

Highlighting Under-Followed Stocks in US Cannabis

US cannabis has come a long way in terms of investor awareness, however the still limited scope of traditional sell-side research coverage causes many otherwise quality companies to fly under-the-radar and lacking investor following.

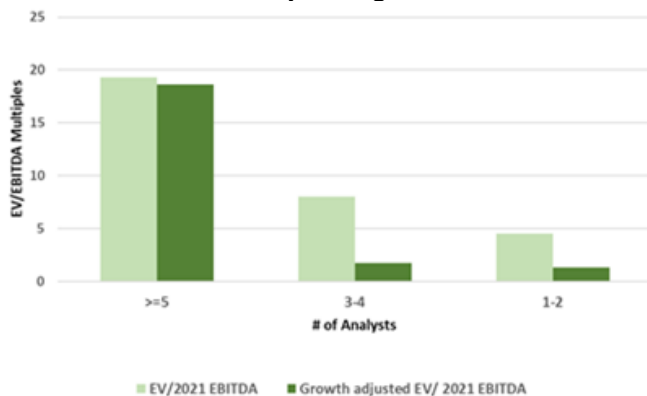
In our view, investor awareness and a lack thereof is a key factor in the disconnected US cannabis stock valuations whereby the largest MSOs garner disproportionate attention and premium valuations. In many cases, premium valuations for the largest MSOs come despite lower anticipated future growth and less catalysts for investor upside relative to smaller peers. With the lack of awareness in mind, we aim to highlight unfollowed and under-followed public US cannabis companies with otherwise solid fundamentals and favorable growth opportunities. We believe these companies have the potential to offer outperforming returns for investors particularly as greater awareness comes to the market.

Today, we highlight **Harborside Inc. (US OTC: HBORF: \$1.65)**. Harborside is a pioneer in US cannabis and one of the original operators in California. The company is a leading retailer in the Bay Area but historically has had trouble ramping beyond that. Over the past year, a new management team has made the company profitable and shored up the balance sheet while recent acquisitions will ramp cultivation capacity and bring on a flag ship brand. Harborside now appears poised for significant growth and share gains in California, the world's largest cannabis market. At current levels, Harborside stock appears under undervalued while a long-overdue consolidation of the California market could provide a catalyst for upside in the near term with Harborside seeming to be an attractive takeover candidate for any MSO looking to enter or scale in the state.

Valuation correlated to coverage/awareness

A recent Viridian Capital "Chart of the Week" highlighted the correlation between cannabis company valuations and breadth of sell-side research coverage. As we have previously referenced, breadth of coverage and awareness is a factor that even outweighs projected growth and profitability. We continue to believe that with greater awareness, currently underfollowed names offer investors the potential for superior long-term returns.

Valuation by coverage breadth



Source: Viridian Capital, Cannabis Deal Tracker

June 28, 2021

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Investment Highlights

- Favorable opportunities in underfollowed cannabis companies.
- Limited awareness a key factor in disconnected valuations.
- Harborside appears to be an undervalued operator with potential to scale results in the near term.
- California to be focus market for MSO acquisition. Consolidation potential should be factored into valuation for all smaller operators.
- 1933, Audacious Brands, Bell Rock, Body & Mind, C21, CLS, Flower One, Grapefruit, Halo, PLUS, Marimed, Schwazze, Terra Tech, Turning Point, Vext Science and Vibe are other notable under followed names.

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Consolidation presents upside opportunities with smaller operators

Along with our view that greater investor awareness has the potential to drive upside for investors in under followed cannabis companies, we believe on-going consolidation in the US cannabis market too should be a factor warranting enhanced valuations for smaller operators in the space.

Following sizable financings of 2020 and earlier this year and with the continued low cost of debt (particularly large scale debt), capital is not an issue for large MSOs. Meanwhile considering recent large transactions including the Trulieve/Harvest acquisition, we expect larger scale acquisitions in US cannabis to become more common in the near term given the arms race nature of the space. Quite frankly, we believe both investors and operators are motivated to make deals so as to not miss out on growth opportunities (or to be perceived as such). Additionally, we believe the largest MSOs are becoming increasingly motivated to complete acquisitions ahead of an eventual entry to the US market by the large Canadian LPs. With these factors in mind, we believe all, but the largest operators are very much in play to be acquired.

Importantly, we believe any takeout(s) will come with premium valuations presenting significant upside for investors. We note that for most smaller operators, even peer group valuations offer significant upside to current levels. Within our coverage, we believe Consortium, GAGE Cannabis, Goodness Growth Holdings and Lowell Farms are the most likely takeout candidates by larger MSOs and represent worthwhile investment opportunities. Each has established assets in attractive markets which can be expanded upon longer term.

Harborside Inc. (US OTC: HBORF: \$1.65)

Harborside is a vertically integrated cannabis operator with five dispensaries in the California Bay Area. The company was one of the original license holders in California and is a well-regarded operator in the state.

As previously mentioned, the company has historically struggled to generate profits and scale operations to a level commensurate with a public company. 2020 marked a turning point with Harborside becoming a profitable entity with a shored-up balance sheet capable of supporting sustainable growth.

On-going growth initiatives include expanding cultivation and production capacity, acquiring a flag ship brand to leverage and opening additional dispensaries with a likely focus on Southern California.

Cultivation/Production Capacity:

Harborside recently completed an acquisition of a Salinas, CA cultivation/production facility with ~200K lbs. of annual flower production capacity to expand cultivation capabilities. The facility had previously been operated by Harborside under a lease agreement while capacity can be further expanded in the future. The enhanced cultivation/production capacity will permit Harborside to scale operations with both its retail and wholesale businesses and to be less reliant on wholesale suppliers to fulfill retail inventory needs. The acquisition cost approximately \$11M with funds having been drawn down from an existing credit facility.

Branded products acquisition:

Harborside has a looming acquisition to acquire Sublime brands and particularly the company's Fuzzies brand. Fuzzies is a leading pre-rolls brand in California. As we have previously referenced, brand building is real in cannabis and we believe brands are a core asset for any well-run operators. Furthermore, we believe pre-rolls are a solid product category through which to build a brand given that pre-rolls have one of the fastest growth rates in the industry. For Harborside the brand acquisition will likely drive enhanced demand (and at premium prices) for all the company's products both in the retail and wholesale channel while also allowing management to generate potential licensing revenues in the future.

Harborside will acquire Sublime for approximately \$43M including \$5M in cash. For the equity portion of the transaction, Harborside will issue ~20.8M shares. The acquisition is expected to close next month. As a standalone entity, Sublime is projected to generate roughly \$25M in revenues this year.

Retail Expansion:

Along with the cultivation expansion and brand acquisition, we expect that Harborside will grow its retail footprint through the receipt of new licenses and the acquisition of challenged operators. We believe a focus of retail expansion is likely to Southern California where Harborside does not yet operate. California remains a fragmented market with many smaller independent operators and license holders needing an exit due to the high costs of operating in the state.

'21 Outlook and Valuation

Harborside generated \$63M in full year 2020 revenues and adjusted EBITDA of \$7.4M. For 2021, management has guided to between \$68M and \$72M in revenues and an adjusted EBITDA of approximately \$11M at the mid-point. Guidance does not include the projected \$25M in revenues from the Sublime business which based on corporate average margins and a full second half worth of contributions would bring Harborside guidance to approximately \$85M in revenues and \$13.5M adjusted EBITDA.

Including dilution related to the Sublime acquisition, Harborside is currently valued at a market cap of \$136M. Based on 2021 guidance, Harborside is priced at an EV/Sales multiple of 2.3x and EV/EBITDA of 14.3x. The current valuation multiples compare with 3.8x and 24.8x respectively for a peer group of medium sized operators with a market cap between \$100M and \$1B. For Harborside, peer group multiples would translate to a price between \$2.90 and \$3.10 or between 76% and 88% upside from current levels.

When factoring in contributions from Sublime, the discounted valuation appears even more significant with a 2021 EV/Sales multiple of 1.9x and 12.2x EV/EBITDA. Peer group multiples including Sublime contributions would result in a price between \$3.50 and \$3.70.

In our view, Lowell Farms (US OTC LOWLF) reflects the most appropriate comparison to Harborside. Lowell Farms is a leading wholesaler serving the California market. Like Harborside, the company has cultivation/production assets in Salinas, CA and recently acquired a leading pre-rolls brand (Lowell Herb Co.). Lowell is in the process of ramping cultivation/production scale. We view Lowell as a well-run operator in the space and see the stock as an attractive investment given looming favorable growth initiatives for the company. Lowell currently trades at an EV/Sales multiple 4.2x our 2021 estimates and 31.5x EV/EBITDA.

Lowell's 4.2x EV/Sales multiple would put Harborside stock at \$3.30 based on revenue guidance.

Harborside Inc. Projected Cap Table

Fully Diluted Shs. (M)	61.8
Sublime	21
Common Shares (M)	83
OTC Price	1.65
Market Cap (\$M)	136
Cash Q1/21 (\$M)	30.9
Sublime Acquisition	5.4
Cash (\$M)	25.5
Total Debt (\$M)	49.5
Enterprise Value (\$M)	160

Source: Company Reports, Viridian Capital

California is prime for consolidation

As previously mentioned, we believe all small to medium sized operators including Harborside are in play to be taken out in the near term as large MSOs target scaled operations through acquisition.

California remains the world's largest cannabis market, accounting for more than 20% of legal US sales. Due to a combination of factors including limited regulatory transparency and a large established black market, MSOs and other large operators have mostly avoided the California market to date.

Of the twelve largest MSOs, only Cresco, Columbia Care, Terrascend and Trulieve (including Harvest assets) have California operations of any scale today (with Planet 13 opening in California next month). Historically, that choice has proven to be beneficial however we expect the challenges of the past are waning while beyond that at some point the sheer scale of sales in California will motivate entry.

Beyond MSOs, recent SPACs including The Parent Company and Glass House which have a California focus remain well capitalized and are likely motivated to complete additional transactions to scale. In our view, Harborside along with other California operators including Body & Mind, Grapefruit, Plus Products, Lowell Farms and Vibe Cannabis each look to be attractive takeout candidates given favorable existing businesses in the state.

As previously mentioned, we believe any takeout of attractive operators is likely to start at a premium valuation given the significant competition for transactions.

Select Public Company Positioning in CA

Biggest Operators

Curaleaf	Small Manufacturing/production business
Green Thumb	1 Dispensary
Verano	1 Dispensary
Trulieve	5 Dispensaries (including Harvest)
Cresco	Cultivation and Production Operation
Terrascend	5 Dispensaries
Columbia Care	6 Dispensaries
AYR	Nothing
Planet 13	Will open dispensary next month
4Front	Will open manufacturing facility in 2H/21
Ianthus	Nothing
Jushi	2 Dispensary

Under-followed Operators

Body & Mind	2 Dispensaries
Harborside	5 Dispensaries, growing cultivation footprint
Lowell Farms	Scaling Cultivation/Production Capacity
Vibe	5 Dispensaries

Source: Company Reports

Additional Notable Underfollowed Names

Other notable underfollowed names with attractive opportunities include:

- **1933 Industries (US OTC: TGIFF):** Wholesaler of distillate and branded products producer in California and Nevada. Company should benefit from enhanced growth in Nevada on tourism return and restriction lifting.
- **Audacious Brands (formerly Australis Holdings) (US OTC: AUSAFF):** Acquires and operates US cannabis companies. Favorable portfolio of existing investments with additional opportunities likely. Take outs of investment companies could provide upside on investment.
- **Bell Rock Brands (US OTC: DXBRF):** Bell Rock Brands owns the Dixie and Mary's Medicinals cannabis products brands. Bell Rock's portfolio of leading brands looks favorable at time when brands are so sought after. Meanwhile the company is scaling internal production capacity to better profit on brand demand.
- **Body & Mind (US OTC: BAMB):** Body & Mind is a multistate operator with assets in Arkansas, California, Nevada and Ohio. The company is profitable and generates cash with growth initiatives on-going in each of its market.
- **C21 Investments (US OTC: CXXIF):** Vertically integrated operator with presence in Nevada and Oregon. Anticipate strong growth in both these markets in the coming years.
- **CLS Holdings (US OTC: CLSH):** Vertically integrated operator in Nevada. Growing branded products presence and plans to expand to New Mexico through partnership. CLS should disproportionately benefit from return of Las Vegas tourism given dispensary location in the city and wholesale presence. Growth outside Nevada expected on state expansion initiatives.
- **Flower One (US OTC: FLOOF):** Flower One is a leading wholesale supplier to the Nevada market. Company should benefit from enhanced growth in Nevada on tourist return and restriction lifting.
- **Grapefruit USA (US OTC: GPFT):** Grapefruit is a branded products manufacturer focused on California. Growth should come on both new product launches and enhanced distribution.
- **Halo Collective (US OTC: HCANF):** Wholesaler in California, Nevada and Oregon. Attractive market exposures and offering of branded products.
- **Marimed (US OTC: MRMD):** Multistate operator with presence in Delaware, Illinois, Massachusetts and Maryland. Marimed has favorable East Coast exposures particularly if recreational legislation comes in the near term for Delaware and Maryland.
- **PLUS Products (US OTC: PLPRF):** PLUS is a leading edibles manufacturer with a presence in California and Nevada. Company has consistently maintained a leading share of gummies category of edibles. Could be an attractive acquisition target for a company looking to enhance its brand portfolio.
- **Schwazze (US OTC: SHWZ):** Schwazze owns and operates Colorado vertically integrated assets and branded products. Company formerly known as Medicine Man Technologies. Schwazze is rare public operator with significant scale in Colorado. The company is likely to benefit from strong growth in market and be a potential takeout candidate as MSOs look to enter the to-date underpenetrated state.
- **Terra Tech: (US OTC: TRTC):** Vertically integrated operator with a presence in California, Nevada and Oregon. California, Nevada and Oregon represent attractive, large high growth markets. Additional growth opportunities likely on potential future state expansion.

- **Turning Point Brands (NYSE: TPB):** Turning Point is known primarily as a tobacco company and is covered as such by analysts. Turning Point owns the Zig Zag brand though which is one of the most recognized assets in US cannabis and increased awareness for the company's cannabis exposure is likely in the near term.
- **Vext Science (US OTC: VEXTF):** Vext is a profitable vertically integrated operator with assets in Arizona. Additionally the company has a portfolio of leading products sold in the state. The company is positioned to capitalize on strong growth in the Arizona market with the recent advent of recreational sales. Vext recently expanded extraction/production capacity to capitalize on the anticipated growth opportunity. In addition to Arizona, Vext has plans to expand into additional markets with retail and production assets including California, Massachusetts, Nevada, Ohio and Oklahoma through joint venture and letter of intent.
- **Vibe Growth Corp (US OTC: VBSCF):** Vibe is an established operator in California. The company is looking to scale operations in the state and recently announced plans to enter the Massachusetts market first as a wholesale supplier but with eventual plans for vertical integration.

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			IB Services in Past 12 months	
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