MJBizDaily
Investor Intelligence

February 2020

Sample Report

Sampler featuring comp tables, fantasy valuations and a Deep Dive into Medicine Man Technologies

Meet the Analysts: Craig Behnke

It is an incredibly interesting and dynamic time for the cannabis industry, supported by a massive, long-term-growth tailwind and ample investment opportunity.

For example, there are new product, market and geographic opportunities to explore. The legal and regulatory landscape is shifting daily – and, more often than not, for the positive.

Clinical research is in its infancy and could provide evidence of medicinal benefits for decades to come.

Companies are forming, acquiring and partnering almost daily.

Additionally, investor money continues to pour into the industry at an astonishing rate.

In such a dynamic hypergrowth market, there are tremendous investment opportunities, but there are also significant risks. And there will be winners and losers.

So, I am extremely excited to join *Marijuana Business Daily* in the role of equity research analyst.

Based on more than two decades of professional investment experience, I am keenly aware of the risk dynamic that comes with such an opportunity.

Before joining *MJBizDaily*, I was a portfolio manager of two growth mutual funds with $3.5 billion in assets under management. Many of the companies in which I invested had hypergrowth rates, shifting regulatory landscapes and constant, rapid competitive change.

When trying to navigate such territory, information and in-depth analyses of the addressable market, competitive landscape, regulatory environment and management's vision for a company are vital tools to put you in the best position to achieve your investment goals.

As part of the recently expanded Investor Intelligence team, I will provide you with fundamentally sound, in-depth and unbiased financial, strategic, operational, market and industry analyses vital to your strategic and investment decision-making process.

Over the past several years, hundreds of companies were formed in a land rush to capture a share of the cannabis industry's exponential revenue growth. Many of these early industry pioneers caught a tiger by the tail and built large, rapidly growing companies.

That is the current cannabis industry landscape. What comes next?

Over the next several years, the cannabis industry will likely face a much different set of challenges that may see meaningfully higher levels of merger and acquisition activity, more strategic partnerships from outside the cannabis industry, larger and more complex capital raises and a requirement for more consistent execution of stated business plans.

With an increasingly crowded competitive landscape, I believe that factors such as management quality, business strategy and operational execution will become increasingly more important factors of business success or failure and. more importantly, your investment performance.

Our Investor Intelligence team is developing a suite of new tools, analyses and market insights that we will introduce over the coming months, and we believe they will be incredibly valuable to your continued journey through the cannabis investment sphere.

We hope you will include us on your journey.

Craig Behnke

Craig Behnke
Equity Research Analyst
Marijuana Business Daily

Meet the Analysts: Mike Regan

Rarely in my career have I been more excited by the investment possibilities of an entire sector that has not (legally) existed for decades to emerge, grow, mature and disrupt huge markets.

Cannabis strikes me as a combination of alcohol in the late 1920s and the internet in the late 1990s: a highly disruptive consumer product in a huge addressable market, with an agricultural, industrial and consumer supply chain that's driven by secular shifts in consumer attitudes and a patchwork of regulations.

Ultimately, I believe the industry will normalize to look more like consumer products such as food, alcohol and over-the-counter drugs, but it will not be a straight line.

We are in the early stages of industry development, with many opportunities and risks for investors along the way.

Will there be an early first-mover ultimately supplanted by a superior second-mover, such as Yahoo and Google? Or will there be an Amazon that establishes dominance and never looks back?

Will the cannabis industry consolidate like the beer industry into a few giants amid a constant stream of micro-producers? Or will the marijuana space follow the cable industry and merge a patchwork into a few behemoths who then compete with landline and wireless telcos?

Will large, low-cost cannabis producers face a stream of small upstarts that are constantly raising and losing money, such as large integrated oil versus the U.S. shale producers? Or will capital markets eventually cut off those with no viable business model?

At Investor Intelligence and *MJBizDaily*, I hope to use my 20 years of experience analyzing traditional businesses to provide you with the analytical frameworks and insights you need to identify actionable opportunities and risks as the cannabis sector evolves.

In my past work, I have applied a fundamental approach to smaller capitalization equities at long/short equity hedge funds across most industries and business models, including consumer goods, retail, industrials, commodities, distribution and chemicals.

With experience going both long and short, I have honed my ability to identify both opportunities and risks—and to extrapolate information from one company into implications for peers and competitors.

I will use these skills to communicate to you:

- **The size of the market:** What is the opportunity? What increases or reduces that?
- **Fundamentals of the business model and position in the supply chain:** What is the current and potential margin structure with growth? What should margins be for a given sector? How much capital does this business require?
- **Pricing and supply/demand:** How does supply compare to demand, and how is competition changing this? Where is the pricing power? Why should this business capture value versus its customers and suppliers?
- **Capital structure:** Who captures the value? Many cannabis companies have complex capital structures with warrants, options, convertible debt and straight debt, which complicate calculating the true size of a company. Many are also burning cash, meaning they will need to return to the capital markets.
- **Incentives and strategies:** The benefits and drivers of managers and majority shareholders may not always be aligned with shareholder value or margin expansion.
- **Deal implications:** Every new offering, sale and acquisition has information that impacts the values of your existing assets and also creates new strategies to contemplate.
- **Key metrics that create value and support the narrative of the companies and industries:** Data that supports the narrative expands valuation multiples; data that refutes the narrative pressures them.

The entire value chain is considered from agricultural production to the end customers (including processing, packaging, distribution and retail) to identify the total value through the chain and who will capture value under different regulatory regimes.

Like LEGO bricks, answers to such questions will form the building blocks of analysis to help you identify opportunities that meet your investment objective and manage the associated risks.

None of us truly knows how the sector will evolve, but I hope to use my experience across many other sectors and cycles to recognize similar patterns as they occur.

And as the cannabis sector evolves, I look forward to hearing your feedback and helping Investor Intelligence evolve so it best serves your needs.

Mike Regan

Mike Regan
Equity Research Analyst
Marijuana Business Daily

Cannabis Comp Tables

By Craig Behnke and Mike Regan

Here is an example of the *MJBizDaily Investor Intelligence* comp table, available only to *Investor Intelligence* subscribers. This table is updated weekly and available to download as a PDF and sortable spreadsheet on our website.

This comp table provides the current trading valuation of publicly traded cannabis companies, and gives:

- Private investors a public benchmark to evaluate existing and future investments and valuations.
- Cannabis executives the "going rate" to judge capital raises and acquisition accretion or dilution.
- Public investors a menu of relevant potential opportunities.

Most importantly, this comp table dynamically adjusts shares and balance sheets for the complex capital structures and deals in the industry. Shares and net debt balances are adjusted to include:

- Only in-the-money options and warrants, and convertible debt-as-equity above the conversion price and face value debt below.
- All announced deals per consideration terms (e.g., shares, cash, debt or consideration value divided by share price, such as Cresco's $209 million-$242 million acquisition of Tryke payable in Cresco shares).
- All capital raises since the quarter end and any planned but unclosed capital raises (e.g., Acreage's **plan to issue more shares and warrants**).

We group companies based on the main business model (separating U.S. and Canadian vertically integrated operators, hemp/CBD, pharmaceutical, and ancillary products and services) and list the market capitalization, enterprise value (EV), sales and EBITDA estimates, and EV/sales and EV/EBITDA multiples on those projections.

Because we believe "there is no excess cash in cannabis" and that any net cash will be spent on operations, these comp tables compute enterprise value as the greater of market capitalization or market capitalization plus net debt.

Nonmeaningful outliers are removed before the averages by group are calculated.

Valuations fluctuate with movements in stock prices, changes to forward estimates and alterations to the capital structure (additional shares or debt), and comparing our historical tables shows the change in the cost of capital over time.

COMP TABLES AS OF FEB. 10: ESTIMATES AND MULTIPLES DROP

Published February 11, 2020

Average trading multiples for U.S.-focused operators are 2.5X 2020 sales and 12.5X 2020 EBITDA, down from last week's 2.6X and 13.4X, respectively.

The big changes are that consensus revenue expectations dropped for Harvest Health & Recreation (-8% for 2020 and 13% for 2021) and Curaleaf (-2% for 2020 and -8% for 2021).

Canada-focused operators still traded at a premium to the U.S. operators but showed declines week over week to 3.0X 2020 sales and 14.6X EBITDA from 5.3X and 15.5X, respectively, as Aurora Cannabis' guide down and 20% drop in the stock price has pressured the sector overall.

Aurora's consensus sales estimates have declined 38% for 2020 and 31% for 2021, and the consensus EBITDA is down 41% for 2021, though it still trades at 38.8X consensus EBITDA and 51X the CA$51 million EBITDA in the new covenant.

This is a very high multiple, so Aurora had better show that it can generate EBITDA well in excess of the minimum specified by the covenant.

Tracking the multiples and estimates over time can show how the returns of the stock are decomposed in changes in expectations (sales and EBITDA estimates) and the cost of capital (i.e., multiples applied to those estimates).

Prices as of Feb. 10, 2020

Fantasy Valuations

How to manage a seller's expectations

By John D Wagner and Dr. Carl Craig

We often hear from acquirers and company owners alike in cannabis sectors that the times we are living in now are like "the first years after Prohibition in 1933."

The implication is that marijuana and hemp versions of Anheuser-Busch, Coors and Seagram are being formed now, and it won't be long before products will start showing up on store shelves at the same rate that we see alcohol today.

Visions dance in the heads of key players of entire aisles in grocery stores and pharmacies dominated by marijuana and hemp products. Behind that, of course, there are visions of dynastic wealth.

The secondary implication here is that the valuations of today's nascent marijuana and hemp companies should reflect the nearly unlimited potential of prospective growth.

The thinking goes that the value should not be based on where they are now, but where they will be in the future—even the very distant future.

And therein lies a concern.

GROWTH IS REAL

Make no mistake, these sectors are growing at rapid rates, and the financial and trade media have latched onto that growth narrative.

In a classic positive feedback loop, that media attention is often cited in company valuation expectations, and those valuations are recited by the media, pointing to growth predictions.

The obvious concern here is that some business owners seeking acquisition (and even some first-in-money investors looking to make a killing) have fantasy company valuations in mind that are based not on historical revenues or EBITDA.

Instead, they are based on future revenues and future EBITDA that are by no means guaranteed to materialize – and that makes them higher risk for buyers and investors.

SOME BASICS

Before we go further, let's backfill some basics.

Most companies that are acquired are valued by a multiple of historical EBITDA, typically a trailing 12-month time period. This multiple of EBITDA is determined by dividing the total enterprise value (TEV) paid for the company by the EBITDA.

The formula looks like this: TEV/EBITDA = multiple paid.

For example, if a company sells for $10 million and it had an EBITDA of $2 million, then the multiple paid was 5X, or $10 million/$2 million = 5.

If the company being acquired has no EBITDA but has a history of revenues, aka top line, a company can be bought on a multiple of revenues, typically discounted from what would have been paid if the company were showing a profit.

LAND-GRAB MENTALITY

In high-growth sectors such as marijuana and hemp, we are seeing somewhat of a land grab. Companies that are not yet profitable are being acquired on a multiple of revenue, because the buyer and seller agree on the company's future prospects.

But these are high-risk investments, since it is impossible to really predict how well a company will perform in the future with any degree of certainty – especially given all the "stray voltage" out there around regulation, banking, interstate commerce and state laws.

That said, buyers and sellers are finding each other, and not-yet-profitable companies (also called unprofitable operations) are being bought and sold.

As is only natural, some company owners, eager to take some chips off the table, see this activity, and they want to get in on it. They call up an investment banker and say, "I'd like to test the market by putting my company on the street for sale."

HOW MUCH ARE YOU THINKING?

Inevitably, our first question is: "As a company that has not turned a profit, have you considered what value you'd like to obtain in a sale?"

The owner may respond: "Well, my projections show that at the end of 2022, we will have a $4 million EBITDA. I see that marijuana and hemp companies are selling for around 8X today, and so, I'd like to get 8X on that $4 million and sell my company for $32 million. Maybe I'll discount to 7X since I'm early stage."

This seller really needs to be more realistic.

That 8X being paid today for profitable companies is not the same multiple that would be paid for companies throwing the dice for profitability two years hence.

In fact, the multiple paid for an unprofitable company today, even with good prospects, would be steeply discounted to hedge future risks.

Commonly, an intrigued acquirer might agree with the seller to pay a small amount for the company today and then make a series of future earn-out payments based on delivered performance.

INCREASINGLY SOPHISTICATED INVESTORS

When we explain this scenario to sellers who might have a fantasy multiple in mind, some simply say that we are wrong, and they look for an investment banker who agrees with them.

But it has been our experience that the maturation of the marijuana and hemp sectors has brought in more sophisticated investors, especially from private equity. These investors have tighter rules for acquisition and lower appetites for risk than some of the first-in money that we've seen to date.

This will surely drive more discipline in valuation – with a bias toward performance, not prospects – since private equity money tends to chase profitable companies, purchased as a multiple of EBITDA. ✦

John D. Wagner and Dr. Carl Craig are managing directors of Colorado-headquartered 1stWest Mergers & Acquisitions, which offers a specialty practice in the marijuana and hemp sectors. 1stWest M&A has transacted more than $1 billion in deal values.

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Deep Dive: Medicine Man Technologies sets stage for long-term profitability

Medicine Man Technologies (**OTC: MDCL**) provides a case study for building an intelligent, long-term cannabis strategy. By vertically integrating profitable operators in Colorado through several recently announced acquisitions and using capital and corporate integration experience from a large partner/investor to expand sales and margins, they are building sustainability.

In short, MDCL is the exact opposite of many other cannabis companies beset by red flags for investors: management turnover, huge cash-flow losses, unfunded business plans, overly ambitious strategies and complex capital structures.

Many cannabis companies promised the world, raised a lot of capital and promptly burned most of it assuming they could raise more. Now, faced with tight capital markets, many are scaling back operations.

We at *Investor Intelligence* believe the best investment opportunities have similar elements:

1. Quality fiduciaries: high-quality management teams aligned with shareholder interests.
2. Sustainable and profitable business model.
3. Sound strategy.
4. Adequate capital to fully execute the strategy.

The best investments have identifiable catalysts investors can use to judge management's progress versus the stated business plan, with the ultimate goal of creating shareholder value over time.

Medicine Man has the high-quality fiduciaries, the profitable business model, the sound strategy and identifiable catalysts. The company has a lot of cash on the balance sheet, but it still needs to raise more cash to close the acquisitions.

We expect MDCL will be able to issue debt thanks to its significant EBITDA.

The structures of their recent acquisitions align the incentives of the new MDCL management team and its shareholders. Once the acquired firms in Colorado are integrated, we believe management can repeat this growth strategy in multiple other states.

PREVIOUS COLORADO REGULATIONS FORCED PROFITABILITY

When Colorado legalized recreational marijuana in 2012, **regulations capped the number of out-of-state owners at 15**, effectively limiting out-of-state capital from investing in Colorado companies. With access to capital hindered, operators were forced to run profitable businesses to generate enough cash to self-fund their growth.

On **May 29, 2019, Gov. Jared Polis signed HB19-1090**, removing that limit and opening licenses to public companies, effective Nov. 1, 2019.

Andy Williams, the founder, CEO and major equity holder of Medicine Man Technologies, was a strong proponent of the new law.

PIONEERS IN 2009; CONSOLIDATORS IN 2019

Williams founded Medicine Man in 2009 with his brother Peter.

In 2016, the non-plant-touching consulting and nutrient business went public as Medicine Man Technologies, while the other two division continued to operate privately. MDCL provides consulting services to multiple cannabis companies, so it has firsthand knowledge about which firms are efficient, well-run operations—and which are not.

With the legal ability and capital to consolidate the industry, MDCL has implemented a strategy to acquire the best operators in Colorado. In January 2019, MDCL announced it would acquire Medicine Man Denver, a cultivator with four dispensaries, and MedPharm, an extractor and researcher. The company then pursued a string of 12 acquisitions of the top operators in Colorado between June and August 2019.

The acquisitions are described in the **company's investor presentation** and also are listed in our tables below. Medicine Man Technologies has now joined forces with other experienced long-time operators to build a vertically integrated company focused on Colorado cultivation, extraction, processing, brands, medical research and retail distribution.

The reporters at *Marijuana Business Daily*, who have followed the market since its inception, corroborate the quality and longevity of these operators. See their **stories about the businesses**.

Medicine Man Technologies' one acquisition outside Colorado—and frankly not core to the investment thesis—is Green Acres SAS, a cultivator in Colombia that we view as a long-term option on the development of a global export market and a hedge on higher-cost domestic production should the United States ever allow imports of cannabis.

Medicine Man Technologies' success is not simply a matter of vertical integration; others have tried with **mixed results**. It MDCL's selection, insistence of profitability and alignment that stands out.

ACQUISITION STRUCTURE ALIGNS MANAGEMENT INCENTIVES

Medicine Man Technologies has used contingent consideration (equity and cash earnouts), with lockups to align the incentives of the acquired management teams and paid very reasonable multiples of EBITDA for the acquisitions (even compared to non-cannabis businesses). We view this as a positive both for shareholders and company execution going forward because incentives are aligned to drive performance for the entire MDCL organization, not just the sellers' specific operations.

A major risk in acquiring a founder-led firm is that after the deal closes, the founder loses focus or interest and, subsequently, performance of the acquired company deteriorates. Issuing shares in lieu of cash for acquisitions is dilutive to the acquiring firm's shareholders, but it works well to align incentives of the acquired management team with the purchasing firm's shareholders and the managers of the other acquisitions.

As shown in the table below, the final price the acquired firms receive is based heavily on future performance of their firms and MDCL overall. The average cash at close paid for the acquisitions is only 42% of the total consideration. No acquisition is pure cash, and the maximum cash at close is 50%.

The equity component is, on average, 45% of total consideration. The deals range from 25% to 92% of equity and are subject to one-year lockups. The acquisitions with lower equity percentages have cash earnouts to be paid in 2021 if the acquired firms attain certain performance metrics in 2020.

Even in acquisitions with cash earnouts, the use of MDCL stock aligns the acquired firm's management team for the benefit of the entire company and public shareholders.

Further protecting shareholders is that most agreements are subject to renegotiation if the actual performance is +/- 10% compared to undisclosed targets in the letters of intent.

The upside for shareholders of the acquiring firm is that while they own less of the combined firms, the greater size of combined entity more than offsets the dilution.

In the table below, the June-September acquisitions include actual figures found in the 8K filings. The line combining the acquisitions of Medicine Man Denver and MedPharm, announced in January 2019, estimates an acquisition price of $54.2 million and the cash and equity breakdown. The only disclosures for Medicine Man Denver and MedPharm would add $40 million-$50 million of revenue (table uses the midpoint of $45 million) and that there is an equity component at the MDCL price in January 2019 of $1.32.

MDCL's September 2019 investor presentation states total consideration for the acquisitions of $286 million. The June-September acquisitions total $232 million, implying $54 million for the January acquisitions. The June-September acquisitions have an average equity percentage of 45%; we applied this same percentage to estimate the equity portion for the January acquisition and used a share price of $1.32 to estimate the number shares.

MDCL ACQUISITION COMPOSITION

Date	Pending Acquisitions	Total Consideration	Cash Consideration at Close	1+ Yr Cash Earnout	Equity Consideration	Equity % of Total	Contingent %	Shares (millions)	Deal Price
6/5/19	Los Sueños (Los Sueños, Farmboy, Baseball)	$11.87	$2.38	$-	$9.50	80%	80%	3.2	$3.01
6/5/19	Mesapur dba Purplebee's	$12.01	$2.40	$-	$9.61	80%	80%	2.8	$3.43
6/12/19	Green Equity SAS (Columbian Farm)	$5.40	$0.45	$-	$4.95	92%	92%	1.3	$3.83
8/15/19	Cold Baked & Golden Works dba Dabble Extracts	$3.75	$0.75	$-	$3.00	80%	80%	1.0	$3.01
8/15/19	Unidentified edible company (implied to be Medically Correct)	$17.25	$3.45	$-	$13.80	80%	80%	4.7	$2.95
9/3/19	Starbuds	$31.01	$15.50	$7.75	$7.75	25%	50%	2.6	$2.98
9/4/19	Colorado Harvest	$12.50	$4.00	$-	$8.50	68%	68%	2.9	$2.95
9/5/19	Dispensaries dba Starbuds	$36.90	$18.45	$9.22	$9.22	25%	50%	3.1	$2.98
9/6/19	RootsRx	$15.00	$7.50	$2.25	$5.25	35%	50%	1.8	$2.95
9/9/19	Dispensaries at 35% margin dba Starbuds	$49.97	$25.05	$12.52	$12.40	25%	50%	4.2	$2.95
9/11/19	Strawberry Fields	$31.00	$14.00	$-	$17.00	55%	55%	5.7	$2.98
9/12/19	Canyon & It Brand	$5.13	$2.57	$-	$2.57	50%	50%	0.8	$3.07
TOTAL JUNE-SEPTEMBER 2019 ACQUISITIONS		**$231.79**	**$96.49**	**$31.75**	**$103.55**	**45%**	**58%**	**34.0**	**$3.04**
1/15/19	Estimated Medecine Man Denver & MedPharm	$54.21	$29.81	$-	$24.39	45%	45%	18.5	$1.32
TOTAL PENDING ACQUISITIONS		**$286.00**	**$126.31**	**$31.75**	**$127.94**	**45%**	**56%**	**52.5**	**$2.44**
TTM Rev June 2019 Core MDCL								41.3	
TOTAL PRO FORMA MDCL BEFORE WARRANTS			**$129.59**					**93.8**	

VALUATIONS REASONABLE ON HIGHLY PROFITABLE BUSINESSES

The new MDCL has a profitable **pro forma business model with $170 million in revenue at a 20% margin**, for EBITDA of $34 million. We confirmed with the company that this $170 million and 20% margin includes the current MDCL businesses and adjustments for future intercompany transfers from vertical integration (e.g., Los Sueños product counted as COGS when sold in Starbuds), so there will not be a reported revenue headwind versus the $170 million base as the companies vertically integrate.

All the acquired businesses are already well run and individually profitable, with some having disclosed surprisingly high 30%-35% EBITDA margins, and the overall EBITDA margin for the pro forma business is 20%. These margins are high for any consumer, agricultural or industrial business.

The acquisition multiples were quite reasonable for any business at 1.83X revenue and 7.4X EBITDA. The table below cites acquisition-specific multiples when they were disclosed, usually as "minimum margin targets."

The fear for an acquirer buying high margins at normal to lowish multiples is that the acquired business is cyclically over-earning and about to see margin compression. We do not believe that is the case with MDCL, because the catalyst for these sales is the change in Colorado law that enables consolidation. The fact that the sellers are also taking so much equity with lockups means they are not truly cashing out at the top.

The table below outlines the revenue, EBITDA, margins and acquisition multiples paid, based on publicly available information. We have used the trailing 12 months actual revenue and EBITDA for the core MDCL, though we believe MDCL is increasing its corporate overhead in anticipation of managing the acquisitions.

MDCL ACQUISITION PROFITABILITY AND VALUATION

Date	Pending Acquisitions:	Total Consideration	Sales	EBITDA	EBITDA Margin	EV/S Multiple	EV/EBITDA Multiple
6/5/19	Los Sueños (Los Sueños, Farmboy, Baseball)	$11.87					
6/5/19	Mesapur dba Purplebee's	$12.01					
6/12/19	Green Equity SAS (Columbian Farm)	$5.40					
8/15/19	Cold Baked & Golden Works dba Dabble Extracts	$3.75					
8/15/19	Unidentified edible company (implied to be Medically Correct)	$17.25	$13.80	$2.07	15.0%	1.25X	8.3X
9/3/19	Starbuds	$31.01	$19.00	$5.60	29.5%	1.63X	5.5X
9/4/19	Colorado Harvest	$12.50	$10.00			1.25X	
9/5/19	Dispensaries dba Starbuds	$36.90					
9/6/19	RootsRx	$15.00	$12.00	$2.10	17.5%	1.25X	7.1X
9/9/19	Dispensaries at 35% margin dba Starbuds	$49.97			35.0%		
9/11/19	Strawberry Fields	$31.00			18.5%		
9/12/19	Canyon & It Brand	$5.13	$3.30			1.55X	
TOTAL JUNE-SEPTEMBER 2019 ACQUISITIONS		**$231.79**	**$111.04**			**2.09X**	
1/15/19	Estimated Medecine Man Denver & MedPharm	$54.21	$45.00			1.20X	
TOTAL PENDING ACQUISITIONS		**$286.00**	**$156.04**	**$38.90**	**24.9%**	**1.83X**	**7.4X**
TTM Rev June 2019 Core MDCL			$13.96	$(4.90)	-35.1%		
TOTAL PRO FORMA MDCL			**$170.00**	**$34.00**	**20.0%**		

GROCERY CONSOLIDATION EXPERIENCE ALIGNED WITH 11%-19% OWNERSHIP

Dye Capital is a value-added investor for MDCL. Dye Capital brings expertise from its experience with Albertsons, which consolidated the grocery sector, and other large organizations such as United Airlines, Citibank and McKinsey. **(Meet the team at Dye Capital here)**. Justin Dye, Leo Riera and Nirup Krishnamurthy have all joined the board of MDCL. In addition, they've brought on leaders of the acquisition team at Albertsons: Lee Dayton now serves as MDCL's chief administration officer and Todd Williams (no relation to Andy) as chief strategy officer.

The investment firm has supplied $21 million to MDCL and now owns 10.5 million shares and 8.7 million warrants with a strike price of $3.50. With those shares, Dye Capital possesses 11% ownership of the pro forma company, and that stake climbs to 19% if the warrants are exercised for another $32 million.

We view Dye Capital as a long-term shareholder that will help MDCL integrate the acquisitions and raise the additional capital needed.

GOOD BUSINESS MODEL? 20% EBITDA MARGINS EXPANDING TO 30% SAYS YES

The 20% EBITDA margins of the pro forma Medicine Man and the 22% EBITDA margin achieved by the core Medicine Man Technologies business in 2018 are a testament to the effectiveness of the business model and execution of these operators. The company noted that all the acquisitions are individually profitable, and some margins ranging from 15%-35% have been disclosed in the 8K filings detailing those transactions.

MDCL's guidance notes that the 20% EBITDA margin can expand to 30% "via collaborative growth and the forthcoming economies of scale"—in other words, growing revenue via cross-selling and leveraging fixed overhead costs. A 50% incremental margin would need 50% revenue growth to get to a 30% margin, while using an 80% incremental would require only 20% revenue growth to get to a 30% EBITDA margin.

PRO FORMA SHARE COUNT IS 104 MILLION

Adding the shares issued in the acquisitions above and the warrants, we estimate the shares to be 104 million—assuming the warrants at $3.50 are exercised and the cash required is funded with debt.

	Shares (millions)
August 14, 2019 Shares Outstanding	**35.8**
August 15 Dye Capital Investment	5.5
Total Current Shares Before Warrants	**41.3**
Shares Issued in June-Sept Acq. - Actual	34.0
Shares for Jan. Acq. - Estimate	18.5
Pro Forma Shares before Warrants	**93.8**
Pre 2019 Warrants $1.33 avg Strike	1.2
Dye Capital Warrants $3.50 Strike	8.7
Officers' Grants Warrants $8.00 Strike	2.5
Pro Forma Share Count $1.33-$3.50	**95.0**
Pro Forma Share Count $3.51-7.99	**103.7**
Pro Forma Share Count above $8.00	**106.2**

MDCL STILL NEEDS $68 MILLION-$130 MILLION TO COMPLETE THE ACQUISITIONS

Despite the solid investment of capital and talent from Dye Capital, MDCL still needs to raise between $68 million and $130 million, by our estimates, in the next eight months or so, depending on the assumptions to execute these deals, as outlined below.

The 8-K filings for the June-September acquisitions have cash considerations at close that total $96.5 million. We estimate that the January acquisitions will require another $30 million in cash, assuming a similar mix of cash to equity (which, we admit, is a big assumption).

With the investments from Dye Capital through August and based on the cash balance at June 30, we assume the current cash balance is $28 million, though this is before any warrant exercises or operational cash flow (or burn).

The 8.7 million warrants owned by Dye Capital have a strike price of $3.50 and would generate $32 million of cash if exercised. With the stock at $3.37, this is possible but not guaranteed.

The earnout cash consideration of $32 million would bepaid a year after the acquisitions close (so, in first half 2021, assuming closings in the first half of 2020), but presumably, underperformance by these acquisitions would reduce the payment. MDCL will have about a year of operating cash flow and EBITDA of $34 million annually to partially offset this as well.

We believe MDCL will pursue debt financing for most of the cash rather than pure equity because it is generating cash and because of the comfort with debt shown by the new fiduciaries from Albertsons. Pro forma MDCL should generate $34 million of EBITDA annually, so borrowing $68 million to $130 million yields a reasonable leverage ratio of 2.0-3.8X. In comparison, Albertsons has borrowed $18.9 billion of debt on $3.5 billion of EBITDA, for a rather high leverage ratio of 5.5X.

Financing the $66 million in cash needed to close in 2020 would add 19.6 million shares at the current price of $3.37 if the deal is done entirely through equity.

	(millions of US$)
Cash at 6/30/2019	$4.3
July 16 Equity sale at $2.00	$7.0
August 15 Equity Sale at $2.00	$14.0
VVG Damages	$2.8
Current Cash before Warrants	**$28.1**
Cash Needed to Close June-Sept. Acq. in 2020 - Actual	$96.5
Cash Needed to Close Jan. Acq. in 2020 - Estimate	$29.8
Cash Needed at 2020 Close Before Warrants	**$98.2**
Warrant Proceeds at $3.50	$32.0
Cash Needed at 2020 After Warrants	**$66.2**
Cash Needed Deferred Earnout in 2021	$31.8
Total Cash Needed by 2021 After Warrants	**$97.9**

RAISING CASH TO CLOSE IS THE BIGGEST RISK

This all makes sense on paper, but the capital markets for cannabis stocks have tightened because of fears of overcapacity. However, MDCL is a different story: Colorado is a more mature market that is generating cash, and these acquisitions likely will lead to margin expansion via cross-selling and cost containment rather than incremental capacity to the market. It seems to us that this business plan should be able to access reasonably priced financing, but that is the main outstanding question.

VALUATION REASONABLE AT 9X-13X EBITDA

At $3.37, MDCL is trading at 13.2X the pro forma $34 million of EBITDA (assuming the warrants exercise and the company issues debt). Should it expand to a 25%-30% margin on the current revenue base, the multiple drops to 8.8X-10.5X.

More likely is that revenue growth leads to margin expansion. If the company can get to a 30% margin on 20% revenue growth (which implies an 80% incremental margin), the multiple drops to only 7.3X EBITDA. These figures yield a net debt/EBITDA ratio of 2X-3X, which is levered but reasonable. The current 13.2X EBITDA multiple on this scenario would yield about $6.85 per share.

The bear case is margin compression and revenue declines. If revenue declines 10% and margins decline to 15%, the multiple jump would jump to 19.5X and the leverage ratio to 4.3X. Clearly, the stock would decline in such a scenario; the current 13.2X EBITDA multiple on this scenario would yield a $2.00 stock price.

MDCL PRO FORMA VALUATION SCENARIOS

	Pro Forma	25% Margin	30% Margin	25% Margin, +10% Rev.	30% Margin, +20% Rev.	15% Margin, -10% Rev.
Revenue	$170	$170	$170	$187	$204	$153
% Change vs $170 million Pro Forma	0%	0%	0%	10%	20%	-10%
EBITDA Margin	20%	25%	30%	25%	30%	15%
EBITDA	$34	$43	$51	$47	$61	$23
EV/EBITDA Multiple at $3.36	**13.2**	**10.5**	**8.8**	**9.6**	**7.3**	**19.5**
Net Debt / EBITDA	**2.9**	**2.3**	**1.9**	**2.1**	**1.6**	**4.3**
Price	3.36	3.36	3.36	3.36	3.36	3.36
Shares	103.7	103.7	103.7	103.7	103.7	103.7
Market Cap	$349	$349	$349	$349	$349	$349
Net Debt	$98	$98	$98	$98	$98	$98
Enterprise Value	$447	$447	$447	$447	$447	$447

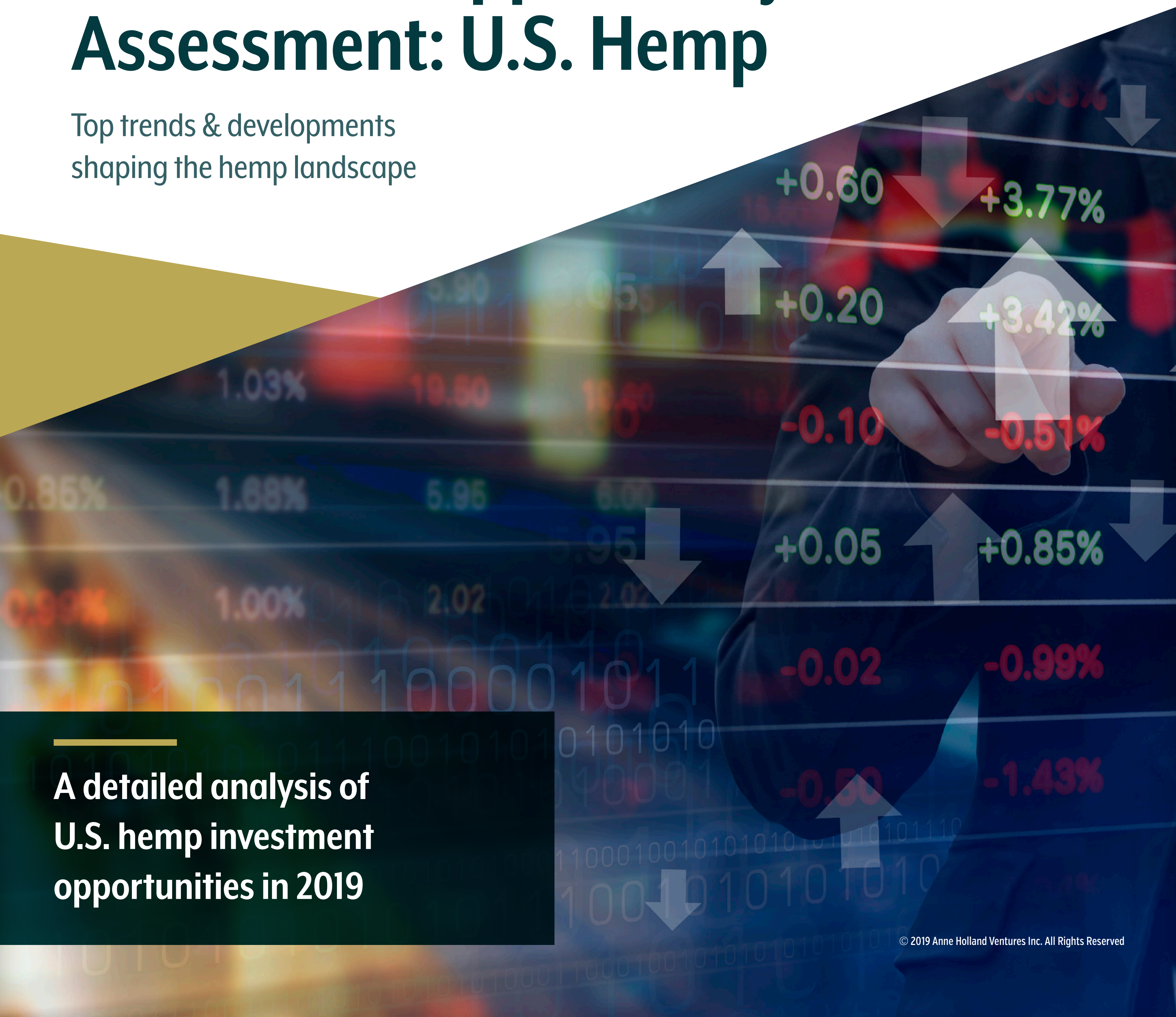
MJBizDaily

Investor Intelligence

June 2019

Investment Opportunity Assessment: U.S. Hemp

Top trends & developments shaping the hemp landscape



A detailed analysis of U.S. hemp investment opportunities in 2019

From the Editor

Investments in hemp are surging following the passage of the U.S. Farm Bill, a move that has flung open the door for large institutional investors to enter the market and pump millions—if not billions—of dollars into hemp and CBD companies.

Hemp companies that previously relied on family offices and private equity or turned to Canada's public markets to raise capital now have direct paths to large funding pools in the United States.

Major banks—both commercial and investment—and funds that have been sidelined from betting cannabis have a host of new investment opportunities to consider.

Still, hemp's newly legal status does not completely remove risk from investments in the space. The industry continues to be governed by rules that are still being written by a patchwork of state and federal lawmakers.

This report by *MJBizDaily* Investor Intelligence delivers the market insight and analysis investors need as they set their strategies and build out their portfolios.

Inside you'll find:

- High-level analysis of top investment trends under way in the evolving U.S. hemp industry.
- Key market metrics and geographic considerations investors should know as they size up opportunities.
- Actionable data and analysis on hemp sectors and business verticals experiencing rapid growth.
- Top investor considerations as newly public hemp firms expand and capital markets open up.
- Insights from the most notable deals to date and focal points going forward.

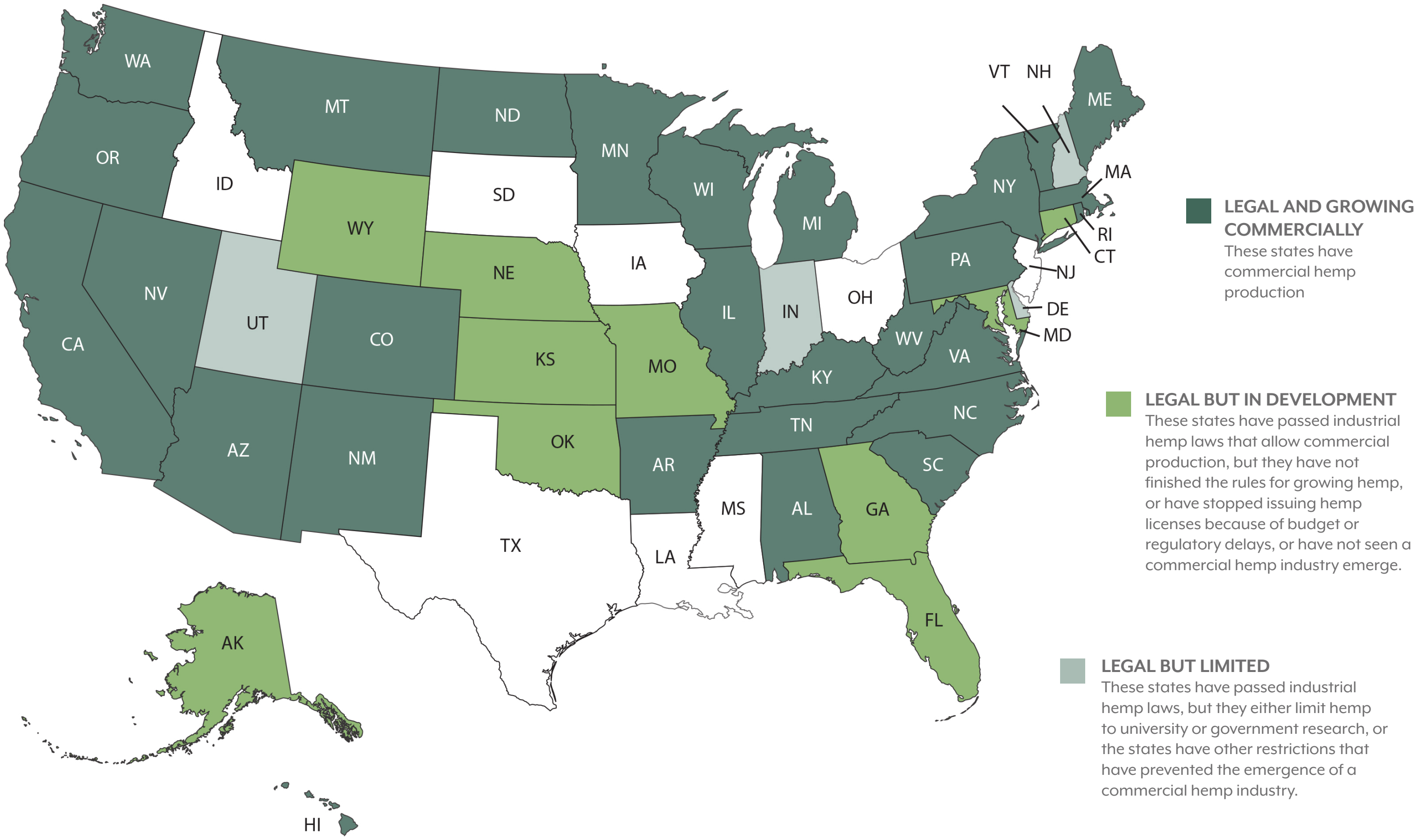
A special thanks to our data and analytics partner, Viridian Capital Advisors, for contributions made to this report.

As always, please reach out directly with any questions or feedback anytime at **LisaBK@MJBizDaily.com**.

Warmest Regards,

Lisa A. Bernard-Kuhn

Lisa Bernard-Kuhn
Investor Intelligence Editor
Marijuana Business Daily



Data current as of June 1, 2019

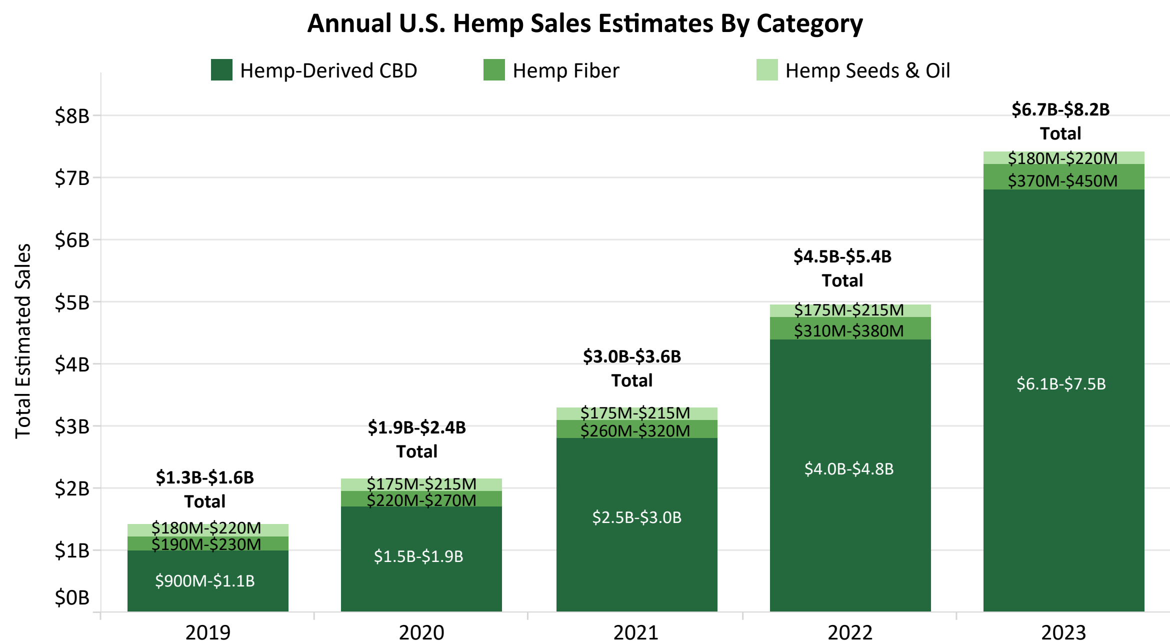
Source: Hemp Industry Daily

HEMP IN THE U.S.

The 2018 Farm Bill legalized hemp production and sales throughout the United States. However, until the U.S. Department of Agriculture establishes uniform rules for the national industry, each state will be responsible to creating the interim structure—and for many states, that means operating under the rules they already have in place.

The USDA is expected to create new rules later this year, but most states aren't waiting to jump on the bandwagon. For investors, this means assessing each market's rules during the due diligence process.

Annual U.S. Hemp Sales Estimates By Category



Source: Hemp Industry Daily

What the Farm Bill Did & Didn't Do

WHAT THE FARM BILL DID:

- Removes the plant cannabis sativa L. from the Controlled Substances Act if it or its derivatives contains no more than 0.3% THC on a dry-weight basis. This applies to any and all parts of the plant.
- Tells the U.S Department of Agriculture (USDA) to come up with national hemp regulations "as expeditiously as practicable."
- Leaves marijuana a Schedule 1 drug.
- Allows states, territories and Indian tribes to submit hemp-growing regulatory plans to the USDA, with no deadline for doing so. The plans must include:
    - THC testing procedures, including inspections done at least annually.
    - Bookkeeping procedures to keep track of land approved for hemp cultivation.
    - Processes for "effective disposal" of hemp plants with too much THC.
- Gives the USDA the ability to approve or reject those cultivation regulations within 60 days.
- Gives the USDA one year to study the 42 existing hemp states' progress with the plant and "determine the economic viability of the domestic production and sale of industrial hemp," with the findings due to Congress.
- Bans hemp cultivation by people with drug felonies in the past 10 years.
- Guarantees that hemp and hemp products can be moved from state to state and imported and exported the same as any other crop.

WHAT THE FARM BILL DIDN'T DO:

- Give states any guidelines about regulating hemp manufacturing or processing.
- Guarantee interstate commerce for products containing CBD, not just the molecule itself.
- Limit the U.S. Food and Drug Administration (FDA)'s authority to ban CBD from foods, drugs and cosmetics, which the agency has done.
- Explain whether the clause guaranteeing interstate commerce for "hemp products" affects the FDA's ability to limit CBD use in foods, drugs and cosmetics. ✦

How the U.S. Defines Hemp

Hemp, as defined by the U.S. federal government, is a variety of the cannabis sativa plant that contains less than 0.3% trans-Δ^9-tetrahydrocannabinol (THC), the main psychoactive component of cannabis, by dry weight.

U.S. Market Overview

The 2018 Farm Bill made hemp and its derivatives a federally legal product that can be grown and sold anywhere in the United States, opening the door to enormous business and investment opportunities.

These opportunities range from industrial applications to hemp-derived CBD. Alongside hemp-specific prospects, ancillary businesses that support the market also may be prime targets for investors.

Because of hemp's uncertain legal status, getting a full sense of how large the market can become is difficult. Many products—and markets for those products—are still being developed. But the regulatory shift has positioned the national market for hemp-derived CBD alone to balloon to as much as $7 billion by 2023, according to *Hemp Industry Daily* market projections.

The evolving landscape has led to a flood of M&A activity and encouraged hemp firms to begin flexing their fundraising muscle.

Among the top deals inked recently:

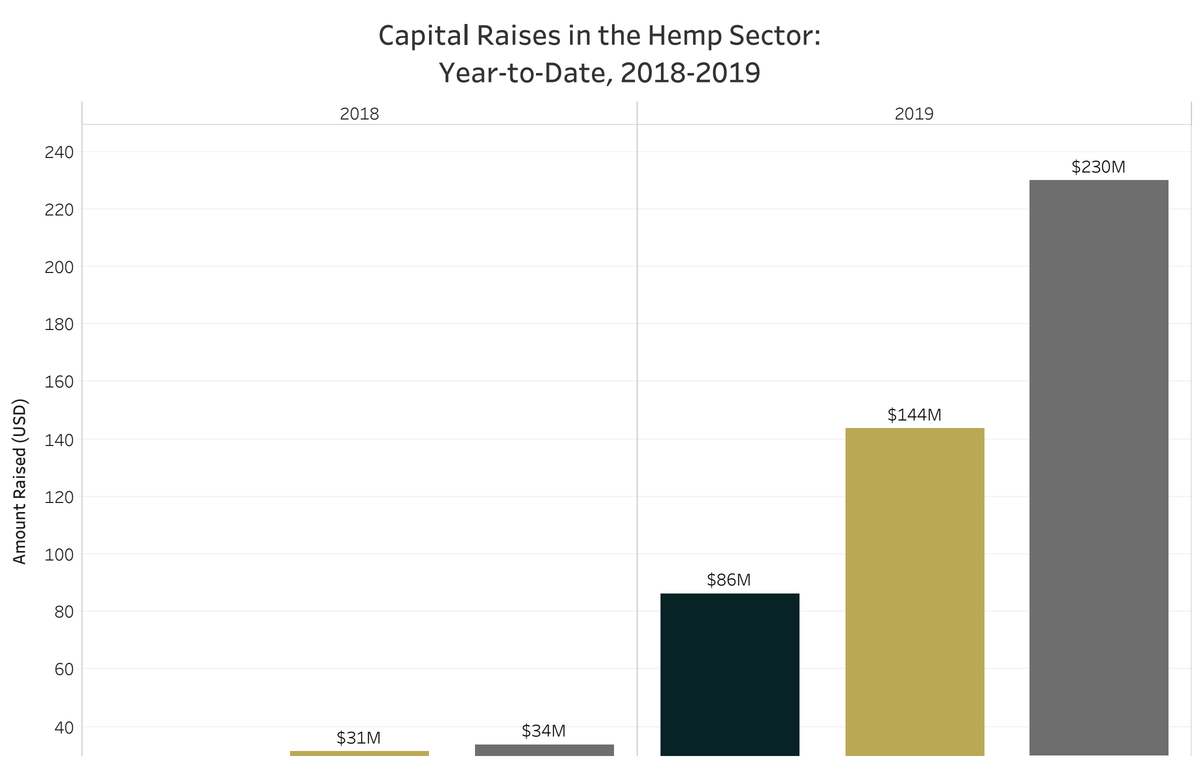
- NYSE-traded Level Brands acquired CBD product brand cbdMD for nearly $44 million in stock, with potential consideration of another $44 million assuming the products achieve revenue targets in aggregate of $300 million over the following five years.
- California-based Vertical Wellness has sunk $60 million into its operations—capital raised through family offices and high-net-worth investors. The firm plans to list on the Nasdaq with a target of raising $50 million-$100 million ahead of going public as it works to scale its farming and production footprint.
- Colorado-based Mile High Labs raised $35 million in one of the largest Series A rounds to date in the cannabis/hemp space for the purpose of creating a large-scale processing facility.
- Kentucky-based GenCanna will deploy $40 million to create a large-scale hemp processing facility in its home state.
- Colorado-based CBD manufacturer Charlotte's Web raised 140 million Canadian dollars ($105 million) in a share offering. The move, in which existing shareholders sold some of their shares, is part of the company's plans to raise up to CA$500 million for acquisitions and potential international expansion.

As more capital flows into the industry, here's a breakdown of the key market metrics and deal-flow trends that are shaping the investment opportunities ahead:

CAPITAL RAISE ACTIVITY: $230 MILLION

A record level of new investment is under way across the hemp industry with firms raising more than $230 million in the first five months of the year, according to data tracked by Viridian Capital Advisors. That compares with just $33.7 million during the same period in 2018.

Capital Raises in the Hemp Sector: Year-to-Date, 2018-2019



A key driver in this acceleration is the legality of interstate commerce. Unlike the cannabis and THC markets—which are fragmented by state—hemp and CBD products may be sold over state lines, greatly increasing the competitive nature of the sector. Companies have been seeking larger rounds of capital to create farms and manufacturing facilities capable of serving much larger total addressable markets (national versus intrastate).

AVERAGE HEMP RAISE: $13.2 MILLION

Through the end of May the average hemp raise climbed to $13.2 million. That's a major leap from the first quarter of 2017, when the average hemp raise was $400,000, increasing year-over-year to $2 million in the first quarter of 2018 and $7.1 million in the first quarter of 2019.

M&A ACTIVITY

Hemp-related merger and acquisition activity is also spiking as hemp firms target new markets to expand into or become targets from cross-sector companies looking to enter the market.

As seen in the table at top right, both acquisitions *of* and *by* hemp companies are on the rise. Valuations associated with the M&A activity is not available.

The table at bottom right details cross-sector M&A activity since the beginning of 2017 where hemp companies are the acquirers. The top three sectors into which hemp businesses are buying are:

- **Other hemp businesses**, as they seek scale or to acquire value-add assets (land, equipment, facilities, genetics, brands, etc.) for their existing operations.
- **Non-cannabis-related businesses**, primarily shell companies, as hemp firms (as many others in the cannabis industry have done) seek public listings early in their company life cycles to take advantage of the greater liquidity and valuations afforded to publicly listed firms.
- **Infused products & extracts companies**, likely to develop synergies from extraction know-how and intellectual property, brand co-development and marketing, and formulation.

The top sectors acquiring hemp businesses are:

- **Other hemp businesses** as they seek scale or to acquire value-add assets for their existing operations.
- **Cultivation & retail companies** looking to the hemp sector to bolster their existing product offerings and expand their capabilities beyond cannabis and THC.
- **Investments/M&A firms** looking to add exposure to the Hemp sector to their diversified portfolios.
- **Non-cannabis-related firms** entering the hemp sector to spur growth, as the greater legal clarity around the hemp (and CBD) sector gives greater comfort to strategic entrants than does the conflicting legality (state vs. federal in U.S.) of the cannabis/THC industries. ✦

CROSS-SECTOR M&A SINCE START OF 2017: HEMP COMPANIES AS BUYERS

Buyer Sectors	Target Sector: Hemp
AgTech	0
Biotech/Pharma	1
Consulting Services	0
Consumption Devices	2
Cultivation & Retail	5
Hemp	17
Infused Products & Extracts	6
Investments/M&A	0
Misc. Ancillary	3
Physical Security	0
Real Estate	0
Software/Media	4
Non-Cannabis-Related	15

CROSS-SECTOR M&A SINCE START OF 2017: HEMP COMPANIES AS TARGETS

Buyer Sectors	Target Sector: Hemp
AgTech	2
Biotech/Pharma	0
Consulting Services	0
Consumption Devices	0
Cultivation & Retail	11
Hemp	17
Infused Products & Extracts	5
Investments/M&A	7
Misc. Ancillary	1
Physical Security	0
Real Estate	0
Software/Media	1
Non-Cannabis-Related	7