Jushi Holdings (US OTCQX: JUSHF: $4.58): Outperforming Growth Opportunity Intact on Attractive States Exposure and Additional M&A

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Viridian Capital Advisors
www.viridianca.com

Jonathan DeCourcey
Director Equity Research
jdecourcey@viridianca.com
(781) 724.6869

Jushi
Rating: Buy
Price Target: $5.25
Investment Highlights

- Q3 miss on greater promotional activity. Never-the-less results reflect strong topline growth and margin expansion.
- 2021 guidance cut on various timing factors.
- 2022 guidance maintained and calls for outperforming results relative to large MSO peers.
- 2023 outlook should be focus as we expect outperforming results on execution and favorable macro particularly in OH, PA and VA.
- Announced further NV expansion with NuLeaf acquisition. Expected to close in Q4 and contribute meaningfully in '22.
- Anticipate additional M&A is coming.

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Jushi reported Q3/21 results of $54M in revenues and $6.4M adjusted EBITDA. Results reflected solid Y/Y and sequential top line growth and margin expansion but came in below our estimates of $60M/$9.5M. The adjusted EBITDA performance stemmed from lower than forecasted gross margins which can be attributed to greater promotional activity as the company looked to enhance the percentage of house brands in the product mix. We are confident that this strategy will bear fruit and drive enhanced margins longer term particularly as Jushi scales its retail presence in key states and grows its production capacity across its portfolio.

Looking forward, management reduced 2021 guidance from a prior revenue range of $220M to $230M to $205M to $215M and adjusted EBITDA from between $32M and $37M to a range of $21M to $25M. The reduced guidance can be attributed to four headwinds in Q4: the push of planned new store openings to 2022 on final local regulatory approval, a slower than anticipated buildout of initial wholesale operations in Massachusetts, regulatory delays in Virginia causing the inability to sell some products and a later than anticipated close of the company's two outstanding Nevada acquisitions (both Apothecarium and NuLeaf). Both are now expected to close by early 2022 while management previously expected contributions in Q4. For 2022, management maintained full year guidance of between $375M and $425M in revenues and $110M to $130M in adjusted EBITDA. We are confident in Jushi's ability to meet 2022 targets while noting that there are multiple opportunities for upside including the potential addition of a third Massachusetts dispensary (most likely through acquisition), the expansion of cultivation capacity in the state, a faster than expected ramp of opportunities in Nevada and additional M&A.

2022 guidance reflects outperforming growth and margin expansion relative to other top MSOs based on consensus expectations however we continue to believe that for Jushi the focus for investors should more so be on 2023 and beyond. On the earnings call, management highlighted that ~55% of revenues in 2022 targets come from states that are expected to open for initial recreational sales in 2023 (Ohio, Pennsylvania and Virginia) and we are confident that Jushi will outperform in these states particularly in Pennsylvania and Virginia where the company is an established leader with scale and positioning. We adjust our Q4 estimates to reflect the guidance update while our rating and price target remain Buy and $5.25 respectively. In our view, Jushi remains an underappreciated operator and amongst our top picks for investment in the space.

Continues to Grow through M&A

In connection with the earnings report, Jushi announced the acquisition of NuLeaf, a vertically integrated operator in Nevada with two existing dispensaries (in Las Vegas and Lake Tahoe), cultivation and production assets and plans to open a third dispensary next year. Jushi will pay approximately $63M and the deal follows the outstanding acquisition of Apothecarium which is set to close in either Q4 or early next year. The NuLeaf deal is expected to close in 2022 and contribute ~$14M in adjusted EBITDA while management noted that contributions are already factored in guidance.

We expect additional M&A is forthcoming based on management's stated ambitions for continued expansion and our belief that the company will be seen by smaller operators looking to sell as a favorable takeout partner particularly if the stock remains undervalued in the near term. As we have previously highlighted, Jushi has a proven track record of being a successful acquirer in having acquired assets at discounted valuations while garnering solid contributions on investment. Furthermore, in having recently secured a $100M non-dilutive credit facility ($40M has been drawn down) and with a shelf prospectus to offer up to C$500M in equity over the next twenty-five months, we are confident that Jushi is sufficiently capitalized to fund near term M&A and planned capex initiatives. We expect near term acquisitions will most likely take the form of expansion within existing states with the potential for even a non-core market to quickly become more integral to the story. Meanwhile, while the company has historically preferred a buy and build strategy through which the company has developed assets after acquiring licenses or unscaled operations we expect transactions involving more established assets (including even public and multi-state operators) are not out of the question. We note that the recently closed Massachusetts acquisition and the two outstanding Nevada acquisitions were of more established entities.

For existing state expansion, we believe California, Illinois, Massachusetts and Ohio are likely the focus in the near term. Beyond existing states, we believe expansion into additional mid-Atlantic states including New Jersey or Maryland could be a focus. New York could also be a target market for the company while noting that near term prices for vertically integrated licenses could be prohibitive given the strong demand to enter that market. In New York, expansion would likely take the form of retail license receipt and the buildout of dispensary(ies). Florida could also be an expansion state particularly in light of Jushi's corporate headquarters being located in the market while Mr. Blechner also highlighted efforts to enter Arizona on the call.

We revise our estimates and reiterate our price target

- Revenues: Q4/21 from $67M to $75M; 2021E from $224M to $210M; 2022E reiterated at $400M.
- Adjusted EBITDA Q4/21 from $14.6M to $7.6M; 2021E from $33.1M to $23.1M; 2022E reiterated at $125.9M.

Our $5.25 Price Target reflects an EV/EBITDA multiple of 10.4x our 2022 estimate and EV/Sales at 3.3x.

FY Income Statement ($M)

	2020	2021					2022				
	2020	Q1 '21	Q2 '21	Q3 '21	Q4 '21E	2021	Q1 '22E	Q2 '22E	Q3 '22E	Q4 '22E	2022
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22
Revenues	**80.8**	**41.7**	**47.7**	**54.0**	**67.0**	**210.4**	**88.0**	**95.0**	**105.0**	**112.0**	**400.0**
COGS	43.5	22.9	26.1	30.7	38.9	118.6	42.2	44.3	48.3	51.5	186.3
Gross Profit	43.1	20.1	21.9	24.5	28.1	94.6	45.8	50.7	56.7	60.5	213.7
G&A	44.2	17.4	22.5	24.3	26.0	90.3	31.0	32.0	32.0	32.0	127.0
Share Based Comp	7.3	3.6	2.4			5.9	2.4	2.4	2.4	2.4	9.6
Acquistion Costs	0.8	0.2	0.9	0.3	0.2	1.6					
Opex	52.30	21.2	25.8	24.6	26.2	97.8	33.4	34.4	34.4	34.4	136.6
Operating Income	(9.23)	(1.1)	(3.8)	(0.2)	1.9	(3.1)	12.4	16.3	22.3	26.1	77.1
Interest Income	0.2	0.1	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.4
Other Income	(192.2)	(19.3)	14.7	47.3	(6.4)	36.3	0.1	0.1	0.1	0.1	0.4
Pre-tax Income	(201.5)	(20.4)	10.9	47.1	(4.5)	33.2	12.3	16.2	22.2	26.0	76.7
Net Income	(211.9)	(26.8)	4.8	38.2	(10.6)	5.6	6.1	10.1	16.0	19.8	52.0
EPS	(1.8)	(0.2)	0.0	0.2	(0.1)	0.0	0.1	0.1	0.1	0.1	0.4
Shares	120.5	149.9	188.1	205.8	206.8	187.7	207.8	208.9	209.9	211.0	209.4
Adjusted EBITDA	**(2.6)**	**4.5**	**4.6**	**6.4**	**7.6**	**23.1**	**24.6**	**28.5**	**34.5**	**38.3**	**125.9**
% Revenues											
Gross Margin	46%	45%	45%	43%	42%	44%	52%	53%	54%	54%	53%
Opex	65%	51%	54%	46%	39%	46%	38%	36%	33%	31%	34%
Operating Income	-11%	-3%	-8%	0%	3%	-1%	14%	17%	21%	23%	19%
Net Income	-265%	-64%	10%	71%	-16%	3%	14%	17%	21%	23%	19%
Adjusted EBITDA	-3%	11%	10%	12%	11%	11%	28%	30%	33%	34%	31%
Growth Rates											
Revenues											
Y/Y		84%	220%	393%	107%	160%	111%	99%	95%	67%	90%
Q/Q		29%	15%	13%	24%		31%	8%	11%	7%	

Source: Company Reports, Viridian Capital Estimates

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