

## AYR Wellness (US OTCQX: AYRWF: \$35.13): In line Q2; Positioned for Outperforming Growth

AYR reported Q2/21 revenues of \$91M and \$27.4M adjusted EBITDA. Results were in line with our estimates (\$90M/\$27M) and reflect continued strong execution in AYR's legacy markets particularly in Massachusetts where the company maintains its top wholesale position. Additionally, Q2 saw initial contributions from acquired assets in Arizona, Florida and Pennsylvania with the most meaningful results coming from Florida. Since closing the Liberty Health transaction in February, we believe AYR has taken significant share in Florida through opening eight new dispensaries (to bring to 39) and increasing cultivation capacity. The company now has one of the largest footprints in Florida. We expect other expansion states to contribute more meaningfully in the second half and particularly in Q4 led by Arizona as enhanced cultivation capacity comes online. As we have previously mentioned, once all transactions (including outstanding transactions in Illinois and New Jersey) are completed AYR will have one of the most sizable footprints in US cannabis to go along with its proven execution capabilities. We continue to expect execution on the build-out of assets will translate to outperforming stock returns and valuation expansion for investors. Our rating remains Buy and our price target \$42.

### Q3 guidance and updated 2022 targets

Management guided to Q3/21 revenues of roughly \$100M and for adjusted EBITDA to be essentially flat Q/Q. Q3 guidance comes in below our estimates of \$113M revenues and \$43M in adjusted EBITDA. Our Q3 revenue estimate had assumed initial Massachusetts recreational sales in the quarter however we believe initial sales are more likely to come in Q4 or early 2021. Regarding adjusted EBITDA, lower margin expectations reflect higher than anticipated investment related to the integration of new acquisitions. Despite the near-term shortfall, our longer-term outlook remains intact calling for meaningful growth beginning in '22.

Along with Q3 guidance, management updated 2022 target expectations. Management now expects revenues to be approximately \$800M in 2022 and adjusted EBITDA at \$300M. The revenue assumption is increased from \$725M to reflect contributions from recent acquisitions and additional expansion (including into Illinois). Adjusted EBITDA remains at prior targets reflecting higher planned investment. Our 2022 estimate is unchanged and we note that our assumptions do not yet include contributions from Illinois or New Jersey.

### Positive on recent acquisition news

Since the end of Q2, AYR announced three acquisitions, a flower producer in Nevada, a dispensary operator in Illinois and a leading cannabis beverage company. Regarding Illinois expansion, the company also announced the receipt of an additional license in the state through its JV partnership. In particular we are encouraged by the Illinois acquisition and expansion given the significant growth anticipated for that market. Upon completion, Illinois will be AYR's 8<sup>th</sup> state. We expect AYR to make further investment in the state with a particular focus on cultivation and production assets so that the company can both support retail efforts and become a wholesaler in the market.

We are also encouraged by the beverage acquisition (Levia brands). Levia has gained significant traction in Massachusetts with its seltzer product quickly becoming a leading beverage brand (and top seltzer seller). We expect infused seltzers to quickly become a sizable portion of the cannabis market. We believe the brand enhances the company's wholesale offering in Massachusetts and expect AYR to quickly make Levia available in each of its markets and even to license the product in states where the company does not yet operate.

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### AYR Wellness

Rating: Buy

Price Target: \$42.00

### Investment Highlights

- Inline Q2 results, Q3 guidance a bit softer than expected.
- 2022 target revenue guidance increased from \$725M to \$800M.
- Recent acquisitions provide additional growth opportunity with Illinois entry, enhanced cultivation capacity in Nevada and new beverage brand.
- Expect beverage product to be a meaningful contributor to company's wholesale offering.
- Discounted valuation persists.

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### **Remains attractively valued**

Despite anticipated outperforming growth and proven execution with leading profitability, AYR continues to trade at a discounted valuation compared with other leading MSOs and the broader cannabis peer group. Regarding a comparison to other leading MSOs, AYR remains the cheapest valued stock of the ten largest MSOs on the basis of 2022 EV/EBITDA despite having a footprint that now looks comparable or better than that of any other operator.

We believe the discounted valuation for AYR is unwarranted and suspect that it is only a matter of time before the discount is eliminated as investors take notice of AYR's favorable position in key states and the likelihood of outperforming results in the near term.

Our \$42 price target reflects an EV/EBITDA multiple of 11.2x our 2022 estimate.

### **We revise our 2021 estimates and reiterate our 2022 forecast**

- Revenues: Q3/21 from \$113M to \$100M; 2021E from \$383M to \$362M; 2022E remains \$561M.
- Adjusted EBITDA Q3/21 from \$43.4M to \$27.7M; 2021E from \$129M to \$77M; 2022E remains \$231.4M.

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

	2020	2021					2022				
	2020 Dec-20	Q1 '21 Mar-21	Q2 '21 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>Revenues</b>	<b>155.1</b>	<b>58.4</b>	<b>91.3</b>	<b>100.0</b>	<b>112.0</b>	<b>361.6</b>	<b>136.0</b>	<b>130.0</b>	<b>145.8</b>	<b>148.8</b>	<b>560.6</b>
COGS	66.6	28.1	42.3	50.0	50.4	170.9	65.3	61.1	67.1	68.4	261.9
Gross Profit	103.1	24.5	22.3	50.0	61.6	158.4	70.7	68.9	78.7	80.4	298.7
G&A	36.3	15.8	25.9	25.0	25	91.7	16.7	17.0	17.1	17.2	68.0
Sales & Marketing	2.2	0.7	1.8	1.5	1.5	5.5	1.9	2.0	2.0	2.0	7.9
Depreciation	2.4	0.3	0.4	0.5	0.5	1.7	0.5	0.5	0.6	0.6	2.2
Amortization	12.0	4.6	10.6	3.0	3.0	21.3	3.0	3.0	3.0	3.0	12.0
Stock based Comp	31.2	8.2	7.2	5.0	4.0	24.4	5.0	5.0	5.0	5.0	20.0
Acquisition Expenses	2.9	3.1	1.3								
Opex	87.0	32.8	47.2	35.0	34.0	149.0	27.1	27.5	27.7	27.8	110.1
Income from operations	16.1	(8.4)	(24.9)	15.0	27.6	9.4	43.6	41.4	51.0	52.6	188.6
Interest Expense	(4.1)	(2.8)	(2.2)	(2.2)	(2.2)	(9.2)	(2.2)	(2.2)	(2.2)	(2.2)	(8.6)
Interest Income	0.0	0.1				0.1					0.0
Other Expense	0.1	(0.0)				(0.0)					0.0
Total Other Expense	(168.1)	(3.3)	(2.2)	(2.2)	(2.2)	(9.7)	(2.2)	(2.2)	(2.2)	(2.2)	(8.6)
Pre-tax Income	(152.0)	(11.6)	(27.0)	12.9	25.5	(0.4)	41.5	39.3	48.9	50.4	180.0
Current Taxes	22.0	7.1	7.0	7.0	7.0	28.1	7.0	7.0	7.0	7.0	28.0
Deferred Taxes	6.4	2.1	3.0	3.0	3.0	11.1	3.0	3.0	3.0	3.0	12.0
Net Loss	(176.3)	(16.6)	(37.0)	2.9	15.5	(35.4)	31.5	29.3	38.9	40.4	140.0
FX Adjustment	(9.0)										
Net Income	(185.4)	(16.6)	(37.0)	2.9	15.5	(35.4)	31.5	29.3	38.9	40.4	140.0
EPS	(6.1)	(0.4)	(0.8)	0.1	0.3	(0.8)	0.7	0.6	0.9	0.9	3.1
Shares	28.7	44.0	44.2	44.4	44.7	44.3	44.9	45.1	45.3	45.6	45.2
<b>Adjusted EBITDA</b>	<b>56.2</b>	<b>18.4</b>	<b>27.4</b>	<b>27.7</b>	<b>39.3</b>	<b>77.4</b>	<b>54.3</b>	<b>52.1</b>	<b>61.8</b>	<b>63.3</b>	<b>231.4</b>
<u>% Revenues</u>											
Gross Margin	66%	42%	24%	50%	55%	44%	52%	53%	54%	54%	53%
G&A	23%	27%	28%	25%	22%	25%	12%	13%	12%	12%	12%
S&M	1%	1%	2%	2%	1%	2%	1%	2%	1%	1%	1%
Opex	56%	56%	52%	35%	30%	41%	20%	21%	19%	19%	20%
Operating Income	10%	-14%	-27%	15%	25%	3%	32%	32%	35%	35%	34%
Net Income				3%	14%	-10%	23%	23%	27%	27%	25%
Adjusted EBITDA	36%	32%	30%	28%	35%	21%	40%	40%	42%	43%	41%
<u>Growth Rates</u>											
Revenues											
Y/Y	106%	74%	222%	120%	134%	133%	133%	42%	46%	33%	55%
Q/Q		22%	91%	-36%	92%		21%	16%	-60%	9%	
Adjusted EBITDA											
Y/Y	169%	118%	201%	44%	103%	38%	195%	90%	123%	61%	199%
Q/Q		-5%	42%	-51%	113%		38%	33%	-20%	17%	

Source: Company Reports, Viridian Capital Estimates

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			Count	Percent
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