



ARTICLE

Cannabis in Canada

Valuation Approaches in an Evolving Market – Part 2

October 2020

In June 2019, FTI Consulting published [Part 1 of Cannabis: Valuation Approaches in an Evolving Market](#), which explored legalization of cannabis for recreational use in Canada, risk factors, and the range of complexities to consider for corporate valuations in the emerging Canadian cannabis industry.

Introduction

Since our previous publication, a lot has changed from a regulatory perspective in the Canadian cannabis industry since the [Cannabis Act](#) came into force in October 2018, whereby the Federal Government of Canada legalized the production and sale of edible cannabis, cannabis extracts and cannabis topicals on 17 October 2019 (**Cannabis 2.0**).

Thus far, the developments in the Canadian cannabis industry have been far from expectation. The slow roll-out of licenses, the glacial pace of brick-and-mortar store openings, a robust illicit market and the regulatory outlook of the Canadian government have all posed a hurdle to the initial growth expectations of the market. In late 2019 and early 2020 the industry was marked by layoffs, weak financial results, and executive departures.

Part 2 of our cannabis valuation in Canada series is a timely update to market events and trends that impact the valuation of market actors in the Canadian cannabis industry.

Changes in the regulatory environment since legalization

The Canadian cannabis regulatory environment has experienced a number of changes since October 2018, with three key factors being: the introduction of [Cannabis 2.0](#), [facility licencing requirements](#), and [Ontario retail licencing arrangements](#).

Cannabis 2.0

The most significant changes to the Canadian regulatory environment were the amendments to the [Cannabis Act as of October 17, 2019](#) with respect to rules governing the legal production and sale of edible cannabis, cannabis extracts and cannabis topicals. These new derivative products began to appear in the market around mid-December 2019 and the offering continues to develop during 2020. *The Task Force on Cannabis Legalization and Regulation* holds the view that the legal sale of these products will help achieve the Government's objective of: i. displacing the illegal market; and ii. keeping profits out of the hands of criminals and organised crime, by providing access to a broader range of legal cannabis products.¹ However, it is too early to determine if this will be successful.

Amendments to licence application criteria

From May 8, 2019, to improve application wait times and ensure more efficient allocation of Health Canada's resources, they required that new applicants for cannabis licenses to cultivate, process or sell cannabis for medical purposes have a fully built facility that meets all requirements of the *Cannabis Regulations* at the time of their application, as well as satisfy other application criteria. This is expected to increase the barriers to entry for start-ups and small to medium players that tend not to be capital-intensive or ready to begin operations.²

Ontario retail licences

In December 2019, the Ontario provincial government removed its lottery system of awarding retail store licences to an open licensing process. This included removing the temporary cap on the number of private cannabis stores in the province and eliminating pre-qualification requirements for prospective retailers.³ This will provide greater access to market for producers and facilitate sales growth in Ontario.

Other

The US Cannabis market continues to present substantial cross-border investment opportunities to Canadian cannabis companies, primarily due to its size with respect to the global market. Cannabis is now legal for both medical and recreational use in 11 states and the District of Columbia for adults over the age of 21 in the US. A further 22 states have passed laws legalizing (or decriminalizing) cannabis for medical use, and another six states allow Cannabidiol (CBD) oil only.⁴

Recent market trends

In contrast to initial expectations, Canadian cannabis companies have underperformed since legalization. This is demonstrated by the Canadian Cannabis LP Index⁵, which shows a significant decline from 1,193.56 on the date of legalization on October 17, 2018 to 282.96 as at June 30, 2020. The market index shows a continuing decline from April 2019.

Canadian Cannabis LP Index for last three years⁶

As at the time of writing there were 216 companies listed in Canada⁷ that offer products and/or services in the cannabis industry. This includes many U.S. companies primarily because of legal and regulatory issues due to cannabis being illegal under federal law in the U.S. Of the 216 companies, 112 are classified as

¹ Government of Canada. *What you need to know about Cannabis: Cannabis in Canada Get the facts*. www.canada.ca, accessed July 15, 2020

² Statement from Health Canada on changes to cannabis licensing dated May 8, 2019. www.canada.ca, accessed July 15, 2020

³ Attorney General: *Ontario Opening Cannabis Retail Market*. December 12, 2019. www.news.ontario.ca, accessed July 15, 2020

⁴ DISA Global Solutions: Map of Marijuana legality by State. www.disa.com, accessed July 15, 2020

⁵ New Cannabis Ventures.com. Canadian Cannabis LP Index. The Canadian Cannabis LP index reported by New Cannabis Ventures consists of companies licensed by Health Canada to cultivate, process or sell cannabis is equal-weighted at the time of the month-end rebalancing and included 35 companies as of 06/30/20 (based on information available as of 06/26). The index includes those companies that are listed in Canada that fully own at least one LP and where the LP is a substantial component of the overall business. In order to qualify, the share price must be at least C\$0.20 unless revenue in the most recently reported quarter exceeded C\$2.5 million

⁶ New Cannabis Ventures.com. Canadian Cannabis LP Index. Accessed July 10, 2020

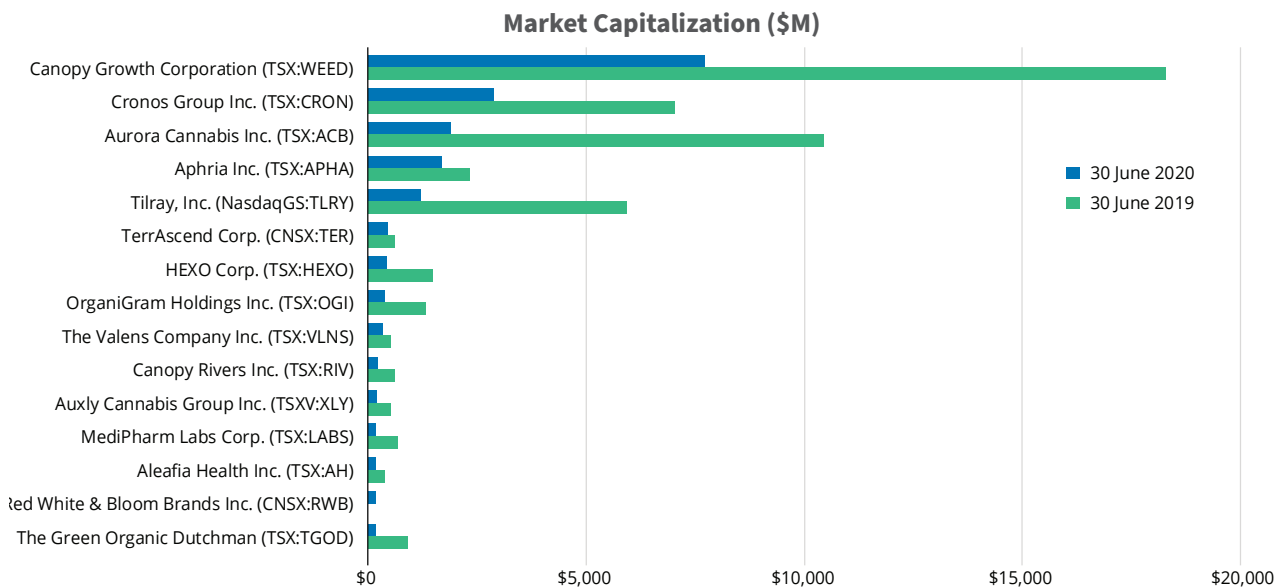
⁷ Listed on either Canadian Securities Exchange, TSX Venture Exchange or Toronto Stock Exchange, per Capital IQ



operating in the ‘botanical’ industry, and a further 49 identified from their business descriptions as producing or selling cannabis products. Accordingly, many of the remainder are companies that service the cannabis industry only (ancillary markets), for example supplying technology or R&D, finance or investment activities, real estate, marketing, media, and security services.⁸

Largest Canadian-based Public Companies in the Cannabis Industry by Market Capitalization⁹

Focusing on Canadian-based public companies, the market capitalization of the 15 largest companies has significantly declined from the values reported as at June 2019 in our first paper, as shown in the chart below.



⁸ Capital IQ

⁹ Capital IQ

Of the 15 companies with the highest market capitalization as at June 2020, their value has declined by approximately 65% since June 2019. This demonstrates the substantial change in how the market is valuing cannabis companies. Since June 2019 four companies have fallen from the top 15 position, which include CannTrust Holdings Inc. who filed for creditor protection in 2020, and Origin House who were acquired and subsequently delisted.¹⁰

Further, only three of the largest 15 market participants reported a positive EBITDA in the last twelve months (LTM), which is a reminder that the industry is still in its infancy. A few of the issues that have plagued industry performance in Canada include:

- **Supply chain:** Despite a clear demand for Cannabis, provincial governments have issued licenses and opened brick-and-mortar stores at a glacial pace, contributing to excess supply issues in the market.
- **Illicit market:** In contrast to the intention of the regulators, there continues to be a thriving illicit market for cannabis driven by the supply issues of the retail market. Statistics Canada reports that 52% of cannabis buyers purchase through legal sources.¹¹ A large contributor to this is the price sensitivity of cannabis consumers with the average selling price per gram in the black market being C\$5.73, while in the legal adult-use market it averaged C\$10.30 in the fourth quarter of 2019.¹²
- **Vaping illnesses:** In 2019, there was a sharp rise in respiratory illnesses linked to e-cigarettes and vaping.¹³ This cast a cloud of uncertainty over these products in the cannabis industry, dampening sales.¹⁴
- **Compliance:** In 2019, CannTrust Holdings, which was the eighth largest listed company in January 2019 by market capitalization,¹⁵ had its licence suspended after it was found to be growing cannabis in unlicensed rooms.¹⁶ This created uncertainty for market investors. CannTrust Holdings filed for creditor protection in 2020 and has since had its licences reinstated and returned to full production.¹⁷

As a result of the challenges faced as well as the changing landscape in the industry, the following trends have been observed:

- **Changes in the C-Suite:** The industry has seen a significant change in the composition of boards and senior management at many of the larger players. As the companies grow and market dynamics change, so does the skillsets required to implement increasingly complex business plans.
- **Asset write downs:** Multiple large market players have reported write downs over the last year. These arise for various reasons such as over-valued inventories, closure of greenhouses, and overstated intangible assets and goodwill recorded on balance sheets from acquisitions. For example:
 - **Aurora Cannabis Inc.** reported that it expects to recognize a non-cash write-down of goodwill and intangible assets in the range of \$1.6 to \$1.8 billion in Q4 of 2020.¹⁸
 - **Canopy Growth** reported \$582 million of impairments related to PPE and intangible assets in the year ended March 31, 2020.¹⁹
- **Insolvencies:** Cracks were appearing in the industry prior to the onset of COVID-19, with workforce layoffs, company restructurings, lacklustre financial results, and executive departures in late 2019 and early 2020. At the time of writing, in 2020 seven listed entities had entered into an insolvency process in Canada.²⁰ It is worthy of note that US based cannabis companies do not have access to bankruptcy protection, reducing options for restructure in

¹⁰ Capital IQ

¹¹ Statistics Canada: *What has changed since cannabis was legalized?* www150.statcan.gc.ca. Accessed July 15, 2020

¹² Statistics Canada. *Crowdsourced cannabis prices, fourth quarter 2019.* www150.statcan.gc.ca. January 23, 2020

¹³ CDC Centers for Disease Control and Prevention: *Outbreak of Lung Injury Associated with the Use of E-Cigarette, or Vaping, Products.* www.cdc.gov. Accessed July 15, 2020

¹⁴ Bloomberg: *Health Crisis Casts shadow Over Canadian Debut of Cannabis Vapes.* September 22, 2019. www.bloomberg.ca and BNN Bloomberg: *Canadian pot producers going full bore on vaping despite health risks, competition.* November 28, 2019. www.bnnbloomberg.ca

¹⁵ FTI Consulting: *Cannabis: Valuation Approaches in an Evolving Market*

¹⁶ Bloomberg: *CannTrust's Pot License Suspended Following Regulatory Breaches.* September 17, 2019. www.bloomberg.ca

¹⁷ Press release: *CannTrust Receives Notice from Health Canada of License Reinstatement for its Fenwick Facility.* May 29, 2020. www.canntrust.com

¹⁸ Press release: *Aurora Cannabis Provides Business Updates and Announces New CEO.* September 8, 2020. www.investor.auroramj.com

¹⁹ Canopy Growth Corporation Financial Statements for the year ended March 31, 2020

²⁰ www.insolvencyinsider.ca. Accessed July 15, 2020

the current environment where many businesses are under financial strain.²¹ Accordingly, businesses incorporated in Canada have an advantage in such circumstances.

To date, the Canadian recreational cannabis industry has not met the high expectations held by stakeholders and other market observers at legalization, with a number of contributing factors such as overly optimistic values, acquisitions transacting at greater than fair market value, oversupply, ongoing losses and constraints in the provincial retail distribution network. This has had an impact on the market values of industry participants, making business valuations in this space an ongoing evolving process.

Canadian market outlook

The Canadian cannabis market was anticipated to be stimulated in 2020 by the launch of infused cannabis edibles, extracts and topicals under Cannabis 2.0, as well as the opening of dozens of new stores in Ontario (the country's biggest consumer market) following the change in retail licensing legislation.

At the introduction of Cannabis 2.0, it was estimated that the annual Canadian market for edibles and alternative cannabis products would be worth C\$2.7 billion annually.²² If US trends are replicated in Canada, edibles and extracts could form the fastest-growing segment of the cannabis market as these product categories form over 50% of sales in regions of the U.S. Derivative sales are expected to improve the industry's margins over the long term, being higher-priced products that are more subject to quality and brand differentiation. This would offset the anticipated commoditization of dried flowers that will reduce margins.²³ Prior to COVID-19 analysts expected that derivative sales could account for 50% of the total sales in the mature recreational market and about 75% in the mature medical market by the year 2023/ 2024 respectively.²⁴

It is unclear whether COVID-19 may soften this growth expectation for the short to medium term, however our discussions with industry participants indicate that the pandemic has not had a material impact on expected consumption, and appears to have remained a consumer staple, similar to alcohol.

Some analysts revised their cannabis industry forecasts down with the onset of COVID-19. For example, one analyst was expecting retail sales to be approximately \$2.5 billion in 2020, down from a prior forecast of \$3.4 billion.²⁵ This is far from estimates suggested at the time of legalization of approximately \$7 billion in recreational sales by 2020, as reported in our first paper. However, COVID-19 may not have substantially impacted the industry as initially feared, with many provinces declaring cannabis producers and retailers as an essential business and allowing establishments to stay open, as well as the federal government granting access to a number of financial support programs.²⁶ Further, Health Canada temporarily adjusted its approach to the administration and enforcement of the *Cannabis Act* and its regulations, to assist the industry for issues such as licence amendments and renewals, security clearances, allowances for site-related activities and authorized persons.²⁷

Pleasingly, sales data from Statistics Canada reports that legal retailers sold over \$201 million worth of cannabis flower and other cannabis products in June 2020. This is almost an 8% increase over the previous monthly record which was just set in May 2020, the month prior.²⁸ Accordingly, the cannabis retail industry appears to be weathering the COVID-19 storm.

Prior to the onset of COVID-19, the following market trends were anticipated, with some possibly further exacerbated by the pandemic:

- price reductions due to oversupply in the market and competition with the illicit market;²⁹

²¹ The U.S. Bankruptcy Code is Federal Law and cannabis remains a Schedule 1 narcotic under the Controlled Substances Act. Source: *Why Marijuana Assets May Not Be Administered in Bankruptcy*. December 2017 www.justice.gov/ust/bankruptcy-articles

²² Deloitte: *Nurturing new growth, Canada gets ready for Cannabis 2.0*. www2.deloitte.com. Accessed July 15, 2020

²³ Alta Corp Report, *The Global Cannabis and Cannabinoid-derived Pharmaceutical Space: Top Picks and 2020 Outlook*

²⁴ Eight Capital Report Foresight 2020: *The Stock Picker's Year in Cannabis*. January 8, 2020

²⁵ BNN Bloomberg: *COVID-19 to weigh on Canadian pot sales growth in 2020, analysts say*. April 27, 2020. www.bnnbloomberg.ca

²⁶ McCarthy Tetrault: *COVID-19: Impact on the Canadian cannabis Sector*. April 24, 2020

²⁷ StratCann: *Health Canada offers updates on temporary measures for cannabis industry during COVID-19*. June 25, 2020

²⁸ Statistics Canada: *Retail trade sales by province and territory (Table 20-10-0008-01)*

²⁹ Alta Corp Report, *The Global Cannabis and Cannabinoid-derived Pharmaceutical Space: Top Picks and 2020 Outlook*

- inventory write-downs and product returns as a result of distribution channels not keeping pace with production levels, causing oversupply;³⁰
- margins remaining under pressure with declining revenue per gram, as well as a high cash burn rate, with capital expenditure remaining high;³¹
- continuing goodwill impairment given the reduction in market valuations across the cannabis sector, and companies that plan to sell previously acquired assets to improve their capital position;³²
- further consolidation of market players that lack capital resources or competitive advantage;³³ and,
- continuing weak financial results for several more quarters.³⁴



Valuation concepts

In our previous paper we discussed approaches to value and to use caution when considering market based multiples where value is calculated by applying a multiple based on similar assets. Such multiples are an estimate of the market value of a business, as a function of key metrics that are believed to drive value.

Implied Multiples for Canada’s Top 20 Largest Cannabis Companies

Enterprise Value (EV) multiples for the 20 largest Canadian-based public companies in the cannabis industry for the last twelve months (LTM) June 2020 are presented in Schedule 1. This data demonstrates that the use of multiples continues to have inherent challenges given companies are in a growth stage and generally remain unprofitable. In our last paper the top 20 companies had significant variability of multiples with EV/EBITDA as shown in the table below. As at LTM June 2020, the range, whilst still very wide, has narrowed somewhat since June 2019.

| Multiple | | Implied multiples | |
|------------------|---------|-------------------|-----------------|
| | | LTM June 2019 | LTM June 2020 * |
| EV / LTM EBITDA | Min | -469x | -22x |
| | Max | 16x | 754x |
| | Average | -49x | 9x |
| EV / LTM Revenue | Low | 12x | 1x |
| | High | 657x | 305x |
| | Average | 61x | 8x |

*EV values as at June 2020, however the majority of available financial information is reported as at 31 March 2020
Source: Capital IQ

³⁰ Alta Corp Report, *The Global Cannabis and Cannabinoid-derived Pharmaceutical Space: Top Picks and 2020 Outlook*

³¹ Alta Corp Report, *The Global Cannabis and Cannabinoid-derived Pharmaceutical Space: Top Picks and 2020 Outlook*

³² Alta Corp Report, *The Global Cannabis and Cannabinoid-derived Pharmaceutical Space: Top Picks and 2020 Outlook*

³³ Eight Capital Report *Foresight 2020: The Stock Picker’s Year in Cannabis*. January 8, 2020

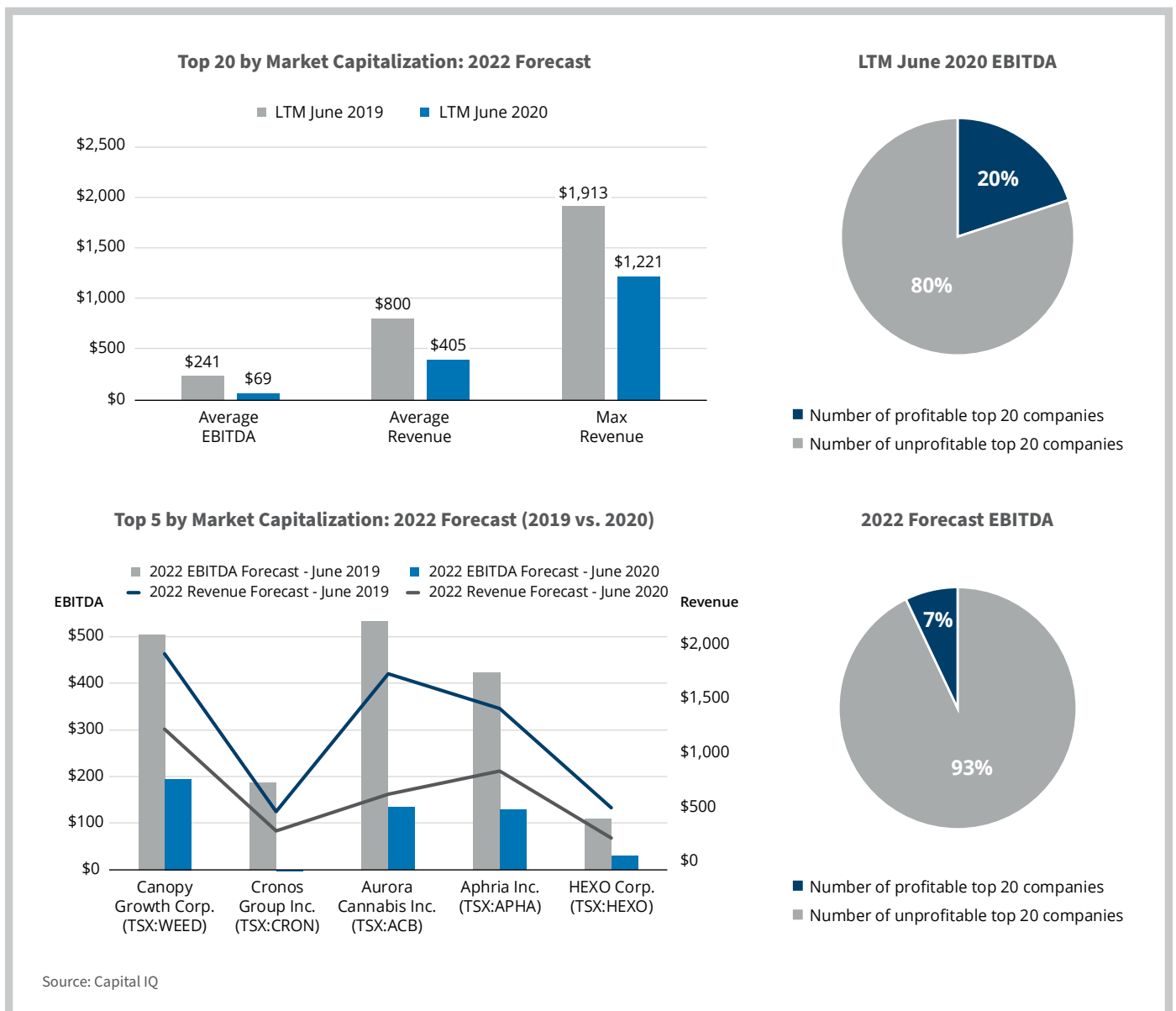
³⁴ Alta Corp Report, *The Global Cannabis and Cannabinoid-derived Pharmaceutical Space: Top Picks and 2020 Outlook*

The majority of the top 20 companies by market capitalization in Schedule 1 are involved in the cultivation, production and distribution of cannabis products. Three of the four profitable companies in this group focus on either the medical market (Aphria Inc. and Alefia Health Inc.) or production, research and testing (not cultivation) (The Valens company Inc.). This highlights the importance of comparing companies with similar assets and operations when using multiples as a guide for valuation purposes.

In our last paper, we discussed using forward looking multiples in the cannabis valuation, which is based on a company’s forecast earnings. We identified forecasts for 2022 for only half of the then top 20 companies by

market capitalization. When comparing those statistics to current forecasts for 2022 in Schedule 2, a significant reduction in expected trading results is apparent. Average forecast revenue for 2022 (where forecast information is available) has declined by almost 50% across this group of companies, and the highest revenue forecast (reported by Canopy Growth) has declined from \$1.9 billion to \$1.2 billion.

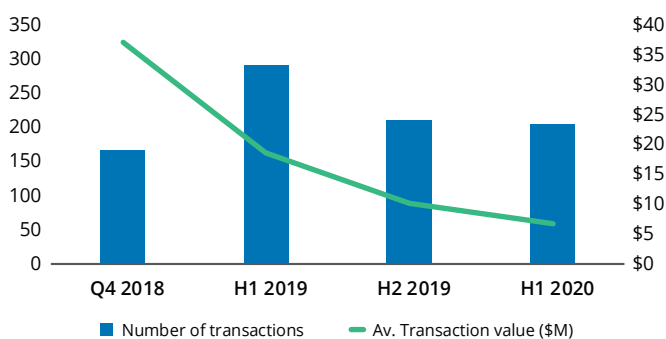
Forecasts show that 13 of the 14 companies (or 93%) with readily available information expect to turn a profit by 2022, compared to only 20% reported as at March 2020. Accordingly, industry players are expecting a substantial turnaround in performance in the next two years.



Market-Based Approach – Precedent Transactions

M&A activity in the Canadian cannabis industry continues with companies pursuing growth strategies via acquisition to achieve increased scale, market share and global reach, expansion along the value chain, and/or vertical integration. Since October 2018, there have been over 800 M&A or private placement transactions announced or closed involving a Canadian based cannabis business or cannabis ancillary business, totalling over \$15 billion in value. Approximately 52% of these occurred in the first nine months since legalization and remaining 48% in the year to June 2020. The average transaction price has been declining over time from \$37.1 million in Q4 of 2018 compared to \$6.8 million in H1 of 2020, which is consistent with declining asset values discussed earlier in this paper.

Number and average value of transactions in Canadian cannabis and ancillary industries



Source: Capital IQ

A diminishing number of M&A transactions is observed in the botanicals space (excluding ancillary industries), with 53 transactions announced or closed in the first half of 2019 compared to 34 transactions in H2 of 2019 and 27 in H1 of 2020.³⁵ Prior to the onset of COVID-19 analysts forecast that future M&A activity was likely to serve as a survival mechanism for licensed producers that lack capital resources or a distinct competitive advantage as the industry continues to consolidate.³⁶ Our discussions with industry participants confirmed that M&A activity will continue to be prominent in the industry, despite access to capital becoming constrained in 2019 due to an oversaturated market in Canada (with over 800 licences issued by Health Canada) as well as falling market values.

³⁵ Capital IQ

³⁶ Eight Capital Report Foresight 2020: *The Stock Picker's Year in Cannabis*. January 8, 2020

However, transaction sizes will be much reduced from that seen around the time of legalization, with more focus on strategic acquisitions of companies that are successful in specific market segments.

Schedule 3 contains Canada's largest M&A transactions and investments in the Cannabis industry since January 2019. The implied multiples are somewhat limited due to unavailable information regarding the financials of the target company. Our first paper reported some sizeable transactions in 2018, with the top four largest having transaction values exceeding \$1.5 billion, and the largest being a private placement by Constellation Brands Inc (an American producer and marketer of beer, wine and spirits) for 28% of Canopy Growth Corporation in November 2018. Schedule 3 shows that the largest industry transaction since January 2019 is for only \$487 million for the acquisition of Origin House by Cresco Labs Inc.

Canopy Growth has been one of the most active investors in this space since January 2019, with nine transactions announced at the time of writing. These have a combined transaction value of approximately \$710 million, the largest at \$340 million for the acquisition of C3 Cannabinoid Compound Company GmbH from Germany.

Other Valuation Metrics and Considerations

As discussed above, many companies in the industry are still loss making and therefore valuation metrics based on earnings currently remain less meaningful. Whilst forward looking earnings multiples may be considered, there is still uncertainty around the reliability of the forecasts.

Given that earnings multiples are not yet meaningful for valuation in an industry in its infancy, market participants and analysts often consider other metrics, such as,

- Production capacity or canopy area
- Operating cost per metre or square foot
- Revenue per measurable unit
- Cash cost of sales per gram or pound

The implication is that these metrics drive future revenues and/or cash flows. However, each of these have their own challenges in providing comparability. For example, production capacity or canopy area does not necessarily translate

directly to revenues and cash flows in a market that is experiencing over supply. In general, without considering the appropriateness of doing so, the application of a standardized methodology across companies may prove challenging and result in unreliable values.

Revenue, a common metric relied on by investors and other stakeholders, should also be carefully considered. In the cannabis industry, revenue sources are not necessarily identical, so when analyzing revenue it is important to consider the source of that revenue, and how it may impact the value of the entity. The industry is seeing increasing diversification by market participants, which in turn means that revenue sources may be one or a combination of many sources that may include products or services that are outside of standard cannabis cultivation, processing or sale. Further, licensed producers generate cannabis revenue in a range of ways such as supply to the provinces for recreational sales, medical cannabis, international medical cannabis, retail sales through owned stores, as well as wholesale sales to other licensed producers. For example:

- **Aphria Inc:** A significant proportions of its revenue is distribution related from the acquisition of other companies³⁷
- **Canopy Growth:** Revenue includes owned retail stores, and range of derivative products, such as skin care³⁸
- **Tilray:** Revenue comprises a substantial amount of non-cannabis revenue, including that from its acquisition of a Hemp food provider.³⁹

Accordingly, when valuing a cannabis company, it may be relevant to split it into segments to address the different risk profiles and expected growth rates of each. As explained in our first paper, an income based approach, such as a discounted cash flow (**DCF**) methodology allows a business valuator to apply a build-up approach when determining a discount rate, which can incorporate a variety of risk premia to reflect different risk factors.

Importantly, there are other non-financial considerations in a valuation, as discussed in our first paper, including management's capabilities. An experienced management team is critical to a company's success as not only do they set the overall strategic direction, but also require the skill to

execute these plans which are often complex, particularly in a new and rapidly changing industry. This need is demonstrated by the changes the industry has seen in the C-Suite of many market participants, discussed earlier.

Discussions with industry participants indicate that those factors that are key to the success of a Canadian cannabis company in an industry that is currently oversaturated are to:

- Build market share in Canada by increasing brand recognition through sales to the provincial buyers. Due to strict regulations regarding packaging and advertising, building brand awareness in Canada is a challenging task; and
- Pair back operating expenditure to reduce losses, with many companies over investing in the past in the race to gain critical mass.

Conclusion

The Canadian cannabis industry continues to evolve given the early stage of its lifecycle, the changing regulatory landscape with the introduction of Cannabis 2.0 and shifting industry fundamentals such as the retail landscape. To date, the advancement of the industry has been far from expectation, with the slow roll-out of licenses, protracted retail store openings and a robust illicit market.

At the time of legalization, many industry participants had very high valuations driven by market sentiment and long-term growth potential. However, with ongoing unprofitability (which is not unexpected for an early stage industry) and muted forecasts, market sentiment has declined. This underperformance compared with initial expectations has resulted in a staggering decline of publicly listed market participants' market capitalization. This, combined with continuing financial losses across most of the industry, means that some traditional valuation metrics such as profitability multiples may continue to be unreliable. Accordingly, the DCF (depending on the stage in the lifecycle), currently remains a relevant approach to valuation in the Canadian cannabis industry, together with a comprehensive review of the subject company's business fundamentals such as its business plan, evidence of cash resource and infrastructure to implement such business plans, assets, and importantly, management capability.

³⁷ 2019 Aphria Inc. Annual Report. www.aphriainc.com

³⁸ Canopy Growth FY2020 Q4 and Full Year Earnings Presentation. www.canopygrowth.com

³⁹ www.nasdaq.com Tilray Posts Huge Revenue Growth-and a Huge Loss – in Q4. March 2, 2020

Schedule 1: Implied Multiples for Canada's Top 20 Largest Cannabis Companies

| Company | Company Financials June 2020 (\$ millions) | | | | Implied Multiples June 2020 | | Implied Multiples June 2019 | |
|--|---|-----------------------|------------|-------------|--------------------------------|-----------------|--------------------------------|-----------------|
| | Market Cap | Enterprise Value (EV) | LTM EBITDA | LTM Revenue | EV/ LTM EBITDA | EV/ LTM Revenue | EV/ LTM EBITDA | EV/ LTM Revenue |
| 1 Canopy Growth Corporation (TSX:WEED) | 7,714.9 | 6,648.0 | (752.3) | 398.8 | (8.8) | 16.7 | (36.7) | 98.3 |
| 2 Cronos Group Inc. (TSX:CRON) | 2,853.7 | 975.1 | (212.9) | 41.4 | (4.6) | 23.6 | (331.8) | 254.0 |
| 3 Aurora Cannabis Inc. (TSX:ACB) | 1,901.5 | 2,232.3 | (232.0) | 305.7 | (9.6) | 7.3 | (50.3) | 61.6 |
| 4 Aphria Inc. (TSX:APHA) | 1,665.6 | 1,662.6 | 44.5 | 518.7 | 37.4 | 3.2 | (50.1) | 19.0 |
| 5 Tilray, Inc. (NasdaqGS:TLRY) | 1,207.6 | 1,636.5 | (291.9) | 254.4 | (5.6) | 6.4 | (57.2) | 71.4 |
| 6 TerraAscend Corp. (CNSX:TER) | 440.1 | 538.2 | (33.5) | 105.1 | (16.1) | 5.1 | (17.5) | 26.6 |
| 7 HEXO Corp. (TSX:HEXO) | 425.8 | 440.5 | (164.3) | 69.1 | (2.7) | 6.4 | (57.8) | 55.7 |
| 8 OrganiGram Holdings Inc. (TSX:OGI) | 372.5 | 418.6 | (30.2) | 89.4 | (13.9) | 4.7 | 16.2 | 30.3 |
| 9 The Valens Company Inc. (TSX:VLNS) | 306.6 | 265.2 | 28.5 | 87.9 | 9.3 | 3.0 | (30.0) | 187.6 |
| 10 Canopy Rivers Inc. (TSX:RIV) | 210.5 | 164.5 | (7.4) | 12.2 | (22.4) | 13.5 | N/A | 11.8 |
| 11 Auxly Cannabis Group Inc. (TSXV:XLY) | 186.1 | 254.1 | (55.5) | 17.4 | (4.6) | 14.6 | (9.0) | 41.6 |
| 12 MediPharm Labs Corp. (TSX:LABS) | 156.7 | 145.0 | (11.6) | 118.4 | (12.5) | 1.2 | (469.4) | 18.6 |
| 13 Aleafia Health Inc. (TSX:AH) | 148.9 | 167.4 | 0.2 | 29.4 | 754.1 | 5.7 | (9.1) | 69.0 |
| 14 Red White & Bloom Brands Inc. (CNSX:RWB) | 146.1 | 121.7 | - | - | - | - | N/A | N/A |
| 15 The Green Organic Dutchman (TSX:TGOD) | 140.4 | 163.3 | (63.9) | 11.5 | (2.6) | 14.2 | (15.5) | 176.0 |
| 16 XPhyto Therapeutics Corp. (CNSX:XPHY) | 140.0 | 140.8 | (9.6) | 0.5 | (14.6) | 300.2 | N/A | N/A |
| 17 Ignite International Brands, Ltd. (CNSX:BILZ) | 125.8 | 137.9 | (46.8) | 9.7 | (2.9) | 14.3 | N/A | N/A |
| 18 Rubicon Organics Inc. (CNSX:ROMJ) | 125.3 | 138.5 | (8.7) | 0.5 | (15.9) | 305.1 | (9.3) | 71.1 |
| 19 Flower One Holdings Inc. (CNSX:FONE) | 119.0 | 245.3 | 11.9 | 12.3 | 20.6 | 19.9 | N/A | 657.0 |
| 20 Sundial Growers Inc. (NasdaqGS:SNL) | 116.7 | 280.2 | (57.8) | 97.4 | (4.8) | 2.9 | N/A | N/A |
| Average | | | | | (8.8) | 7.6 | (48.9) | 61.0 |
| Min | | | | | (22.4) | 1.2 | (469.4) | 11.8 |
| Max | | | | | 754.1 | 305.1 | 16.2 | 657.0 |

Source: Capital IQ and FTI Consulting calculations

Note: LTM financial information available as at the time of preparation of this paper was primarily as at March 2020. However, there are also some instances of months after and prior, depending on the reporting period of the entity. EV and market capitalization data is as at June 30, 2020

Schedule 2: Implied Forward Multiples for Canada's Top 20 Largest Cannabis Companies

| | Company | Company Financials June 2020 (\$ millions) | | | Implied Multiples June 2020 | | Implied Multiples June 2019 | | | |
|----|---|---|-----------------------|----------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|--------------------------|-------------|
| | | Market Cap | Enterprise Value (EV) | 2022 Forecast EBITDA | 2022 Forecast Revenue | EV/2022 Forecast EBITDA | EV/2022 Forecast Revenue | EV/2022 Forecast EBITDA | EV/2022 Forecast Revenue | |
| 1 | Canopy Growth Corporation (TSX:WEED) | 7,714.9 | 6,648.0 | 193.8 | 1,220.9 | 34.3 | 5.4 | 30.2 | 8.0 | |
| 2 | Cronos Group Inc. (TSX:CRON) | 2,853.7 | 975.1 | (3.1) | 287.4 | (310.5) | 3.4 | 26.2 | 10.5 | |
| 3 | Aurora Cannabis Inc. (TSX:ACB) | 1,901.5 | 2,232.3 | 133.8 | 625.3 | 16.7 | 3.6 | 19.4 | 6.0 | |
| 4 | Aphria Inc. (TSX:APHA) | 1,665.6 | 1,662.6 | 127.9 | 832.8 | 13.0 | 2.0 | 5.4 | 1.6 | |
| 5 | Tilray, Inc. (NasdaqGS:TLRY) | 1,207.6 | 1,636.5 | 101.0 | 579.9 | 16.2 | 2.8 | N/A | N/A | |
| 6 | TerrAscend Corp. (CNSX:TER) | 440.1 | 538.2 | 115.7 | 452.0 | 4.7 | 1.2 | N/A | N/A | |
| 7 | HEXO Corp. (TSX:HEXO) | 425.8 | 440.5 | 30.3 | 220.7 | 14.5 | 2.0 | 17.1 | 3.8 | |
| 8 | OrganiGram Holdings Inc. (TSX:OGI) | 372.5 | 418.6 | 41.2 | 172.0 | 10.2 | 2.4 | 11.1 | 3.7 | |
| 9 | The Valens Company Inc. (TSX:VLNS) | 306.6 | 265.2 | 61.0 | 238.1 | 4.3 | 1.1 | 4.2 | 2.1 | |
| 10 | Canopy Rivers Inc. (TSX:RIV) | 210.5 | 164.5 | - | - | - | - | N/A | N/A | |
| 11 | Auxly Cannabis Group Inc. (TSXV:XLY) | 186.1 | 254.1 | 12.5 | 132.6 | 20.3 | 1.9 | 3.1 | 0.9 | |
| 12 | MediPharm Labs Corp. (TSX:LABS) | 156.7 | 145.0 | 57.3 | 187.7 | 2.5 | 0.8 | N/A | N/A | |
| 13 | Aleafia Health Inc. (TSX:AH) | 148.9 | 167.4 | 38.9 | 177.6 | 4.3 | 0.9 | N/A | N/A | |
| 14 | Red White & Bloom Brands Inc. (CNSX:RWB) | 146.1 | 121.7 | - | - | - | - | N/A | N/A | |
| 15 | The Green Organic Dutchman (TSX:TGOD) | 140.4 | 163.3 | 27.9 | - | 5.9 | - | N/A | N/A | |
| 16 | XPhyto Therapeutics Corp. (CNSX:XPHY) | 140.0 | 140.8 | - | - | - | - | N/A | N/A | |
| 17 | Ignite International Brands, Ltd. (CNSX:BILZ) | 125.8 | 137.9 | - | - | - | - | N/A | N/A | |
| 18 | Rubicon Organics Inc. (CNSX:ROMJ) | 125.3 | 138.5 | 25.2 | - | 5.5 | - | N/A | N/A | |
| 19 | Flower One Holdings Inc. (CNSX:FONE) | 119.0 | 245.3 | - | 143.6 | - | 1.7 | N/A | N/A | |
| 20 | Sundial Growers Inc. (NasdaqGS:SNL) | 116.7 | 280.2 | - | - | - | - | N/A | N/A | |
| | | | | | | Average | 16.3 | 3.0 | 17.5 | 5.2 |
| | | | | | | Min | (310.5) | 0.8 | 3.1 | 0.9 |
| | | | | | | Max | 34.3 | 5.4 | 30.2 | 10.5 |

Source: Capital IQ and FTI Consulting calculations

Schedule 3: Implied Multiples for Canada's Largest M&A Transactions and Investments in the Cannabis Industry

| | Company | Target | Announcement Date | Transaction Type | % Acquired | Implied Multiples June 2020 | | | | Implied Multiples June 2019 | | |
|----|---|---|-------------------|--------------------|------------|-----------------------------|------------|-------------------|--------------------|-----------------------------|-------------------------|-------------|
| | | | | | | Transaction value | Implied EV | Target LTM EBITDA | Target LTM Revenue | Implied EV/ EBITDA | Implied EV/ LTM Revenue | |
| 1 | Cresco Labs Inc. (CNSX:CL) | Origin House | 4/1/2019 | Merger/Acquisition | 100% | 487.3 | 487.3 | (51.9) | 63.2 | (9.4) | 7.7 | |
| 2 | Undisclosed | Aurora Cannabis Inc. (TSX:ACB) | 1/16/2019 | Private Placement | N/A | 460.4 | N/A | (188.5) | 119.1 | N/A | N/A | |
| 3 | Tilray, Inc. (NasdaqGS:TLRY) | Fresh Hemp Foods Ltd. | 2/20/2019 | Merger/Acquisition | 100% | 414.1 | 414.1 | (67.2) | 87.4 | (6.2) | 4.7 | |
| 4 | Canopy Growth Corp. (TSX:WEED) | C3 - Cannabionoid Compound Co. GmbH | 5/2/2019 | Merger/Acquisition | 100% | 340.2 | 340.2 | - | 40.8 | N/A | 8.3 | |
| 5 | TerrAscend Corp. (CNSX:TER) | Ilera Healthcare | 8/2/2019 | Merger/Acquisition | 100% | 296.1 | 296.1 | - | - | N/A | N/A | |
| 6 | HEXO Corp. (TSX:HEXO) | Newstrike Brands Ltd. | 3/13/2019 | Merger/Acquisition | 100% | 263.7 | 263.7 | (30.0) | 8.1 | (8.8) | 32.7 | |
| 7 | The Flowr Corporation (TSXV:FLWR) | Holigen Limited | 6/24/2019 | Merger/Acquisition | 80% | 244.9 | 305.4 | - | - | N/A | N/A | |
| 8 | Neptune Wellness Solutions Inc. (TSX:NEPT) | Assets of SugarLeaf Labs & Forest Remedies LLC | 5/9/2019 | Merger/Acquisition | 100% | 202.5 | 202.5 | - | - | N/A | N/A | |
| 9 | AgraFlora Organics International Inc. (CNSX:AGRA) | Assets of Organic Flower Investments Group Inc. | 5/23/2019 | Merger/Acquisition | 100% | 181.0 | 181.0 | - | - | N/A | N/A | |
| 10 | Aurora Cannabis Inc. (TSX:ACB) | Whistler Medical Marijuana Corporation | 1/14/2019 | Merger/Acquisition | 100% | 155.8 | 155.8 | - | - | N/A | N/A | |
| 11 | Canopy Growth Corporation (TSX:WEED) | KeyLeaf Life Sciences | 2/14/2019 | Merger/Acquisition | 100% | 129.0 | 129.0 | - | - | N/A | N/A | |
| 12 | Imperial Brands PLC (LSE:IMB) | Auxly Cannabis Group Inc. (TSXV:XLY) | 7/25/2019 | Private Placement | 20% | 122.9 | 614.3 | (46.2) | 11.0 | (13.3) | 55.9 | |
| 13 | Aurora Cannabis Inc. (TSX:ACB) | Reliva, LLC | 5/20/2020 | Merger/Acquisition | 100% | 113.1 | 113.1 | - | - | N/A | N/A | |
| 14 | High Park Holdings Ltd. | 420 Investments Ltd. | 8/29/2019 | Merger/Acquisition | 100% | 110.0 | 110.0 | - | - | N/A | N/A | |
| 15 | Cronos Group Inc. (TSX:CRON) | Cronos Growing Company Inc. | 8/23/2019 | Private Placement | N/A | 100.0 | N/A | - | - | N/A | N/A | |
| 16 | Artemis Growth Partners LLC | Bridge Farm Nurseries Limited | 5/15/2020 | Merger/Acquisition | 100% | 90.0 | 90.0 | - | - | N/A | N/A | |
| 17 | WeedMD Inc. (TSXV:WMD) | Starseed Holdings Inc. | 11/29/2019 | Merger/Acquisition | 100% | 84.0 | 84.0 | - | - | N/A | N/A | |
| 18 | Canopy Growth Corp. (TSX:WEED) | Solace Health Inc | 3/11/2020 | Private Placement | N/A | 80.5 | N/A | - | - | N/A | N/A | |
| 19 | Canopy Growth Corp. (TSX:WEED) | TWP UK Holdings Ltd. | 5/22/2019 | Merger/Acquisition | 100% | 71.5 | 71.5 | - | - | N/A | N/A | |
| 20 | Undisclosed | HEXO Corp. (TSX:HEXO) | 10/23/2019 | Private Placement | N/A | 70.0 | N/A | (84.5) | 47.5 | N/A | N/A | |
| | | | | | | | | | | Average | (9.1) | 10.1 |
| | | | | | | | | | | Min | (13.3) | 4.7 |
| | | | | | | | | | | Max | (6.2) | 55.9 |

Source: Capital IQ and FTI Consulting calculations

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NEAL MIZRAHI

Senior Managing Director
+1 416 649 8067
neal.mizrahi@fticonsulting.com

NATALIE QUINN

Senior Director
+1 604 757 6109
natalie.quinn@fticonsulting.com

JASON KIM

Senior Consultant
+1 416 649 8117
jason.kim@fticonsulting.com

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