# Earnings Recap; Favorable Opportunities for Covered Names

June 1, 2021

Within our coverage universe, 4Front, AYR, Cansortium, GAGE, Planet 13 and TILT each reported Q1/21 earnings last week. As expected, reports reflected solid growth and profitability with core assets and the benefit of a boost in demand from stimulus. Results for the quarter came mostly in line with estimates while guidance and longer-term targets for those providing were maintained. As we highlighted before earnings, in our view what mattered most with reporting was an update on on-going longer-term growth initiatives with each of our covered companies poised to complete a significant transformation in the next few quarters. For each, key growth opportunities remain on track and we anticipate scaling results from these initiatives beginning in 2H/21.

We continue to believe that each of our covered companies (the six recent reporters and Lowell Farms and STEM) is positioned for outperforming growth and to take share within relevant markets. Given favorable valuations, the group provides investors the opportunity to achieve disproportionate returns on execution and enhanced awareness as well as potential takeout from larger peers. For the six reporting companies, as reflected in this report we modestly adjust our estimates for earnings while maintaining our favorable outlook and BUY rating for each.

**Growth initiatives to drive market share gains for covered names**

After shoring up balance sheets and the execution of core operations last year, '21 is a year of transformation for our covered names. We believe each is on track to complete key growth initiatives which will to translate to market share gains.

- **4Front**: 4Front will open a Brookline, MA (Boston serving) recreational dispensary in the next few weeks and will have its California production asset come online in early Q3. We expect both to contribute to a ramp in results beginning in 2H/21. Longer term, 4Front is on track with its "Big Daddy" Illinois cultivation expansion project. The initial phase will be completed in Q3/22 and will give 4Front the leading production scale in Illinois. Given, 4Front's track record as a leading (profitable) wholesaler in the challenging Washington market, we expect the Illinois facility to quickly become one of the top contributing assets in all of cannabis.
- **AYR Wellness**: AYR announced five state expansion initiatives through acquisition (in AZ, FL, NJ, OH and PA) in late 2020. Only the New Jersey transaction remains outstanding and we believe expansion projects in each state are on track. On top of new state expansion, we continue to expect Massachusetts to be an outperforming growth market for AYR with the company expected to open three attractively located rec dispensaries this year and expand its cultivation facility to the full 100K sq. foot capacity (~3x current levels). The cultivation expansion will help AYR to build upon its leading wholesale business in the state while still scaling retail sales. By 2022, we believe AYR will have revenues at a level in line with all but the largest companies in the space along with industry leading profits.
- **Cansortium**: With its balance sheet recently shored up (paid maturing debt), Cansortium is expanding in Florida both in terms of adding new dispensaries and cultivation capacity while also strategically investing in growth opportunities with existing assets in Michigan, Pennsylvania or Texas. In Florida, Cansortium has quietly been one of the biggest operators and we believe on-going expansion initiatives will allow the company to take additional share in the state. Non-Florida growth initiatives have the potential to offer significant upside beyond current estimates.

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**Investment Highlights**

- Q1/21 earnings results reflect solid execution with core operations.
- Each of our covered companies has a significant growth catalyst looming which will enable outperforming growth.
- Covered companies present favorable valuation plays for investors. Execution, enhanced investor awareness and potential takeout offer upside opportunity.
- AYR Wellness remains undervalued as a top MSO.
- Cansortium, GAGE and Lowell offer most likely takeout potential.
- Updating estimates, maintain Buy Rating and favorable outlook for covered companies.

- **Driven by STEM**: Last year, STEM acquired Driven Deliveries with plans to become the industry's first multi-state home delivery platform. We believe STEM has successfully completed an initial expansion in Oregon (beyond the California legacy Driven business) and anticipate additional states to come this year in markets where STEM has existing plant touching operations (CA, OK, OR, MA and NV). Home delivery enhances the offering in plant touching markets while also adding potential high margin incremental revenues in markets in which the company does not operate. Beyond home delivery, we expect STEM to continue to expand plant touching operations and enter new states including Illinois and Michigan in the near term.

- **GAGE**: GAGE is consolidating the fragmented Michigan cannabis market through opening new dispensaries and building out owned and third-party cultivation/capacity. Over the coming quarters we expect GAGE to grow from nine open dispensaries today to twenty by year end and at least thirty by the end of next year. Importantly, we believe enhanced cultivation scale will permit greater profitability as well as top line growth. By the end of this year we expect GAGE to have the largest presence both in terms of cultivation and retail stores in the state.

- **Lowell Farms**: With its legacy Indust Holdings operation, Lowell Farms has built out cultivation and production assets in California and is looking to be the largest flower producer in the state. In Q1/21 Lowell's cultivation output was roughly ~4.7K lbs. of flower, a number that is expected to roughly double in Q2/21 and go to an annual level of 40-45K lbs. in 2H/21. Beyond currently owned assets, we continue to believe the company is on the lookout for challenged operators in California to acquire providing additional cultivation capacity expansion. We expect enhanced cultivation capacity will enable Lowell to grow both its top and bottom line particularly considering solid brand demand for its Lowell Farms products.

  Beyond California, Lowell recently announced a licensing partnership with Ascend Wellness to bring its products into Illinois and Massachusetts. Following the initial opportunity, we believe additional licensing agreements in other markets could be forthcoming. We expect initial contributions from licensing to come in Q3/21 and believe the opportunity could be significant given Ascend's attractive position in these (and additional) key markets.

- **Planet 13**: Planet 13 is poised for a strong second half in Nevada as tourism returns to Las Vegas. We expect enhanced tourism to provide opportunities for all Nevada operators but particularly Planet 13 given the company's location adjacent to the Las Vegas Strip and unique entertainment offering. Beyond existing operations, we expect Planet 13 to also be a direct beneficiary of any consumption lounge opportunities in the near term with Nevada legislators this week voting in favor of lounges. Planet 13 has space for a lounge ready to go at the Superstore pending legistion progress.

  Outside Nevada, Planet 13 will open its first California dispensary in July in Santa Ana (Orange County). We expect the dispensary to gain immediate traction and to quickly become one of the top dispensaries in California. We note that much of Planet 13's existing customer base comes from Orange County and the surrounding areas so there should be immediate brand recognition with the opening.

  Meanwhile, Planet 13 continues to sit on a war chest of cash (and no debt) and we anticipate news of additional state expansion is forthcoming in the near term. We expect any near term expansion will come in the form of an acquired smaller operator mainly for licenses with plans to build out existing assets. We believe Planet 13 will make a splash with any acquisition (likely entering major cities on the East Coast) and translate to sizable revenue contributions.

- **TILT**: TILT is a turn-around story which became a consistently profitable and self-sustaining entity in 2020. We believe TILT is poised for wholesale revenue growth through the buildout of expanded cultivation/production assets in Massachusetts, Ohio (recently opened) and Pennsylvania. Furthermore, TILT is positioned to enhance margins as a wholesale supplier in key markets through its focus on brand partnerships. TILT management is working with West Coast brands looking to expand into underdeveloped East Coast markets. The company recently announced its second brand partnership and we believe additional brand news is likely forthcoming. For TILT, we are in favor of the brand partnership strategy in that brands will permit the company consistent strong demand for product and potential higher margins on premium pricing.

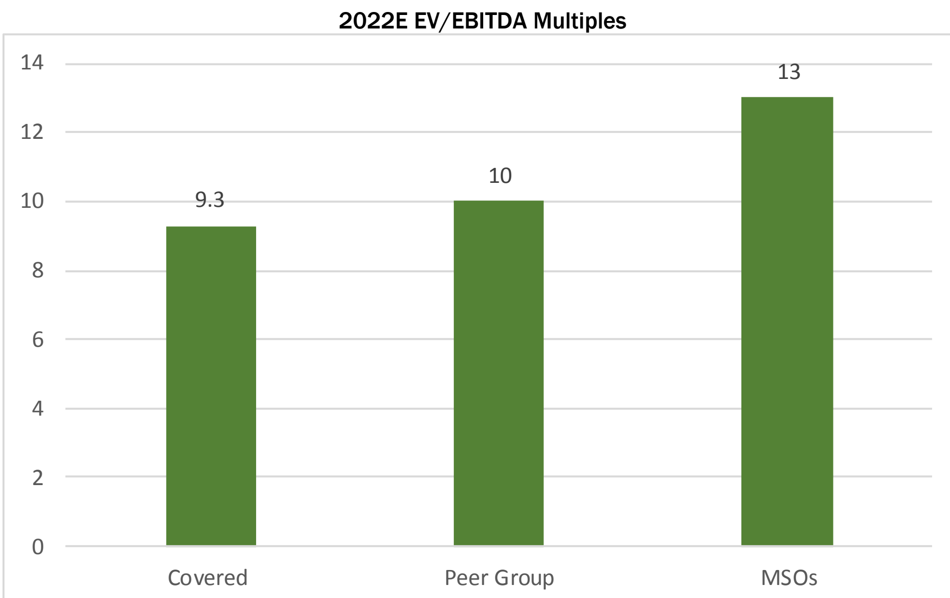
Attractive valuations for covered names

As previously mentioned, we believe each of our covered names has an attractive opportunity to drive outperforming growth in upcoming years. We expect growth to translate to enhanced profits and cash generation given strong execution by management teams. Meanwhile, the group of covered companies in our view is favorably valued relative to the broader peer group and a peer group of the largest MSOs in the space presenting investors with a favorable opportunity for outperforming returns. Based on EV/EBITDA relative to 2022 estimates, the group of covered companies is currently valued at a 9.3x multiple This compares with 10.0x for the broader peer group and 13x for the largest MSOs in the space.

Within the coverage, the cheapest stocks appear to be GAGE (4.9x), Driven by STEM (5.4x) and TILT Holdings (5.5x). We are confident that each will generate strong results providing significant upside in stock returns on execution and broader investor awareness.

On the flip side, only 4Front (20.7x) and Planet 13 (17.1x) are currently valued at a premium to the broader peer group and in our opinion these premiums are warranted and further upside is warranted given the fact that a viable growth opportunity is not sufficiently baked into 2022 estimates.

For 4Front that factor stems from the fact that the Illinois cultivation/production expansion project will not come online until late next year providing significant contributions in 2023. Planet 13's growth outlook is skewed because much of the story is based on anticipated acquisition and state expansion to come in the near term which cannot be adequately factored into models. We are confident that management will execute on these growth initiatives.




**Source: Viridian Capital**

AYR is a top value MSO play

In our opinion, AYR Wellness appears to be the most attractively valued operator within our coverage and a name that investors should target as a means of providing disproportionate upside longer term. AYR is the cheapest large multistate operator in cannabis and believe that distinction is fully unwarranted.

AYR is currently valued at a 7.9x our 2022 estimate based on EV/EBITDA. The valuation multiple compares with 13.2x for the seven MSOs with a larger market cap even though AYR is a proven top executor (industry leading profits in MA and NV the past two years despite market challenges) and is poised for outperforming growth relative to these peers in the near term. Furthermore, we believe AYR should get credit for so quickly completing and integrating four of its five acquisitions announced late last year (with New Jersey expected to close in Q3/21). Unfortunately, timing did not accommodate given that news came during the market's post February cannabis stock pull back so AYR has still yet to benefit from having exposure to multiple states. Historically, AYR's exclusive Massachusetts and Nevada presence has been a drag on valuation for the company despite its leading presence in these markets.

We expect execution on expansion initiatives will translate into enhanced investor awareness and confidence in the company driving upside for the stock. Our $42 price target, puts AYR more in line with other large MSOs and offers significant upside to current levels.

Acquisition potential could drive significant upside

As we have previously mentioned, we expect the acquisition of public companies to be a focus of operators looking to expand geographic presence in the near term. This is particularly true following the Trulieve Harvest transaction. We believe potential acquisition exits should be a focus for investors considering undervalued operators in the space. Within our coverage we believe Cansortium, GAGE and Lowell Farms represent the most likely takeout candidates in the near term. Each trade at a significant discount to the peer group (Cansortium at a 38% discount, GAGE at 51%, Lowell at 30%). We believe the minimum acquisition price for any acquisition would be the peer group average noting our expectation that a premium would be warranted for any of these names.

A valuation at the peer group average would offer sizable upside for these operators.

## Earnings Summary

### 4Front Ventures (US OTCQX: FFNTF; Buy Rated $2.00 Price Target)

For Q1/21, 4Front reported $31.4M in pro-forma revenues and a $5.9M adjusted EBITDA. Revenues were in line with our forecast while adjusted EBITDA exceeded our $3.6M forecast on both higher gross margins and reduced Opex.

As expected, Q1 revenues benefitted from strong retail demand with the company's Illinois and Massachusetts stores particularly the Calumet, IL dispensary along the Indiana border. Meanwhile, 4Front's EBITDA outperformance came despite a delay in contributions from a completed Illinois cultivation expansion with the initial harvest being pushed to April. We anticipate a boost in Q2 results to come from the delay and continue to expect a margin bump in Illinois on vertical integration.

Looking ahead, management maintained full year 2021 guidance at $170M to $180M in pro-forma revenues and adjusted EBITDA in the range of $40M to $50M. We remain confident in 4Front's ability to hit these targets and maintain that there is significant potential for upside particularly on strong initial California contributions. Importantly, we also believe the conservatism provides a nice buffer if there is a delay in any expansion efforts. For now, our estimates are largely unchanged and in line with guidance reflecting a strong second half ramp from the opening in California and the new Brookline, MA dispensary.

**Updated Proforma Estimates and Price Target:**

- Revenues: Q2/21E at $42.8M; 2021E at $174M; 2022E at $252M.
- Adjusted EBITDA: Q2/21E at $11.8M; 2021E at $45.6M; 2022E at $101.2M.
- Price target: Our $2 price target reflects an EV/EBITDA multiple of 15.1x our 2022 estimate and EV/Sales at 6.1x.

### AYR Wellness (US OTCQX: AYRF; Buy Rated, $42 Price Target)

AYR reported Q1/21 results with $58M in revenues and $18.4M adjusted EBITDA. Revenues were modestly above our estimate ($54M) while EBITDA was in line. We note that Q1/21 was AYR's first as a GAAP reporter, under IFRS reporting the EBITDA would have been $20M.

Q1 results displayed continued execution in AYR's core markets (MA & NV) with retail and wholesale revenues in both states up significantly Y/Y. We expect strong results to continue in these markets on execution and as growth opportunities including the opening of rec dispensaries and expanding cultivation capacity come to fruition. Meanwhile, as we previously noted, AYR has recently expanded into Arizona, Florida, Ohio and Pennsylvania through acquisitions and its New Jersey acquisition is expected to be completed in Q3. Of these states, we expect Florida and Arizona to be the biggest contributors this year and in 2022. With each new state, AYR has substantial on-going expansion initiatives which we expect to translate to share gains. By next year, we expect AYR to have one of the largest scales of operations of any operator in US cannabis both in terms of footprint and reported results.

On the earnings call, management reiterated its confidence in 2022 revenue and adjusted EBITDA targets of $725M and $300M respectively (GAAP based, $325M under IFRS). We believe both are very much achievable and represent dramatic growth on 2020 results $155M/$56M. Furthermore, as we have previously mentioned, we believe additional state expansion could be forthcoming given AYR's aggressive nature and the company's sizable cash position (and anticipated strong generation) even after factoring in planned investment. As we previously mentioned, we believe New York will be a focus to further solidify the company's position as a top East Coast operator and/or a large Midwest market where AYR can benefit from favorable wholesale pricing dynamics.

Our Q2/21 estimate are adjusted to reflect guidance of ~$90M in revenues and an adjusted EBITDA of 30%. The Revenue expectations come in above our estimate for the quarter of $80M however the adjusted EBITDA margin is below our prior assumption of 36% reflecting higher spending to integrate and buildout new assets and the change to GAAP. Our longer-term estimates are also adjusted accordingly reflecting higher revenues with lower margins based on accounting.

**Updated Estimates and Price Target:**

- Revenues: Q2/21E at $90.3M; 2021E at $382.9M; 2022E at $560.4M.
- Adjusted EBITDA: Q2/21E at $27.1M; 2021E at $129M; 2022E at $231.4M.
- Price target: Our $45 Price target reflects an EV/EBITDA multiple of 11.9x our 2022 estimate.

## Cansortium Inc (US OTCQX CNTMF; Buy Rated, $1.50 Price Target)

Cansortium reported Q1/21 results of $15.1M in revenues and $4.4M adjusted EBITDA. Both revenues and adjusted EBITDA came in below our estimates ($20M revenues and $5.8M adjusted EBITDA) however results continue to reflect growth and margin expansion with legacy assets. Importantly, we remain confident that expansion initiatives in both Florida and Pennsylvania will bear fruit later this year and in 2022 resulting in a significant ramp of results beginning in Q2. In Michigan, we continue to anticipate a modest bump in Q3 results (~$3M in revenues) from the sale of flower that was pushed from late 2020. Longer term, we believe the Michigan operations can be a significant contributor.

We are updating our forecasts to represent a stronger than previously anticipated 2H driven by the opening of new dispensaries in Florida and Pennsylvania and enhanced cultivation capacity in Florida. For the full year, our estimates remain in line with guidance ($90M to $100M revenues and $30M to $35M adjusted EBITDA).

Longer term, we believe Cansortium has multiple attractive opportunities for growth and margin expansion and importantly following financings completed this spring, the story for investors can now fully focus on execution.

**Updated Estimates and Price Target:**

- Revenues: Q2/21E at $15M; 2021E at $92.1M; 2022E at $142M.
- Adjusted EBITDA: Q2/21E at $2.6M; 2021E at $32M; 2022E at $64.2M.
- Price target: Our $1.50 Price target reflects an EV/EBITDA multiple of 7.8x our 2022 estimate.

## GAGE Cannabis (CSE: GAGE; Buy Rated, C$4.25 Price Target)

GAGE Q1/21 revenues were in line with guidance at $17.6M while the adjusted EBITDA loss ($3.8M) exceeded our estimate on lower than expected consolidated gross margins. Importantly, all signs point to ramping results beginning in Q2 driven by both enhanced cultivation capacity and the opening of new dispensaries. In terms of cultivation expansion, GAGE will have its owned facility completed by Q4 while also adding new contract growers (including two which are under contract and harvested but not yet delivering product). As previously mentioned, larger cultivation capacity for GAGE drives both top line growth and margin expansion by drastically reducing the company's reliance on third party wholesale suppliers. We note that GAGE already receives a margin boost from its exclusive offering of leading brands in Michigan (including the Cookies brand). Meanwhile GAGE opened its 9$^{th}$ dispensary last week and management continues to target twenty opened by year end. We expect new openings to come from a mix new license awards and the acquisition of challenged operators in the state.

On the call management also discussed additional state expansion beyond Michigan. The company is sufficiently capitalized to expand into additional markets and we will be following any state expansion initiatives closely given the potential for sizable incremental growth. We suspect the Midwest would remain a focus in the near term possibly within an underdeveloped medical market which could be poised to go rec within the next few years (Minnesota or Missouri possibly).

For Q2/21, management reiterated previous guidance calling for revenues between $26M and $31M in revenues and scaling gross margins on enhanced production capacity. Our Q2/21 estimates are adjusted modestly with revenues maintained at the mid-point of guidance but reflecting some inflated opex as occurred in Q1. Beyond the quarter, our Q3, Q4 and 2022 estimates reflect the opening of new dispensaries and the anticipated $1M per month contribution from established stores. We expect GAGE to end 2022 with at least 30 dispensaries in operation. In terms of profitability, we expect profits to expand as enhanced cultivation capacity comes online.

**Estimates and Price Target:**

- Revenues: Q2/21E at $29M; 2021E at $151.6M; 2022E at $312M.
- Adjusted EBITDA: Q2/21E at $1.1M; 2021E at $16.3M; 2022E at $101.2M.
- Price target: Our C$4.25 Price target reflects an EV/EBITDA multiple of 7.1x our 2022 estimate.

## Planet 13 (US OTC: US OTCQX: PLNHF; Buy Rated, $9 Price Target)

Planet 13 reported Q1/21 results of $23.8M in revenues and a $5.2M adjusted EBITDA. Revenues were in line with our estimates and prior reporting while the EBITDA exceeded our estimate of $4M on higher than anticipated gross margins.

Overall, Q1 results displayed continued solid execution within Nevada amidst challenging macro conditions with the state still very much restricted during the period. We continue to forecast ramping results this year beginning in Q2 as macro headwinds abate with the return of tourism to Las Vegas along with Planet 13's long-awaited opening of the California dispensary in early July. Regarding the tourist return, we believe tourist volumes picked up significantly in March and April and expect May will see an even bigger jump with the Strip opening to full capacity on May 1st. Planet 13 is poised to disproportionately benefit from a return of tourist customers.

Planet 13 invested to expand capacity at the Superstore (already the largest dispensary in the world) last year so the company will be ready for enhanced volumes. We expect the Superstore to operate at a more than $120M revenue run rate in 2H 2022. We note that higher tourist sales will provide a margin bump along with top line growth.

For the Superstore, we believe there could be an additional boost in results from a looming lounge opportunity with state legislators approving initiatives this week.

For now, our estimates are largely unchanged at $32M in revenues in Q2 and $149M for full year 2021 however we believe there is potential for upside on a strong tourist ramp throughout the summer and higher than initial California demand. For now, we estimate California revenues to be roughly $21M in 2H/21. Longer term, we continue to anticipate strong (and highly) profitable growth with core operations however we continue to await acquisition news which we believe will provide more dramatic upside potential.

**Estimates and Price Target:**

- Revenues: Q2/21E at $32M; 2021E at $149M; 2022E at $210M.
- Adjusted EBITDA: Q2/21E at $8M; 2021E at $43.6M; 2022E at $73M.
- Price target: Our $9 Price target reflects an EV/EBITDA multiple of 23.5x our 2022 estimate and EV/Sales at 8.2x.

## TILT Holdings (US OTCQX: TLLTF; Buy Rated, $0.80 Price Target)

TILT beat our estimates with reported revenues of $47M (vs. our $44M) and $6.2M adjusted EBITDA (vs. our $4.3M). Q1 results reflected continued execution as a profitable, cash generating company, once again a far cry from the legacy reputation for the company. During the quarter, revenues grew from both plant touching operations and the Jupiter hardware business. We anticipate growth with both business lines in the near term but particularly for plant touching operations on production capacity expansion, the opening of recreational retail sales in Massachusetts and initial contributions from Ohio operations.

Along with earnings, TILT announced a new brand licensing partnership with Airo Brands. Airo is a leading vape brand with a presence in Illinois, Colorado, Maryland, Nevada and Washington. With the agreement, TILT will launch Airo products in Pennsylvania. This is TILT's second brand partnership through which the company will bring a leading brand to a key east coast market (her Highness was first launch). Providing an added benefit, the Airo partnership leverages the Jupiter hardware offering providing a potential additional boost in demand. We remain positive on the company's strategy to partner with leading brands as it enables TILT to be a differentiated wholesaler providing enhanced demand and higher margins longer term.

Our quarterly estimates are modestly adjusted while our full year 2021 forecast remains in line with guidance of revenues between $205M and $210M and adjusted EBITDA of $31M at the midpoint.

**Estimates and Price Target:**

- Revenues: Q2/21E at $47M; 2021E at $205.8M; 2022E at $283.6M.
- Adjusted EBITDA: Q2/21E at $6.3M; 2021E at $30.6M; 2022E at $58.2M.
- Price target: Our $0.80 Price target reflects an EV/EBITDA multiple of 7.6x our 2022 estimate.

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