

## Where are Likely MSO Target Expansion Markets?

Last week, we published a report highlighting our continued expectation for consolidation in US cannabis driven by well capitalized multi-state operators (MSOs) and their quest for geographic expansion. In existing markets, we expect consolidation to come through acquisition of established operators (including public companies). Considering the Trulieve/Harvest acquisition news, we added that we now expect larger scale acquisitions to become more common in the near term given the arms race nature of the space. With that, we believe all but the largest operators are very much in play to be acquired.

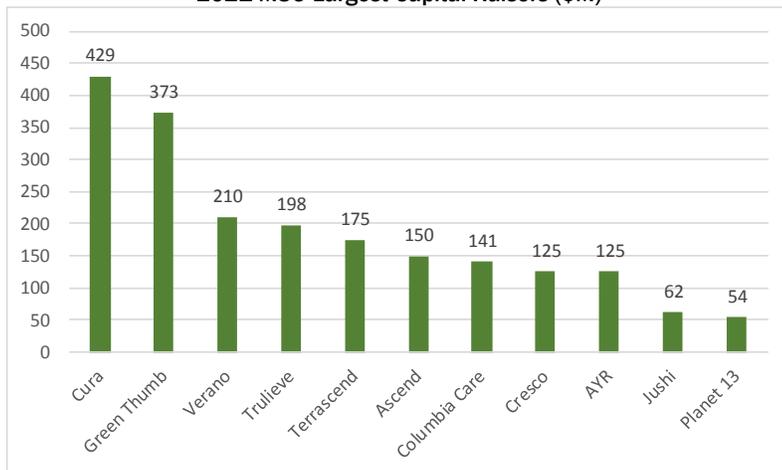
Takeout potential (and the resulting upside) furthers our view that the best investment area in cannabis is with small to medium sized operators which can scale off an established focused base. We feel this category is unjustly undervalued relative to the largest MSOs given higher potential growth, less overhead and more catalysts for meaningful development and investor upside (including by being acquired). Based on state positioning, solid core operations and current valuation, we believe Consortium, GAGE Cannabis, Lowell Farms and Vireo Health are likely takeout candidates by larger MSOs and represent worthwhile investment opportunities.

### Capital in Place to Fund Consolidation

As reflected in a recent Viridian Capital "Chart of the Week", the ten largest MSOs in US cannabis have raised nearly \$2B this year. YTD capital raising follows a spike in raises from 2H/2020. While some money is earmarked for internal investment, much remains as dry powder to fund acquisitions. We do not expect that powder to remain dry for long given company motivations, potential looming federal legislation (enhancing competition) and general investor impatience.

We note that, with completed transactions YTD only 6% of transaction value has been cash. As such, the \$2B in cash can likely be dramatically expanded in considering full acquisition capabilities. Many of the leading MSOs are more than capable of acquiring sizable targets even beyond the ~\$2B Trulieve will pay for Harvest. Meanwhile, we believe the capital markets are far from dried up as a source of additional capital needs.

2021 MSO Largest Capital Raisers (\$M)



Source: Viridian Cannabis Deal Tracker

May 20, 2021

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

### Investment Highlights

- Expect consolidation in US cannabis. Believe bigger acquisitions of public companies are in play.
- Small & medium operators remain at discounted valuation presenting upside potential on M&A.
- Believe Michigan, Minnesota, Missouri, New Mexico, New York, Oklahoma and Texas should be focus areas given strong anticipated growth and limited presence of largest MSOs.
- License caps present favorable opportunities for late entrants in established markets.
- Consortium, GAGE, Lowell Farms and Vireo Health present likely takeout candidates given attractive state exposures.

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

### Favorable expansion opportunities through acquisition across multiple states

There are twenty states with at least one of the top ten sized MSOs present led by Massachusetts with nine and New Jersey and Ohio with seven each. Interestingly, these three are newer expansion markets in which most MSO entry has come in the last two years. For established markets, California has the most exposure with six of the ten largest MSOs present.

While, not all exposures are equal (highlighted by Planet 13's \$100M revenue run rate from its Las Vegas Superstore), based on our 2025 states sales forecast and the number of large MSOs present in the state, the states least penetrated by MSOs are California (\$858M per top ten MSO), Michigan (\$798M) and Florida (\$421M). These are also three of our top five largest states within our 2025 forecasts. West Virginia (\$102M) and Delaware (\$115M) appear to be the most oversaturated with two of the largest operators in West Virginia and one in Delaware with only modest state sales expected in 2025.

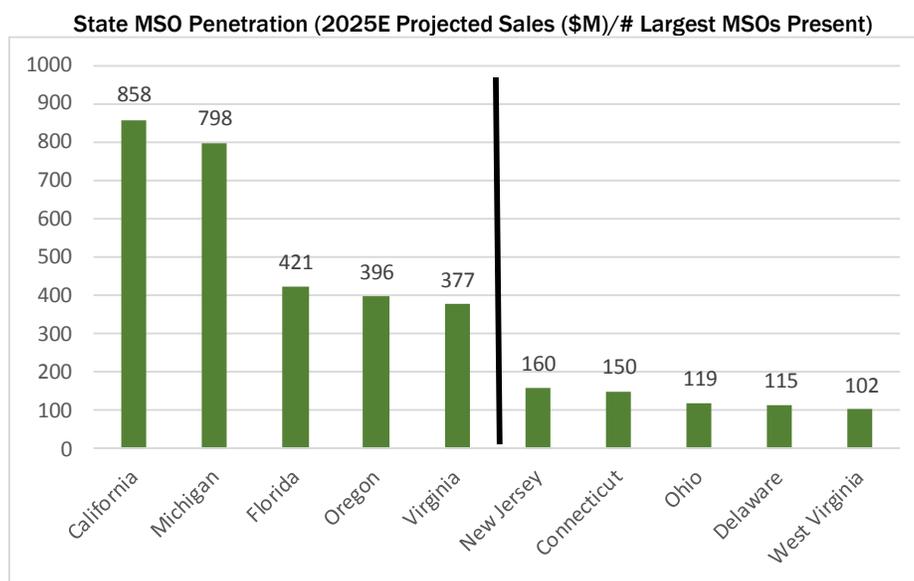
Of states with projected sizable 2025 sales relative to the number of large MSOs present today, we believe Michigan, Missouri and New York present the most attractive opportunities for MSO expansion in the near term through acquisition given a lack of penetration based on sales projections and the presence of existing operators to acquire.

In Michigan, expansion for MSOs can be turn-key given the large existing market (on a \$1.8B annual run rate per the latest monthly report putting Michigan on pace to be the second largest US market). As we have previously mentioned, in our view the only primarily Michigan centric operator focused on meaningful state expansion and capitalized to do so is GAGE Cannabis. For Missouri, the opportunity is about capitalizing on strong anticipated growth as this to date nascent medical markets becomes an eventual sizable rec market. Meanwhile, in New York, the opportunity is to capitalize on scale with New York expected to quickly become one of the largest markets in the country. For MSOs looking to enter New York, the acquisition of existing operators presents added benefits given the planned advantages for existing license holders in the state within regulation (including the exclusive ability to be vertically integrated).

Smaller public operators with exposure to Michigan and New York include: 4Front, Consortium, GAGE, Red White & Bloom in Michigan and Ianthus and Vireo Health in New York.

There are also multiple states with sizable anticipated 2025 sales and existing operations but with none of the largest MSOs present. We believe acquisition targets exist in each of these states. Of these states, we believe Minnesota, New Mexico, Oklahoma and Texas present the most attractive opportunities for expansion through acquisition.

Public operators with exposure to these states include: CLS Holdings in New Mexico, Vireo in Minnesota, New Mexico and New York, Ianthus in New York and New Mexico, Driven by Stem in Oklahoma and Consortium in Texas.



Source: Viridian Capital

## License capped markets present attractive opportunities for late entrants

Regulations in certain states can motivate acquisition opportunities including both established and growing markets. We previously outlined how new New York regulations incentivize the acquisition of existing operators in the state (over waiting out licenses). License and production caps too can present attractive opportunities for later entrants to key markets.

Multiple cannabis markets including Illinois and Massachusetts have caps on the number of licenses that can be held and on cultivation capacity. In our view, these caps present attractive opportunities for any large-scale MSOs looking to enter these markets even when there is existing competition present. The caps ensure that the entering companies can compete on an equal playing field relative to existing operators while also permitting later entrants to more strategically chose assets to acquire and in some cases with reduced competition.

In Massachusetts, no operator can hold more than three recreational dispensary licenses and all cultivation is capped at 100K sq. feet of flower canopy. Most of the nine existing largest MSOs in the state are at or near the maximum of three dispensaries and are scaling production to the 100K sq. foot level with current assets. Caps mean that any large MSOs that have less than the maximum number of dispensaries today and/or room to expand cultivation capacity can acquire assets with less competition than previous operators did. This opportunity is true for existing operators and new entrants including Terrascend, the lone top ten MSO without exposure to Massachusetts today.

Furthering the late mover benefits in Massachusetts is the fact that there are still few recreational dispensaries open in the most populated Eastern part of the state (including Boston) so new entrants or expansion candidates will have the opportunity to acquire or open some of the most attractive assets simply by having waited out the initial wave of entry.

We expect a similar dynamic to play out in other existing and new license capped markets that come online offering opportunities for outperformance for later entrants to markets. Beyond Terrascend, of larger operators we believe Planet 13 could also make Massachusetts expansion a focus in the near term.

## Attractive investment opportunities in potential target companies

As previously mentioned, we believe that following the Trulieve/Harvest acquisition, the biggest MSOs are likely to be increasingly willing to make larger acquisitions acquiring public operators with multiple exposure states and/or sizable assets in a single large established market. The change in focus is from the previous strategy of MSOs acquiring under-developed private operators in expansion markets ahead of anticipated legislation. We expect this targeting of underdeveloped operators and licenses to continue in new markets (like Virginia) as legislation progresses simultaneously to the consolidation of more established markets.

In general, we continue to favor medium and smaller sized operators for investment given discounted valuation relative to larger peers. In many cases the premium valuation for larger operators comes despite lower growth expectations. Finding potential takeout candidates presents an additional catalyst for outperforming returns for investors, one that best fits with medium and smaller operators.

Based on state penetration levels and company positioning, we believe the companies most likely to be targets for MSO takeout in the near term are Consortium, GAGE, Lowell Farms and Vireo Health. These four operators have an average market cap of ~\$350M, well below the \$2.1B Trulieve plans to pay for Harvest.

Meanwhile, on average these four stocks trade at a sizable discount to the broader peer group and the largest MSOs in the space. Consortium, GAGE, Lowell Farms and Vireo trade at an EV/EBITDA multiple of 7.5x 2022 estimates. The multiple for the four compares with 10.4x for the broader peer group and 12.9x for the largest ten MSOs in the space.

**Consortium:** Consortium is an established operator in Florida with scaling profitable (and cash generating) operations in the state. As we have previously mentioned, we believe Consortium is attractively valued at current levels relative to the peer group based on Florida contributions and in relation to recent M&A in the state including AYR's Liberty Health Acquisition and Cresco's Bluma Wellness deal. Meanwhile, Consortium has early positions in key growth states in Michigan and Pennsylvania and is one of just three license holders in Texas. Given the population size of Texas, that license could present significant opportunities for any MSO. We expect pending legislation in Texas could be a catalyst for potential takeout interest to escalate.

**GAGE Cannabis:** As we have previously highlighted, in our opinion GAGE is the best positioned operator in cannabis to consolidate the Michigan cannabis market. Additionally, we believe GAGE's relationship with leading brands and its reliance on third party contract manufacturer partnerships will support high margin growth and differentiates the company from all other operators in the state. Given a discounted valuation relative to the broader peer group and other leading predominantly single state operators, we believe GAGE would be an attractive target for any large MSO looking to enter Michigan.

**Lowell Farms:** Lowell Farms (formerly Indus Holdings) continues to scale cultivation/production capacity in California as the management looks to establish a leading position in the state's fragmented wholesale market. Meanwhile, following an acquisition earlier this year, the company has a flagship recognizable brand to leverage in gaining shelf space at dispensaries in California and through licensing agreements in expansion markets. Lowell trades at a steep discount to the peer group and accordingly could be an attractive takeout candidate for any large MSO looking to enter or expand its presence in California and take on a leading brand in the space.

Potential takeout candidates could include Ascend Wellness which does not have California operations and with which the company recently announced a licensing agreement (to bring the Lowell brand to Ascend in Illinois and Massachusetts). Additionally, we note that Lowell Farms could be the target of a brand oriented SPAC looking to acquire additional assets after completing initial qualifying transactions earlier this year.

**Vireo Health:** Of all the public companies in markets with a limited MSO presence, in our view, Vireo has the most attractive exposure. Vireo's core operations are in Minnesota where the company is by far and away the leading operator with eight of the total thirteen dispensaries in the state. We expect the Minnesota market to grow in the next two years from legislation to expand the state's limited medical market and with recreational legislation outstanding.

Additionally, Vireo has an established presence in Arizona, Maryland, New Mexico and New York and is building out assets in Massachusetts and Nevada. Given anticipated regulatory changes in each of these markets, we believe Vireo remains favorably valued at current levels (12.2x 2022 EV/EBITDA) as we do not anticipate the growth opportunity for the company is sufficiently baked into consensus expectations. Vireo represents a favorable takeout candidate for any operator looking for growth markets and particularly we believe the company's assets in Minnesota and New York should be most sought after.

### Public Company State Exposures

	AR	AZ	CA	CO	CT	DE	FL	IL	MA	MD	ME	MI	MN	MO	ND	NH	NJ	NM	NV	NY	OH	OK	OR	PA	TX	UT	VA	VT	WA	WV
1933																														
4Front																														
Acreage																														
Ascend																														
AYR Wellness																														
Bell Rock Brands																														
Body & Mind																														
C21 Investments																														
Cansortium																														
CLS Holdings																														
Columbia Care																														
Cresco Labs																														
Curaleaf Holdings																														
Flower One Holdings																														
Grapefruit USA, Inc.																														
Green Thumb																														
Halo Labs																														
Harborside																														
iAnthus Capital																														
Lowell Farms																														
Jushi Inc.																														
MariMed																														
MedMen																														
MJ Holdings																														
Mjardin Group																														
Planet 13																														
Plus Products																														
Red White & Bloom																														
Resonate Blends																														
Schwazze																														
SLANG Worldwide																														
Stem Holdings																														
Terra Tech Corp																														
TerrAscend Corp																														
TILT Holdings																														
Trulieve Cannabis																														
Verano																														
Vibe																														
Vireo Health																														

Source: Viridian Capital

## Required Research Disclosures

Distribution of Ratings/IB Services				
Rating	Count	Percent	IB Services in Past 12 months	
			Count	Percent
Buy (Buy)	8	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](#).