cannin
YOUR CANNABIS INVESTMENT RESOURCE

THE CANNIN REPORT
Q1 2020

the cannin report

Your Cannabis investment resource.

Contents

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 abound – 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 us 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.

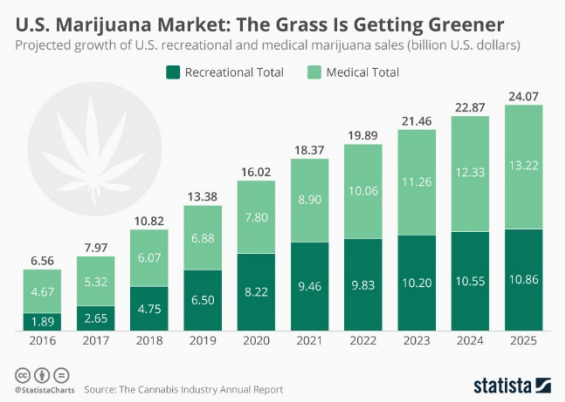
Let's take a quick look to see where things currently stand and offer some insight as to **what the future holds for marijuana stocks**.

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

Fundamental Analysis

Sections and Ratings

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:

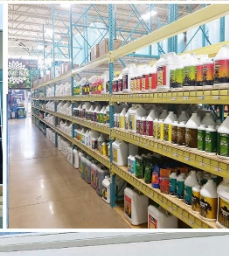
1. **Business Focus**
2. **Size**
3. **Markets**
4. **Operations**
5. **Financials**
6. **Management**
7. **Branding**
8. **Valuation**
9. **Risks**
10. **Overall Recommendation**

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

similar prohibitions. Notwithstanding the federal ban, as of the date of this guidance, 20 states and the District of Columbia have legalized certain marijuana-related activity

Grow Generation, GRWG (Nasdaq)

GrowGeneration Corp. retails hydroponic and organic specialty gardening products. The company owns and operates a chain retail hydroponic and gardening stores and an online e-commerce store, HeavyGardens. Its stores sell various products, including organic nutrients and soils, advanced lighting technology, hydroponic and aquaponic equipment, and other products needed to grow indoors and outdoors.



Profile:
HQ: Denver, CO, USA
Founded: 2008
Facilities: 25 Garden Centers
Symbol: GRWG (Nasdaq)

Focus: Strong
GrowGeneration is one of the largest specialty organic and hydroponic gardening retail chains across the United States. GrowGeneration is focused on expanding to new markets by opening new retail centers, acquiring cannabis cultivation licenses in target states, acquiring new companies, and maintaining positive financial growth. GrowGeneration is aiming to increase its revenue from Cannabis cultivators - as currently only 15 percent of its revenue comes from cannabis.

Size: Neutral
Market Cap: US $164.4 mil
Enterprise value: US $159.4 mil
# of employees: 96

Markets: Strong
Primary: USA
Secondary: Canada
Major Subsidiaries: Grand Rapids HYDROPONICS, GrowGeneration California, Seattle's Hydro Spot, GrowGeneration Michigan, Grow Generation Pueblo Corp.

Operations: Strong
Cultivation:
Current production: None
Future production: None

Distribution:
Direct sales: Yes, heavygardens.com
Store networks: Twenty-five specialty retail centers in eight US states
Supply agreements: GrowGeneration has supply agreements with Hawthorne Gardening, Hydrofarm, DL Wholesale and Humboldt Wholesale
Integration/Diversification:
Vertically integrated: No
Horizontally diversified: Yes

Financials: Strong
Outstanding shares (diluted): 41.71 mil
Last Three Quarters Revenue: $21.8 mil
EPS (diluted): 0.05

Management: Neutral
CEO: Darren Lampert
CFO: Monty Lamirato
COO: Tony Sullivan

GrowGeneration's senior management has extensive experience in executing specialty retail growth and expansion strategies. Darren Lampert, as CEO and Co-Founder of GrowGeneration, brings more than 25 years of experience in various senior management positions. Tony Sullivan bring more than 20 years' experience in managing large retails chains and designing acquisition strategies.

Branding: Neutral
GrowGeneration is marketing their specialty stores and online store brands through billboards, in-store Merchandising, trade shows, social media and vehicle wraps. Each subsidiary of GrowGeneration is branded accordingly to represent the specialized services or products they offer. The main e-commerce website is branded as HeavyGardens.

Valuation: Strong
Current share price: US $4.25
Price to Sales: 2.12
Price to Book: 3.05
52 week low/high: US $2.53 to $6.78
EV / Revenue: 2.00

Financings: Neutral
On June, 2019, GrowGeneration **raised $12.8 million** in total by issuing common stock in private placement to institutional investors at a price of $3.10 per share.

Risks: Neutral
The risks of investing in this company are much less than many cannabis companies in that they are ancillary to the growing industry and don't touch cannabis plants.

Recommendation: Strong
GrowGeneration is **one of the largest** specialty organic and hydroponic gardening retail chains across the United States. GrowGeneration is focused on expanding to new markets by opening new retail centers, acquiring cannabis cultivation licenses in target states, acquiring new companies, and maintaining its positive financial growth.

In 2019, GrowGeneration expanded into new markets and added new product lines with the **acquisition of 5 companies worth $25 million total**. GrowGeneration is aiming to increase its revenue from Cannabis cultivators by offering products and consultations as, currently, **only 15 percent** of its revenue base comes from cannabis.

On June, 2019, GrowGeneration managed to raise $12.8 million in total by issuing common stock in private placement to institutional investors at a price of $3.10 per share. **In December, 2019, GrowGeneration was listed on the NASDAQ exchange**.

Will its stock price improve in the long term? ***Likely***

GrowGeneration has cash and cash equivalents worth $18 million which is enough to provide support for its operations and expansion for the next 10 to 12 months. Given their aggressive strategy of expansion by acquisition, GrowGeneration **will eventually need additional financing** to acquire new companies beyond 2020.

GrowGeneration's net profit decreased slightly to $1.05 million in the third quarter of 2019 as compared to $1.06 million in the second quarter. However, they reported a net profit margin of 4.82% which ranks them **among the top 5 in the home improvement retail industry** and 28th in the retail industry in the US**.**

GrowGeneration's cash to debt ratio in the third quarter 2019 was 1.93 which shows that if needed, they can manage debt payments for the quarter. Their current ratio of 4.2 during the last quarter of 2019 **is the highest in the retail sector.**

For these reasons, we think GrowGeneration, at or near its current price of $4.25 a share, is a good investment opportunity—though as earnings increase with sales and expenses reduced then an opportunity can appear.