

the cannin report

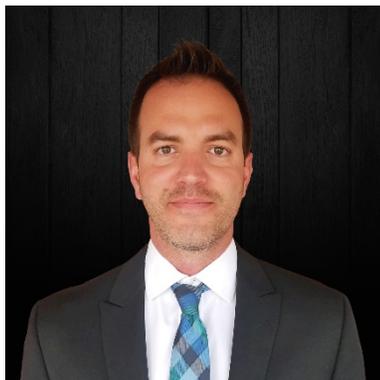
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Welcome to the Cannin Report



It's crazy out there, we know. Between global oil disputes and the ever-present uncertainty of the COVID-19 Crisis, the markets seem more volatile than ever.

Most cannabis stocks are down 50-90% from this time last year. Overvaluation, long-term operating viability and the global pandemic have gutted the value of many cannabis companies and many investors are cutting their losses.

The good news? The cannabis industry continues to gain momentum. With increasing demand and legalization growing on a global scale - there's plenty of great opportunity around – if you know where to look.

Cannin's global team of financial advisors, market analysts, and cannabis industry experts supply you with the tools and knowledge necessary to help you profit from investing in cannabis and hemp stocks. Our team has curated this report so that it's easy to read, easy to understand, and easy to digest.

We want to be sure you'll have all the information you need to make the most profitable cannabis and hemp investments this calendar year.

In the following report, you'll find deep-dive analyses of some of the most popular publicly-traded cannabis and hemp stocks in the United States. We also include a quick introduction outlining why we're due for a significant cannabis stock correction this year.

Thanks for purchasing, happy reading, and stay tuned for the next Cannin Report in the summer of 2020. We sincerely appreciate your continued support as we work hard in keeping you up-to-date with this fast-growing, ever-evolving industry.

Yours in Great Success,

Stephen Goldman

Stephen Goldman
Cannin.com



Why are we Due for a Cannabis Stock Rally?

Pot stocks have taken a dive recently due to the COVID-19 crisis. While the issues are more systemic than the virus, the fallout from COVID will have many cannabis companies shuttering their doors.

Several cannabis companies are set to deplete their cash as the markets grind to a halt in the coming months. In fact, MJ Business daily recently found that **8 of 33 cannabis firms** it tracks **don't have enough funding** to last more than 10 months.

While the last twelve months have been an absolute nightmare for cannabis investors, there's still a ton of potential opportunities out there as the long-term outlook for Cannabis remains as bright as ever. The **winners and losers** among the bunch are now becoming **more and more evident**. In fact, analysts at MJ Business Daily predict the fallout from the COVID crisis will be an "extinction-level event for some companies". They also maintain that "the **long-term investment opportunity for the industry hasn't changed** as legalization spreads and demand grows but companies need to survive long enough to see it".

The companies that do survive will rebound very sharply. If you expect to profit from your stock investments, you'll need to pick the winners from the bunch.

Let's take a quick look to see where things currently stand and offer some insight as to **what the future holds for marijuana stocks.**

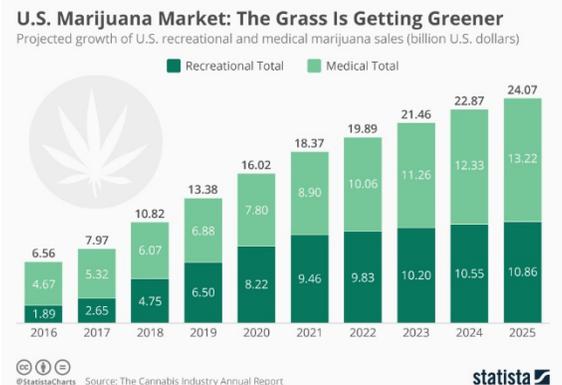
Troublesome Times

Several top cannabis stocks have taken a beating this past year. Companies like Liberty Health Sciences, Tilray, and Aurora Cannabis, are among many marijuana stocks which are now **down 50-90% in value** over the past twelve months. The same goes for many cannabis ETFs like ETFMG Alternative Harvest ETF MJ, which represents the overall condition of the entire sector. Overvaluation, long-term operating viability, and the COVID-19 crisis are the main contributing factors to this sector-wide downturn.

Long-term Outlook

Investors were initially attracted to the sector because of its risk/reward potential and many have gotten out of their cannabis stocks altogether. However, the long-term outlook for cannabis and hemp companies remains. Forecasts indicate that worldwide cannabis sales will continue to explode over the coming years. Also, much like alcohol and tobacco, **cannabis has very consistent demand**. See the graph from Statista:

Unfortunately, we're **not out of the woods** yet. It's more difficult than ever for cannabis companies to raise capital given the uncertainty of the sector and the duration and impact of the COVID-19 virus. This certainly has a ripple effect which will encumber growth and expansion in both the short and long term. The virus will likely also delay efforts for new states and countries to legalize — further delaying expansion efforts.



What Now?

If you're currently investing in cannabis stocks don't lose hope. The cannabis industry as a whole still has **significant potential** and many of the stocks you own will eventually rebound. Don't dump your shares at this industry low point unless you have to as there's **little risk in holding** these companies to see how things shake out. On the same token, don't necessarily double up on discounted shares either as this can be a risky strategy.

Remember – there will be plenty of losers and only a handful of winners in this space. Stay abreast of company news, financial results, and changes to management. Keep a close eye on company fundamentals and financials. Will companies like Harvest Health have enough cash to weather this COVID-10 storm? Will it have the ability to execute its growth strategy?

For now, the most important thing we can do as investors is to continue to evaluate the best marijuana stock investment opportunities. Watch for the next round of quarterly reports. Continue to monitor the market to see the **next buying opportunity** which would be precisely when the market dips into another **bear leg**. The analysts at Cannin will continue to keep you up to date on these opportunities as they arise.

Hang in there. Many of these companies **will come back** but we must be patient. This industry is still in its infancy and has plenty of room to grow. Remember, there is **no shortage of incredible opportunity** out there if you know where to look.



fundamental analysis

Nov

Dec

2009

%K(5) 77.33

%D(3) 75.31

Fundamental Analysis

Sections and Ratings

- p. 06 | GrowGeneration - **Strong**
- p. 09 | HEXO Corp. - **Weak**
- p. 11 | Weed, Inc. - **Weak**
- p. 14 | Green Thumb Industries - **Strong**
- p. 18 | Zoetic International - **Neutral**
- p. 20 | Nutritional High International - **Weak**
- p. 23 | Harvest Health and Recreation - **Strong**
- p. 26 | Trulieve – **Very Strong**
- p. 30 | iAnthus Capital Holdings - **Neutral**
- p. 34 | Liberty Health Sciences - **Strong**
- p. 37 | Cronos Group - **Neutral**
- p. 40 | Aphria, Inc. – **Neutral**

How does Cannin Evaluate Cannabis Companies?

Prior to investing in any stock, it's important to do your homework. Fundamental analyses and technical analyses are essential to any stock evaluation and should be done with care. Cannin is here to help. The following is how Cannin performs fundamental evaluations for our users. For Technical analyses by Cannin experts, please consult our Cannin Chronicle, Cannin Investment YouTube Channel, and the Cannin website to perform guided technical analyses of your own.

Cannin uses a simple **Green/ Yellow/ Red** Rating system. **Green** means strong, **yellow** means neutral and **red** means weak. In this manner you can quickly see a company's strengths and weaknesses. Cannin performs these analyses based on these ten main categories:

- 1. Business Focus**
- 2. Size**
- 3. Markets**
- 4. Operations**
- 5. Financials**
- 6. Management**
- 7. Branding**
- 8. Valuation**
- 9. Risks**
- 10. Overall Recommendation**

Risks Disclosures

If you are considering investing in a company that is connected to the marijuana industry, be aware that marijuana-related companies may be at risk of federal, and perhaps state, criminal prosecution. The Department of Treasury recently issued guidance noting: "[T]he Controlled Substances Act ("CSA") makes it illegal under federal law to manufacture, distribute, or dispense marijuana. Many states impose and enforce

This sounds like an exciting goal, but one that could take a long time (years not months)) and a lot of money, since research is expensive. One thing is for sure, **they have no revenues and are burning through cash like its water.**

Weed Inc's goals sound promising. However, as mentioned, management has failed to issue updates on company progress or any news in the past year.

This has spooked investors, and the company shares have lost >95% of their value over last two years, dropping from \$5.55 on May 1, 2018, to \$0.21 now. This lack of public transparency is simply bad management for all sorts of reasons including, but not limited to, the fact that we believe the company needs money to continue their progress.

With no products and no revenue yet, **they have spent (lost) \$30 million over the past 20 months.** This kind of random volatility is what investors can expect from this kind of small company stock with limited volume of stocks trading. From a fundamental analysis POV, we **do not recommend** investors get involved until there is a lot more transparency about what is going on.

Green Thumb Industries, GTBIF (OTC)

Green Thumb Industries, Inc. engages in the manufacture and distribution of branded cannabis products. It operates through the Wholesale and Retail segments. The Wholesale segment includes cultivation, production, and sale of cannabis via retail stores. The Retail segment consists of trading cannabis to patients and consumers.



Profile:

HQ: Chicago, IL, USA

Founded: 2002

Facilities: 12 states covering over 95 licenses

Employees: 1200

Symbol: GTII (CNSX), GTBIF (OTC)

Focus: Strong

GTI is a multi-state US seed-to-sale cannabis grower, producer and retailer. It has a wholesale business (its Consumer Package Division, selling its brands to third-party dispensaries) and a retail business (selling its own and third-party brands through its own dispensaries). It operates or is building 13 manufacturing facilities—in Illinois, Pennsylvania, Maryland, Massachusetts, and Nevada.

It owns and operates 25 retail dispensaries under its own RISE, Essence and GTI brands. They are licensed for, and currently plan to own and operate, 88 dispensaries across at least 12 states,

each producing on average \$3.6 mil in revenue per year. They produce and sell flower, concentrates, edibles, and topicals.

Although they currently wholesale a majority of their harvest and are expanding their cultivation, GTI has said they may not choose to be a large wholesale grower in the long term if price compression becomes an issue with that model. If that happens, they will focus on creating brands and operating dispensaries.

Size: Strong

Market Cap: \$1.17 billion

Enterprise Value: \$1.23 billion

Markets: Neutral

Primary: USA, one of the larger vertically integrated operators:

- Pennsylvania: operating 6 RISE medical dispensaries), building 12
- Maryland: operating 3 medical dispensaries and a processing plant, building cultivation facility
- Nevada: operating 5 retail, building 3 cultivation/processing,
- Massachusetts: operating 3 retail, plus grow facilities
- Ohio: operating 2, building 3 dispensaries
- Illinois: 5 retail, 2 cultivation facilities and HQ
- Florida: operating 4 dispensaries, with licenses to operate ~50
- New York: building 1 cultivation/production, 4 retail
- New Jersey: building 1 retail 1 cultivation

Secondary: Canada. GTI went public and listed its shares on the CSE, to make raising money easier. Selling cannabis there could be an option, especially with the Canadian market being federally legal.

Operations: Strong

Cultivation:

Current production: 22,000+ kgs per year

Future production: 40,000-60,000 kgs per year

GTI operates 260,000 sf of cultivation and processing capacity, which is scalable up to 750,000 sf. They do not say what portion is grow space versus processing space. If 50-75% is cultivation space, we expect them to produce between 15,000-22,000 kgs/per year, scalable up to 40,000-60,000 kgs per year.

They grow 50 unique cannabis flower strains, geared to different consumer segments. They also process raw flower into oils, using several extraction and purification techniques (BHO, CO2, Ethanol)

Distribution:

GTI distributes in 100% of retail locations in the states they operate in, including 55 of 55 stores in Illinois, and 42 of 42 stores in Maryland. They own 25 of these and plan to expand to own 50. They serve over 100,000 patients and customers each year.

Direct sales: Yes, in store and online

Store networks: Yes. Sold in 95 retail locations

Integration/Diversification:
Vertically integrated: Yes
Horizontally diversified: No

Financials: Neutral

Outstanding shares (diluted): 127 mil
Revenue last year: \$81 mil
EPS: (\$0.31)

Management: Neutral

CEO: Ben Kovler
CFO: Anthony Georgiadis

Branding: Strong

GTI brands include: Rhythm, Dogwalkers, the Feel Collection, BeBoe and others. Dogwalkers are a small tin of mini-joints designed to be big enough to enjoy “while you are walking your dog.” GTI is also planning a brand aimed at women, because they feel women are under-served and there is a significant marketshare.

GTI is creating a distinctive, branded consumer experience in their RISE dispensaries. According to GTI, RISE is an award-winning retail chain delivering a high level of customer service through: “high-engagement consumer interaction; a consultative, educational selling approach; and an affordable variety of cannabis products.” They create an uplifting environment “like a bar or a café”, and strive to produce customer loyalty. They claim their RISE dispensaries have a large market share.

Valuation: Neutral

Current share price: US \$5.64
Price to Sales: 7.12 (Tobacco industry Avg. = 5)
52 Week Low/High: \$3.69 to \$16.18
EV / Revenue: 5.69
Price to Book: 1.40

Financings: Strong

In June 2018, GTI completed a reverse takeover that enabled it to be listed on the Canadian stock exchange. At the same time, it raised US \$67 million through a private placement.

In April, 2019, GTI completed a private placement of \$12.5 million in six-month senior secured promissory notes. The notes paid 10.5% interest.

On May 22, 2019, GTI completed another private placement, of \$105.5 million, in three-year senior secured promissory notes—and paid off the notes issued on April 12, 2019. It can raise an additional \$44.5 million under this credit facility within 180 days, if necessary. GTI can also extend the financing an additional twelve months. The notes pay interest of 12.0%



Risks: High

The risks of investing in any cannabis company is currently high given the volatility of the market. The risks of investing in this company do not seem to have more risk than other cannabis companies.

Recommendation: Strong

There are many reasons to like GTI as an interested observer. They are vertically integrated, with a focus on building brands, and creating a unique and attractive retail experience that builds **loyal visitors**. This supports their bid to preserve strong margins in an industry that will likely eventually experience significant price compression and falling margins.

They are diversified, having **both a strong wholesale and retail businesses**, and addressing both medical and recreational clientele. This supports them if, for example, price compression makes the wholesale side of the business less profitable. In this scenario, they could focus more on the retail side, where they own dispensaries and will be able to control retail price and shelf space in their locations.

Most importantly, their revenue has shown steady growth over the past 4 years. This is **surprisingly rare** among cannabis companies and shows that they are good at executing their plans and avoiding delays and setbacks.

They currently operate 25 dispensaries and plan to have 40-50 operating in a few years, roughly doubling their number. They target roughly \$3.6 mil in revenue from each store. This suggests they could generate close to **\$180 million in revenue from their retail side in a few years**.

Currently they grow at least 25,000 kgs year, which at \$6 gram generates about \$125 million. When expansions are done, they expect to have future capacity of 50,000-60,000 kgs a year. Given the current trajectory, we think that \$400-430 million is a good estimate of where their future revenue should be in a few years.

They also have a strong cash position (over \$65 million) and appear to have excellent access to capital. This suggest they should have the money they need to invest to make their growth plans come true.

All this is promising news. **But does it make for a good investment?** For many, this depends on how much money they will generate in the future, versus how much revenue is baked into their current stock price.

The GTI stock price was down in 2019, just like all cannabis stocks. Price to sales is down to 7.12 (from 20) but is still too high for our liking. **Is it too late to buy?**

No. In fact, we think this is a good company that is fairly priced today for revenue the company should achieve in the coming few years. In other words, it looks to us like a good long-term investment, not a stock that will win a race for highest gains in the next year or two. Instead, one that will produce an even-handed **long-term increase** for long term investors.