Highlighting Under-Followed Names in US Cannabis

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Awareness for public companies in US cannabis has come a long way in recent years, however given the still limited amount of traditional sell-side research coverage available many otherwise quality companies continue to fly under-the-radar with little investor following.

In our view, investor awareness and a lack thereof is a key factor in the disconnected US cannabis stock valuations whereby the largest MSOs garner the most attention and thus premium valuations. The premium valuation for the largest MSOs comes despite in many cases lower anticipated future growth and a lack of takeout potential. As previously referenced, we believe takeout potential should be a factor in valuation for all but the largest operators in the industry.

With the lack of awareness in mind, we plan to highlight unfollowed and under-followed public US cannabis companies on an on-going basis. With this initial report, we highlight PLUS Products and Vibe Cannabis. While not yet covering either; in our opinion both companies have attractive opportunities for growth in the near term with California centric existing operations. Due in part from a lack of awareness amidst limited coverage, each trades at what appears to be a significantly discounted valuation. With execution and enhanced awareness, we believe each has the potential to eliminate the discount and provide outperforming investor returns.

Plus Products (US OTC: PLPRF; $25M Market Cap)

- Leading edibles brand producer in California; PLUS' gummies products are some of top selling SKUs in industry.
- Anticipate growth on enhanced distribution, relationship with Eaze and new product launches. Additional state expansion and licensing could also drive upside.
- Shored up balance sheet and cost cutting initiatives allows for more sustainable operations and lower bar for achieved profitability.
- Believe will be a likely takeout candidate in the near term from MSO or brand centric SPAC looking for additional transactions.
- Discounted valuation relative to peers and M&A exits.

Vibe Cannabis (US OTC: VBSCF; $80M Market Cap)

- Profitable vertically integrated California operator with plans to expand both in California and in additional states.
- Produce well-regarded line branded products under the Hype name.
- Opening new retail dispensaries in California and expanding cultivation capacity.
- Capitalized to fund California growth objectives following recent financings.
- Recently announced approval to build cultivation facility in Massachusetts. Expect vertical integration in state to be a focus longer term as well as additional state expansion.
- Discounted valuation relative to peers based on 2021 guidance.
- Could be a takeout for an MSO looking to scale in California.

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Investment Highlights

- **Potential Attractive Opportunities in underfollowed cannabis companies.**
- **Limited awareness a key factor in valuation discount for smaller operators.**
- **PLUS Products: Potentially attractive brand play poised for growth with operations. Likely takeout candidate in our view.**
- **Vibe Cannabis: Scaling California operator with additional state expansion plans. Discounted valuation to similarly sized operators.**
- **1933, Australis, Bell Rocck, Body & Mind, C21, CLS, Flower One, Grapefruit, Harborside, Halo Collective, Marimed, Schwazze, Terra Tech and Turning Point represent other notable under followed names.**

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PLUS Products

PLUS manufactures a leading edibles brand in California (along with a limited initial exposure to Nevada). PLUS' gummies product line consistently garners a top share in the edibles category. According to company reports and data from Leaflink, PLUS' Sour Watermelon gummie was recently recognized as the top selling edibles SKU in California.

Growth has been challenged for PLUS in the last year due to the reliance on third party distributors and enhanced competition. Additionally, we believe all edibles producers were handicapped in 2020 by the mix shift to flower during the pandemic. With people at home, consumers increasingly shifted demand to flower.

PLUS, has shifted to a self-distribution model by enhancing sales staff to mitigate the distribution issue. Enhanced in house distribution should drive a return of strong growth and the company has also increased its exposure to Eaze the leading home delivery platform in California. Home delivery continues to gain share in California so the enhanced Eaze relationship should provide additional demand. Management has also highlighted the expectation for growth to come from additional factors including: new product launches, potential state expansion and licensing opportunities. Beyond management's control, we expect an uptick in all non-flower categories in the post COVID world with users increasingly consuming cannabis outside their homes and accordingly again seeking discretion.

While growth has been challenged, PLUS management focused efforts to cut expenses making the threshold for profitability far more attainable. It appears that profitable results should come within the next few quarters and in the interim the company has reduced losses and quarterly cash burn to only modest levels. Additionally, as we have highlighted, PLUS successfully refinanced a looming debt maturity this winter eliminating a significant challenge for the company and justified overhang for investors. Debt now matures in 2024.

In short, PLUS appears to be a sustainable standalone business poised for growth (and likely profitable growth) in the near term. A shorter-term exit through acquisition also seems probable given MSO interest in expanding brand capabilities and the numerous brand oriented SPACs outstanding which continue to have cash following initial qualifying transactions this winter.

Regarding potential SPAC acquisitions, we believe investors will soon display impatience with a lack of action creating enhanced motivation for operators to complete deals. We believe this was a primary reason for AYR's historical discounted valuation despite outperforming results prior to transactions made in late 2020.

For either an MSO or a SPAC, we believe PLUS represents an attractive takeout as pairing the brand with enhanced distribution and production capacity could garner significant upside as well as name recognition given that consumers know the brand.

Relevant take-outs of significant branded product manufacturers in the past year include Dixie (BR Brands), Lowell Herb Co. (Indus Holdings), Caliva (Subversive Capital) and Glasshouse (Mercer Branded SPAC). Of these Lowell, Caliva and Glasshouse are primarily California centric like PLUS.

PLUS, currently trades at 1.8x 2020 revenues. This compares with forward multiples of 4.8x for Lowell Farms and 2.1x for SLANG, two companies that we feel represent reasonable comparisons given brand focus and in the case of Lowell the California centric exposure. At these levels, PLUS would be priced between $0.47 and $1.16 (vs. current $0.37).

Meanwhile in terms of takeout prices, Lowell Herb. Co. which was acquired by Indus Holdings with the resulting firm becoming Lowell Farms represents in our view the closest comp. Lowell manufactured a leading pre-roll brand however the company faced challenges to scale on a lack of vertical integration in California. Lowell was acquired at 2.6x 2020 revenues. At this level, PLUS would be priced at $0.50.

PLUS Products

Source: Company Reports

Vibe Cannabis

Vibe is a vertically integrated operator serving the California market. Vibe currently has five retail dispensaries and roughly 40K sq. feet of cultivation. The company also has a branded products offering, under the Hype brand name. A full line of Hype branded products is available at Vibe dispensaries and on the wholesale market.

Despite limited scale (just $7M Q1/21 revenues), Vibe is a profitable entity which appears poised for growth in California.

Management plans to scale operations through expanding the company's retail footprint both through licenses and the acquisition of challenged one-off operators and further expanding cultivation capacity. Timing for the retail expansion is positive given the improving licensing environment in California and persistent presence of challenged underfunded operators in the state. Following modestly sized financings completed earlier this year, the company is now capable of funding much of these growth initiatives.

Beyond California, last month Vibe announced plans to expand into Massachusetts and received initial approval to build a cultivation/production facility in Springfield, MA. We would expect the company to seek out retail opportunities to become vertically integrated in Massachusetts in the near term and anticipate additional state expansion is likely. With that said, as we have previously referenced, due to favorable pricing dynamics in the state today and the cap on scale for each license holder, we believe standalone wholesale operations can be sustainably profitable for operators even longer term in Massachusetts.

Per company reports, management plans to build out a 47K sq. foot facility initially which will be capable of generating 15K lbs. of premium flower annually in Massachusetts. No time table has been set on this project however management has highlighted the expectation that the cost will be ~$16K. Vibe will likely have to raise capital to fund this project however we would expect a non-dilutive transaction is likely feasible given the continued improved capital markets and access to capital for even smaller operators in the industry so long as profits are attainable.

Through California growth initiatives and the Massachusetts expansion, we believe Vibe can be capable of strong growth moving forward well beyond current levels ($24M revenues and $3.3M in adjusted EBITDA last year). Management has forecasted roughly $46M in revenues for 2021 and adjusted EBITDA of $14M while expecting that the year-end run rate would be $61M and $21M respectively. These forecasts reflect California operations and come before any incremental Massachusetts contributions.

Relative to forecasts, Vibe currently trades at an EV/Sales multiple of 1.25x 2021 estimates and 0.9x the year end run rate. Based on EV/EBITDA, VIBE trades at 4.1x and 2.8x respectively.

Current multiples reflect a significant discount to those of the peer group (4.8x '21E EV/Sales and 21.1x EV/EBITDA respectively) and specifically those with a market cap below $250M (1.4x and 8.8x). At the multiple levels of similarly sized operators, VIBE would be priced between $0.73 and $1.21 or between a 9% and 81% upside to current levels. Considering the run rate for 2021 as 2022 estimates and peer 2022 valuation multiples makes the pricing upside opportunity appear even more favorable. Comparative pricing results appear reasonable and suspect that they can be attainable for Vibe with enhanced investor awareness and execution.

Vibe Cannabis

Source: Viridian Capital

Additional Notable Underfollowed Names

Other notable underfollowed names with attractive opportunities include:

- 1933 Industries: (US OTC: TGIFF): Wholesaler of distillate and branded products producer in California and Nevada. Company should benefit from enhanced growth in Nevada on tourism return and restriction lifting.

- Australis Corporation (US OTC: AUSAF): Acquires and operates US cannabis companies. Favorable portfolio of existing investments with additional opportunities likely. Takeouts of investment companies could provide upside on investment.

- Bell Rock Brands (US OTC: DXBRF): Bell Rock Brands owns the Dixie and Mary's Medicinals cannabis products brands. Bell Rock's portfolio of leading brands looks favorable at time when brands are so sought after. Meanwhile the company is scaling internal production capacity in order to better profit on brand demand.

- Body & Mind (US OTC: BAMM): Body & Mind is a multistate operator with assets in Arkansas, California, Nevada and Ohio. The company is profitable and generates cash with growth initiatives on-going in each of its market.

- C21 Investments (US OTC: CXXIF): Vertically integrated operator with presence in Nevada and Oregon. Anticipate strong growth in both these markets in the coming years.

- CLS Holdings (US OTC: CLSH): Vertically integrated operator in Nevada. Growing branded products presence and plans to expand to New Mexico through partnership. CLS should disproportionately benefit from return of Las Vegas tourism given dispensary location in the city and wholesale presence. Growth outside Nevada expected on state expansion initiatives.

- Flower One (US OTC: FLOOF): Flower One is a leading wholesale supplier to the Nevada market. Company should benefit from enhanced growth in Nevada on tourist return and restriction lifting.

- Grapefruit USA (US OTC: GPFT): Grapefruit is a branded products manufacturer focused on California. Growth should come on both new product launches and enhanced distribution.

- Harborside (US OTC: HBOR): Leading California retail operator, one of the first operators in the state. Continued execution and strong market demand likely to translate to strong results.

- Halo Collective (US OTC: HCANF): Wholesaler in California, Nevada and Oregon. Attractive market exposures and offering of branded products.

- Marimed (US OTC: MRMD): Multistate operator with presence in Delaware, Illinois, Massachusetts and Maryland. Marimed has favorable East Coast exposures particularly if recreational legislation comes in the near term for Delaware and Maryland.

- Schwazze (US OTC: SHWZ): Schwazze owns and operates Colorado vertically integrated assets and branded products. Company formerly known as Medicine Man Technologies. Schwazze is rare public operator with significant scale in Colorado. The company is likely to benefit from strong growth in market and be a potential takeout candidate as MSOs look to enter the to-date underpenetrated state.

- Terra Tech: (US OTC: TRTC): Vertically integrated operator with a presence in California, Nevada and Oregon. California, Nevada and Oregon represent attractive, large high growth markets. Additional growth opportunities likely on potential future state expansion.

- Turning Point Brands (NYSE: TPB): Turning Point is known primarily as a tobacco company and is covered as such by analysts. Turning Point owns the Zig Zag brand though which is one of the most recognized assets in US cannabis and increased awareness for the company's cannabis exposure is likely in the near term.

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