

Goodness Growth Holdings (US OTCQX: GDNSF: \$1.64): Top Pick for Near-term Investment

Goodness Growth is our top pick for near-term investment.

As previously highlighted, we are confident that execution of on-going expansion initiatives, which were put in place last year in order to capitalize on favorable legislation driven opportunities across the company's geographic exposures, will bear initial fruit in 1H/22. Results will translate to greater investor awareness in the near term and outperforming stock returns for Goodness shareholders. More pressing though is the fact that we believe a potential takeout looms and news last week of Green Thumb's expansion via acquisition into Minnesota and that regulators in New York permitted the transfer of licenses between MedMen and Ascend (even if that is unlikely to happen) adds credence to our view.

The Green Thumb entry into Minnesota validates the opportunity for companies in the state and as with previous MSO expansion initiatives we expect others will follow. Goodness is the only other license holder in Minnesota and to date has been far and away the top operator in the state so the \$155M paid by Green Thumb is likely well below the value of Goodness' interests. Meanwhile, in New York, that the Cannabis Control Board approved the MedMen/Ascend deal eliminates any concern moving forward that regulators will block the sale of any of the ten original licenses in the state. In our view, the only factor now that is holding up a bidding war for Goodness' interests in New York is the lack of clarity from regulators on anticipated regulations for an adult market and we expect that to come either in late Q1 or early Q2. We are confident that any New York license sale would bring significantly more than \$200M to Goodness or any of the other original license holders.

Despite recent stock gains, a reasonable sum-of-its-parts valuation based on recent transactions in Arizona, Maryland, Minnesota and New Mexico and our estimate of the value of a New York license implies more than 2x upside for Goodness shareholders from current levels and in our view that assumption will likely prove to be conservative. We believe this potential for upside will ultimately drive a sell-out by management and anticipate a takeout will come before the end of 1H/22.

We introduce 2023 estimates and raise our price target to \$3.30 (from \$2.50) to reflect our presumed takeout valuation.

Positioned for outperforming growth

On its own, Goodness has one of the most exciting long-term growth stories in US cannabis with an enviable early mover position and on-going buildout of assets in Arizona, Maryland, Minnesota, New Mexico and New York. Over the next two years as larger peers struggle to maintain recent high growth levels, we expect Goodness' top line growth to accelerate meaningfully. In fact, we forecast Goodness to be one of the top revenue growers in US cannabis with an estimated average Y/Y revenue growth of more than 90% for '22 and '23. Anticipated revenue growth reflects more than 2x upside from the forecasted '21-'23 CAGR for the broader peer group and significantly above the rate of the largest MSOs according to consensus estimates.

We note that even within our projected outperforming is a fairly conservative winter 2023 start to New York rec sales and a full scaling of likely rec sales for Maryland and Minnesota coming outside our forecast period. Upside to our forecasts is possible with existing operations.

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Goodness Growth Holdings

Rating: Buy

Price Target: \$3.30 (was \$2.50)

Investment Highlights

- Goodness is top pick for near term investment. Anticipate outperforming growth and greater investor awareness while expecting a near term takeout looms.
- Green Thumb's \$155M MN acquisition validates Goodness' position in state while regulators in NY prove will not hold up a license sale in state.
- Based on recent M&A transactions and Goodness' position in core markets, believe a takeout warrants at least 2x upside.
- Introduce 2023 estimates and raise price target from \$2.50 to \$3.30.

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

Sought after takeout candidate

Despite the opportunity to achieve outperforming growth in the near term and for the company to generate meaningful profits on scale as a standalone entity, we are confident that given consolidation trends in US cannabis Goodness will be a takeout in the near term as the upside opportunity for shareholders on takeout is just too great for management to pass up. That Goodness (formerly Vireo Health) management has sold assets in the recent past including in Arizona (in December to Copperstate), Ohio (to AYR) and Pennsylvania (to Jushi) solidifies our view on an upcoming sale.

Management has a proven track record of making decisions with investors interests in mind while for potential buyers, we believe the fact that the company has been a good partner for M&A makes Goodness an even more viable and preferred takeout candidate moving forward given the challenges and importance of diligence in cannabis M&A. We suspect acquirers may even be willing to pay a premium for a trusted partner.

We are confident that any sale of Goodness will be for the entire company and given the enhanced access to capital for large cannabis companies in 2021 and the evolved interest amongst operators to acquire established entities that can provide immediate growth, we suspect that there is no shortage of interested and capable potential acquirers.

Access to New York and the ability to be one of the just ten vertically integrated operators in the state long-term serves as the primary motivation for a takeout of Goodness. As we have previously discussed, regulations in New York provide competitive advantages to existing operators in New York (including vertical integration and additional retail opportunities) that will lead to long-term sustainable disproportionate growth and profitability well beyond normal early mover advantages.

Meanwhile, we note that to date and even for this year New York is a modest contributor to Goodness results and the company's non-New York assets can provide meaningful growth for any would be acquirer with its other expanding operations particularly in Maryland and Minnesota as high-growth opportunities loom in both states on legislation and the company is well positioned to capitalize.

In our view, MSOs with the likely greatest interest in acquiring Goodness include: Ascend (assuming the MedMen deal officially goes away), AYR, Jushi, Terrascend, Trulieve and Verano.

Sum-of-the-parts valuation offers meaningful upside

Based on a sum-of-the-parts analysis of Goodness' assets in Arizona, Maryland, Minnesota, New Mexico and New York using comparable recent M&A transactions in the relevant markets we believe a reasonable valuation for Goodness is roughly \$510M. This valuation reflects more than 2x the company's current market cap.

- **Arizona:** After having recently sold its dispensary in Arizona, Goodness maintains an outdoor cultivation facility that previously manufactured 25K lbs of biomass annually. Green Rose Holdings this week acquired an Arizona cultivation operation that historically has produced 20K lbs. of flower annually for \$58M.
- **Maryland:** Goodness operates a cultivation and production facility in Maryland that it will expand over the next year with plans to be the state's largest wholesale producer in 2023 with production capacity of approximately 59K lbs annually. Terrascend in May acquired a Maryland cultivation and production operation with 22K sq. foot facility. Terrascend paid \$27.5M for the facility.

In addition to its cultivation assets, Goodness recently acquired a medical dispensary in Baltimore for \$8M.

- **Minnesota:** As previously mentioned, Green Thumb last week acquired Leafline, the only other cannabis license holder in Minnesota for \$155M. Leafline has five dispensaries and a cultivation facility in the state. By comparison, Goodness has eight dispensaries and is fully vertically integrated with plans to expand cultivation and production capacity as Minnesota sales ramp in 2022 and 2023.

- **New Mexico:** Goodness operates four dispensaries in New Mexico and plans to add two more within the next year. To support retail and wholesale operations in the state Goodness has a 13K sq. foot cultivation facility that the company plans to expand by more than 10x by the end of this year.

In December, Schwazze announced plans to acquire Green Leaf, a vertically integrated New Mexico operator with ten dispensaries and a 70K sq. foot cultivation and production facility for \$42M.

- **New York:** We believe an existing New York license would sell for at least \$220M or roughly 3x the value of Medmen's assets in the Ascend agreement. We note that the transaction came before recreational cannabis legislation was passed and the meaningful long-term competitive advantages (vertical integration and additional dispensaries) were granted to the ten original license holders including Goodness. Additionally, we believe the Medmen assets were discounted by the fact that the company was viewed as distressed and in need of capital, this is not the case for Goodness.

Comparable Transactions		
	Acquirer	Value (\$M)
Arizona		
	Green Rose Holdings	58
Maryland		
	Terrascend	27.5
	Goodness Growth	8
Minnesota		
	Green Thumb	155
New Mexico		
	Schwazze	42
New York		220
Total		510.5

Source: Viridian Cannabis Deal Tracker

Valuation

Our \$3.30 price target reflects an EV/EBITDA multiple of 20.7x our 2022 estimate and 12.3x 2023.

FY Income Statement (\$M)

	2021					2022					2023
	Q1 '21	Q2 '21	Q3 '21	Q4 '21E	2021	Q1 '22E	Q2 '22E	Q3 '22E	Q4 '22E	2022	2023
	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22	Dec-23
Revenue	13.2	14.2	13.4	16.5	57.3	20.0	25.0	30.0	35.0	110.0	210.0
Production Expenses	7.5	7.3	7.9	9.6	32.3	11.4	14.0	16.5	19.3	61.2	114.6
Gross Profit	5.6	6.9	5.1	6.9	24.6	8.6	11.0	13.5	15.8	48.9	95.4
Salaries											
SG&A	8.0	8.3	8.1	8.1	32.5	8.0	8.6	9.4	10.0	36.0	65.5
Stock based Compensation	2.3	1.4	0.8	1.4	6.0	1.8	1.8	2.0	2.0	7.6	8.0
Professional Fees											
Depreciation	0.2	0.2	0.1	0.2	0.7	0.4	0.4	0.4	0.4	1.6	4.0
Amortization	0.2	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.8	0.8
Opex	10.7	10.2	9.2	9.9	40.0	10.4	11.0	12.0	12.6	46.0	78.3
Income from operations	(5.1)	(3.2)	(4.1)	(3.0)	(15.5)	(1.8)	0.0	1.5	3.2	2.9	17.1
Total Other Income	(0.4)	(1.3)	(1.6)	(2.0)	(5.2)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)	(4.0)
Pre-tax Income	(5.5)	(4.57)	(5.7)	(5.0)	(20.7)	(2.8)	(1.0)	0.5	2.2	(1.2)	13.1
Taxes	1.50	0.91	0.50	0.60	3.46	3.00	3.00	3.00	3.00	0.00	0.00
Net Income	(7.0)	(5.5)	(6.2)	(5.0)	(21.0)	(2.8)	(1.0)	0.5	2.2	(1.2)	13.1
EPS	(0.1)	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	(0.0)	0.0	0.0	(0.0)	0.1
Shares	116.1	125.6	126.4	127.0	123.8	127.6	128.3	128.9	129.6	128.6	131.2
Adjusted EBITDA	(1.8)	(0.961)	(1.9)	(0.6)	(5.2)	3.6	5.4	7.1	8.8	24.9	41.9
<u>% Revenues</u>											
Gross Margin	43%	49%	38%	42%	43%	43%	44%	45%	45%	44%	45%
SG&A	61%	58%	61%	49%	57%	40%	34%	31%	29%	33%	31%
Opex	81%	71%	69%	60%	70%	52%	44%	40%	36%	42%	37%
Operating Income	-39%	-23%	-31%	-18%	-27%	-9%	0%	5%	9%	3%	8%
Net Income	-53%	-39%	-47%	-30%	-37%	-14%	-4%	2%	6%	-1%	6%
Adjusted EBITDA	-14%	-7%	-14%	-3%	-9%	18%	22%	24%	25%	23%	20%
<u>Growth Rates</u>											
Revenues											
Y/Y	6%	-71%	1%	16%	16%	52%	76%	124%	112%	92%	91%
Q/Q	6%	8%	-6%	23%		21%	25%	20%	17%		

Source: Company Reports, Viridian Capital Estimates

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			IB Services in Past 12 months	
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