-0.5	-0.5	-0.5	-0.5	-2.0
Pre-tax Income	-0.8	1.9572	6.066	13.404	13.04	34.5	13.0	17.1	18.2	16.6	64.8
Taxes	7.1	3.8	3.9	4.1	4.2	16.0	4.4	4.3	4.4	4.4	17.5
FX Translation	0.1										
Net Income	-7.9	-1.8	2.2	9.3	8.8	18.5	8.6	12.8	13.8	12.2	47.3
EPS	-0.05	-0.01	0.01	0.05	0.05	0.1	0.05	0.07	0.08	0.07	0.26
Shares	155.3	175.7	176.5	177.4	178.3	177.0	178.5	179.4	180.3	181.2	179.8
Adjusted EBITDA	8.0	3.9	8.0	15.4	15.0	42.3	15.0	19.2	20.3	18.6	73.0
Gross Margin	50%	49%	51%	53%	54%	52%	54%	55%	55%	55%	55%
Adjusted EBITDA	11%	16%	25%	33%	33%	28%	32%	35%	36%	35%	35%
OPEX	49%	39%	31%	24%	25%	28%	26%	23%	22%	23%	23%
Operating Income	1%	10%	20%	30%	29%	24%	29%	33%	33%	32%	32%
Tax Rate	-835%	194%	64%	31%	32%	46%	34%	25%	24%	27%	27%
Net Income	-11%	-8%	7%	20%	19%	12%	18%	24%	25%	23%	23%
Revenue Growth											
Y/Y	11%	42%	197%	106%	128%	111%	97%	69%	19%	15%	41%
Q/Q		18%	34%	47%	-2%		2%	15%	4%	-5%	
Adjusted EBITDA											
Y/Y		57%	1261%	148%	4837%	430%	284%	139%	32%	24%	73%
Q/Q		1187%	105%	92%	-2%		0%	28%	6%	-8%	

Source: Company Reports, Viridian Capital Estimates

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			Count	Percent
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Not Rated (NR)	0	0%	0	0%

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