

Cannabis

Multi-State Operator Quarterly Recap - 3Q20

With third quarter earnings nearing completion for most MSOs, we are publishing this quarterly recap to provide a visual comparison of the trends in key operating metrics in 2020. As an overarching statement, 2020 has been an outstanding year for MSOs. Growth rates have remained strong, and with few exceptions, gross margin rates are improving, growth in operating expense has been limited, and operating leverage and EBITDA growth have been extremely strong. While this is still an early stage industry, a sufficient base of operational capacity and revenue has been established to understand what the underlying business models will look like for the larger MSOs. What we continue to believe, and 3Q results supported, is that this industry is likely to experience revenue growth rates in the 25-35% range, gross margin rates in the 55-60% range, and EBITDA rates between 30-40%.

As a group, MSO QoQ revenues grew 36% and EBITDA grew by 75%. Average revenue increased 36% QoQ and +106% compared to 4Q20. Gross margins improved by 290bps to 52.5%, and operating expense dollars grew +14% QoQ and dropped 675bps to 35% of sales. EBITDA growth averaged 75% with rate improving by 8pts to an average of 24%. FCF generation has improved through '20, albeit with choppiness related to tax payments and differences in working capital and capex investments. On a YTD basis, only Green Thumb, Trulieve, and Ayr have generated positive FCF, although the trend here would suggest more of these will be FCF generative in 4Q and into '21.

The outlook into '21 remains very strong; we can point to no macro, regulatory, or fundamental factors that would materially alter the pace of revenue growth, and we expect continued improvement in operating metrics into 4Q and '21. We view funding of capacity expansion in 1H as the most critical factor that will impact growth in late '21 and '22. While debt and equity funding has become more available in '20, with few exceptions (like Trulieve), capital raising activity over the next few months will be required to sustain growth.

Company specific commentary and conclusions from 3Q results can be found in the earnings recaps in the links below.

Links to Quarterly Recaps on MSOs under coverage:

Ayr Strategies (AYRSF, Buy, PT \$28.00): [Top-Tier Operating Performance, Still Trading at Bottom-Tier Valuation](#)

Columbia Care (CCHWF, Hold): [From Good to Gooder \(Still Working on Great\)](#)

Cresco Labs (CRLBF, Hold): [Playing Like A Major Leaguer](#)

Curaleaf (CURLF, Buy, PT \$14.00): [Messy Quarter Delivered As Expected, Outlook Much More Clean](#)

Green Thumb (GTBIF, Buy, PT \$39.00): [An Exceptional Quarter, Even For A Company Known For Exceptional Quarters](#)

TerrAscend (TRSSF, Buy, PT \$9.50): ['21 Might Be Remembered As The Golden Age of Cannabis in The Mid-Atlantic](#)

Trulieve (TCNNF, Buy, PT \$36.25): [Growth at Scale Visible - Strong Growth and Steady Margin Rates](#)

RELEVANT DISCLOSURES BEGIN ON PAGE 7 OF THIS REPORT.

Topic of Discussion

Visualization to recap quarterly results

CONTRIBUTING ANALYSTS

MATT MCGINLEY

(212) 705-0440

mmcginley@needhamco.com

EVAN GREENBLATT

(212) 705-0434

egreenblatt@needhamco.com

MENTIONED COMPANIES

AYRSF: \$18.15, PT: \$28.00

CCHWF: \$3.86, PT: NA

CRLBF: \$9.02, PT: NA

CURLF: \$9.70, PT: \$14.00

GTBIF: \$18.69, PT: \$39.00

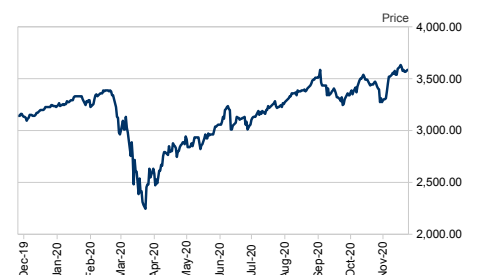
TCNNF: \$25.98, PT: \$36.25

TRSSF: \$7.51, PT: \$9.50

SECTOR CHART

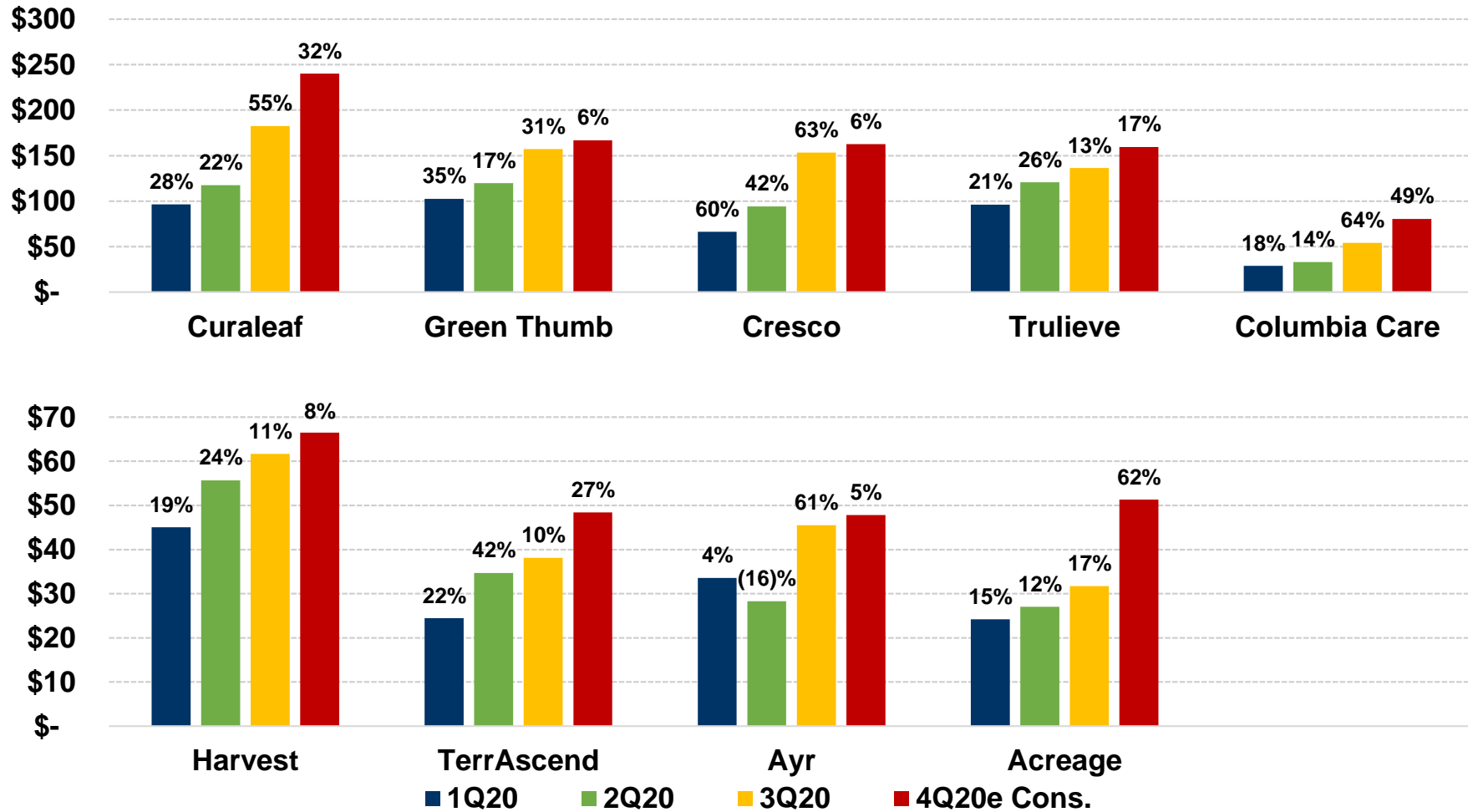
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REVENUE

Charts show revenue (as reported in US\$), and sequential revenue growth rate.

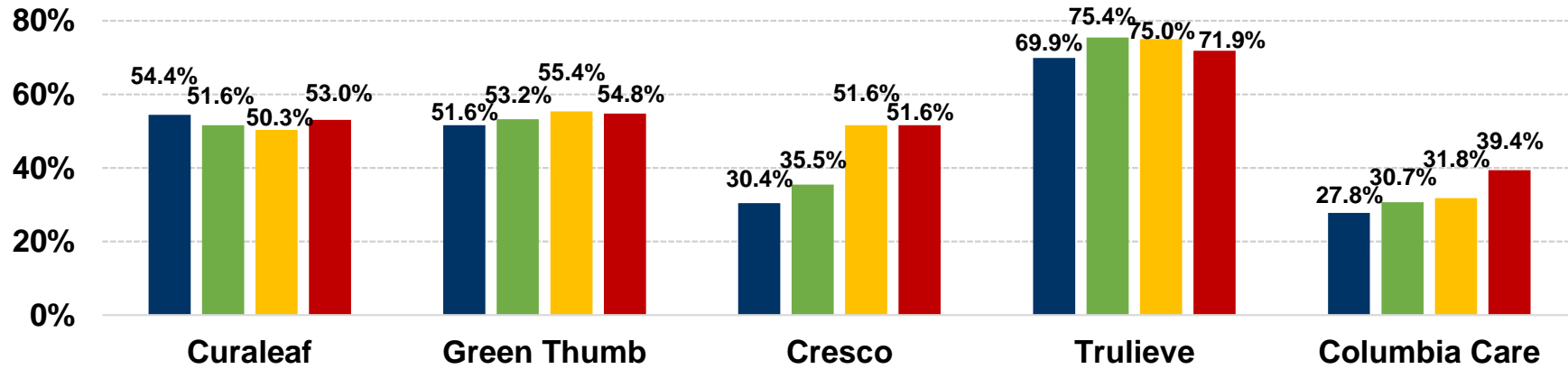


Source: Needham & Company, LLC

Note: Only reported revenues as allowed under IFRS and GAAP are included (no pro-forma or adjustments for managed revenues are included).

GROSS MARGIN

Gross margin defined as gross profit as a % to reported revenue.

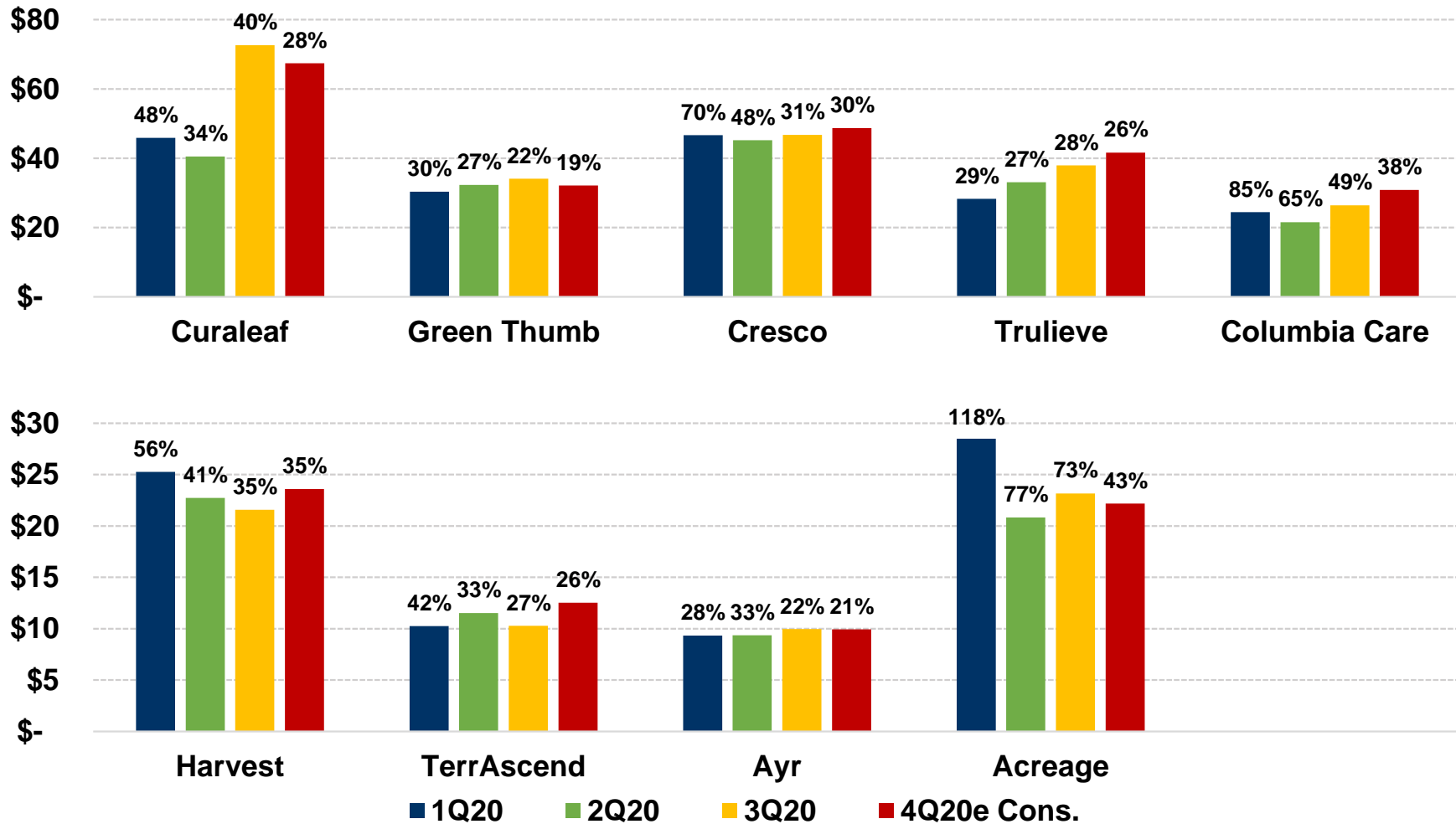


Source: Needham & Company, LLC

Note: Gross margin is calculated before fair value adjustments made under IFRS. Some lease expenses included in COGS under GAAP would result in GAAP GM% lower than GM % under IFRS, but for companies that expense grow costs immediately as is allowed under IAS 41, gross margins could be materially lower if the company is expanding cultivation. Acreage consensus estimates for 4Q look incorrect, in our view.

OPERATING EXPENDITURES

Charts show operating expenditures (as reported in USD) and Opex as a % of reported revenue.

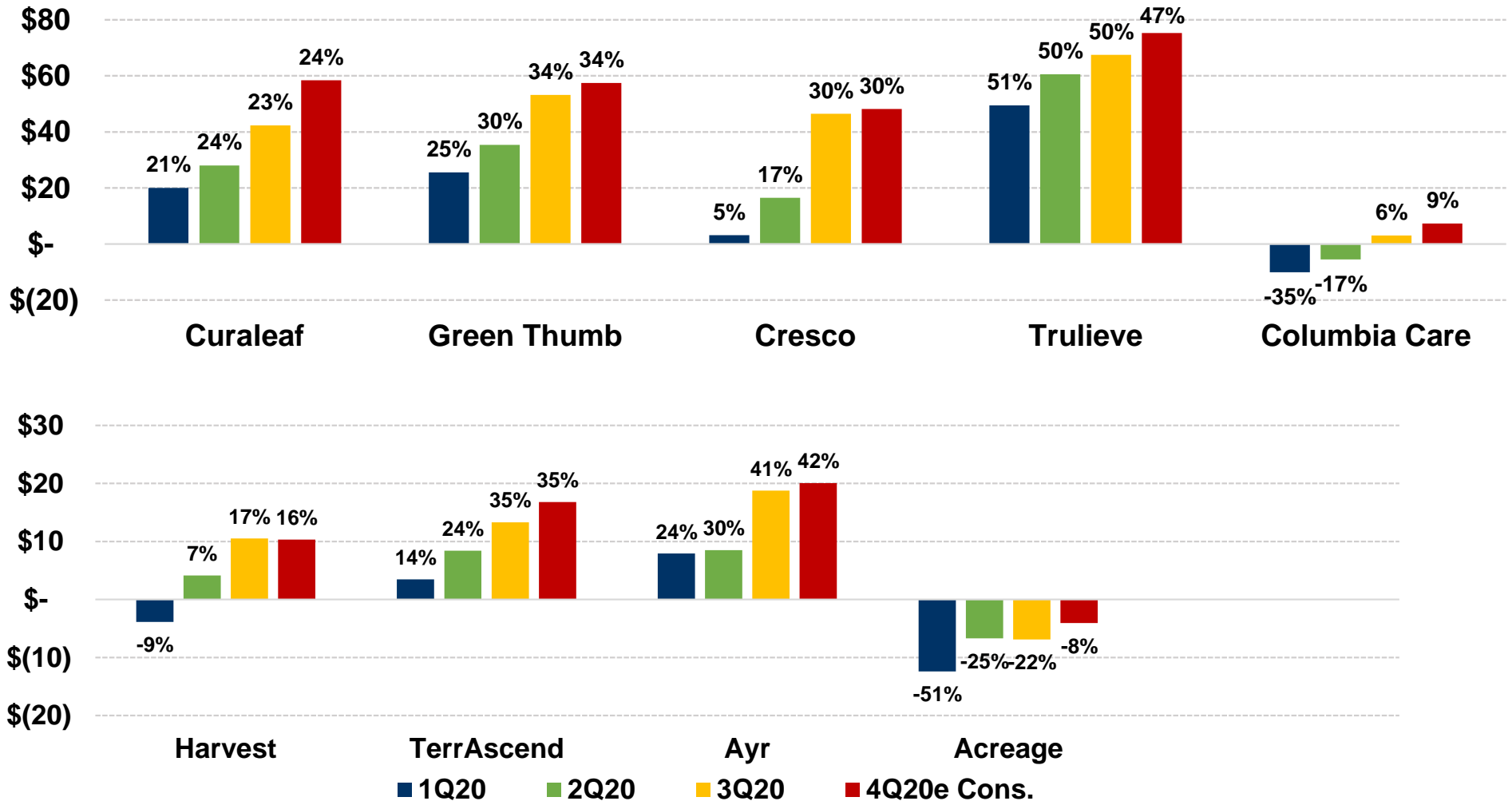


Source: Needham & Company, LLC

Note: Due to differences in GAAP vs IFRS and company presentation of expense, opex is not a standardized and perfectly comparable metric. For Green Thumb and Acreage, 4Q Consensus estimates are based on FactSet Consensus Total Opex times prior quarter ratio of SG&A to Total Opex.

EBITDA

Adjusted EBITDA (as reported in USD) and EBITDA as a % of reported revenue.



Source: Needham & Company, LLC

Note: Adjusted EBITDA does not have a standard definition, and some companies are more generous in the adjustments.

FREE-CASH-FLOW

Free-cash-flow defined as Cash from Operations less capex.



Source: Needham & Company, LLC

Note: FCF defined as CFO less capex. Some companies report capex net of sale-leasebacks, and differences in owned vs leased assets will distort FCF comparability.

ANALYST CERTIFICATION

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Hold	24	0
Underperform	< 1	0
Rating Suspended	< 1	100
Restricted	< 1	0

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