

Dear MJResearchCo Members,

Throughout Q4, we've been publishing weekly insights on the cannabis industry to a small group, in what we've called the MJResearchCo Extract.

Previously an internal tool at MJResearchCo, the Extract provides our own opinion and analysis of top industry news to ensure we're up to date on cannabis industry trends.

Today we're providing some of the highlights from The Extract from the past three months.

The goal of this recap is to provide value-added takeaways beyond headlines and highlight our recently published deeper analyses.

During earnings season, we also provide key takeaways from the calls beyond what the sell-side covers, focusing more on support or refuting company narratives. This quarter we wrote reviews of 4Front, Agrify, Ascend, AYR, Columbia Care, Chalice Brands, Charlotte's Web, Cresco, Curaleaf, Gage, Glass House, Goodness (Vireo), Green Thumb, GrowGen, Hydrofarm, iPower, Jushi, Lowell Farms, Marimed, Planet 13, The Parent Co, RIV Capital, Scotts MiracleGro, Terrascend, Trulieve, Urban-Gro, Verano, and Vext.

If you wish to receive the Extract on a weekly basis, you can sign-up here!

The Q4 2021 Extract highlights include the following topics:

- **M&A and Investment**
  - What's left of Curaleaf's \$425m in new debt after refis?
  - Goodness Growth sells AZ assets to Copperstate
  - Schwazze raises \$95m convert and expands to NM
  - Glass House Brands buys Plus Products
  - Canopy buys Wana: The details of the transaction
  - Tilray buys Breckenridge Distillery
- **Company News**
  - Trulieve debuts Bhang in Florida
  - Verano increasing discounting
  - Is Weedmaps spoofing their brand followers?
- **State News**
  - NY abolishing 280E taxes = positive for lenders
  - NJ, 30 more dispensaries approved
- **Industry News**
  - What's in IL weed? Sometimes contaminants
  - Vaporizers may be leaching heavy metals
  - Infused pre-rolls, category growth & automation opportunity
- **Private Opportunities**
  - BigBrain, Bridging the Gap Between Medical Research and Cannabis Products
- **Non-Cannabis News**
  - Oishii, the Tesla of strawberries

## M&A and Investment

### [What's left of Curaleaf's \\$425m new debt after refis?](#)

(12/20/2021)

Curaleaf just raised \$425 million of notes due 2026 at 8%; the size and access to capital is impressive in itself. The stated use of the capital is to “refinance existing indebtedness, for working capital, and to pay transaction fees and expenses”. The key takeaways are:

- The net incremental cash raised by Curaleaf will be \$105.5 million assuming they pay the \$19.5 million fee to prepay the 13.0% \$300 million term loan (which actually has cost 15.25% in 2021).
- After they close on the Tryke acquisition, Curaleaf will have \$316 million in cash and \$563 million in debt, for \$247 million in net debt. This is before the potential \$4 million earnout to Los Suenos in 2023 and \$68 million of in the money cashless option and warrant proceeds.
- The fact that Curaleaf can raise such a large amount of debt is impressive, and using consensus EBITDA estimates, the company has a gross debt/EBITDA of 1.6X on 2021 and 1.1X on 2022 with the current debt level, and 1.9X and 1.3X after Tryke, respectively.
- However, we caution lenders that [280E makes debt/EBITDA less relevant](#) since interest is not tax-deductible, and is really an excise tax applied to gross profit. For lenders and PE LBO-style investors, the inability to deduct interest under 280E means there is no tax shield from debt for plant-touching operators.
- Simplistically taking 30% of gross profit as 280E tax for Curaleaf (30% of \$875 million = \$262 million) to get EBIDA ([as we described here](#)) yields \$216 million of EBIDA (\$477 million consensus EBITDA – \$262 million tax) using consensus estimates (which assume the company expands revenue 35% and EBITDA margins by 4.4% points to 29.0%).
- This puts Curaleaf's gross debt / EBIDA at 4.4X on 2021 and 2.1X on 2022 currently, and 2.6X on 2022 after Tryke closes.

### [Goodness Growth Holdings Announces Divestiture of AZ Dispensary License](#)

(11/05/2021)

Goodness Growth (Vireo Health, \$GDNF) sold their Phoenix dispensary and 18-acre cultivation to Copperstate farms for \$15M, with a managed services agreement on the cultivation (basically Vireo gets to operate on the cultivation, but Copperstate owns the license). This seems like a good deal for both parties. Goodness sold the assets because they need the cash to fund more valuable ops in NY/MN/MD, and Copperstate bought them because they own the [largest cultivation](#) in the country but want more owned-retailers to sell their product through. We're curious how the cultivation license played into this transaction. Copperstate does not need this 18-acre farm given their current facility in Snowflake, especially considering the Vireo site primarily produces low-value biomass, but the license does have value. It seems Copperstate bought a dispensary and got a license for free.

### [Schwazze Raises \\$95m convert and expands to New Mexico](#)

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### [Glass House Brands Buys Plus Products for \\$25 Million](#)

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Glass House, a cultivation operator in California acquired Plus Products, a distressed edibles manufacturer in California that had recently filed for [creditor protection](#). The terms of the transaction are vague, but with the insights of the PWC [creditor report](#), we calculated a recovery share price of \$0.132, compared to the [last traded](#) price of \$0.357 on Sep. 10th, for a valuation of 1.32x Q3 run-rate revenues. The structure of the payment from Glass House is unclear, but if they assume [\\$16M](#) in debt from Plus it would imply paying \$10.5M in equity or another 2.6M GLASF shares at \$4.08 each. In any form, this looks like a positive outcome for Plus shareholders, and the benefit to Glass House will be reflected in Q1/Q2 2022 numbers. Glass House will aim to ramp the Plus revenues while expanding gross margins through their cultivation supply while slashing operating costs. Past [filings](#) imply Plus has an [exclusive](#) distribution relationship with Herbl (same as GLASF) with a presence in 85% of CA retailers, so we expect to see synergies supporting the revenue ramp. Finally, we note investors should consider that the Supreme Court of British Columbia has the right to grant (or deny) the process for a vote on the acquisition of Plus due to the company's creditor protection situation.

### [Wana-Canopy Transaction Details, Updated for interview with CEO Nancy Whiteman](#)

(10/29/2021)

1. Most interesting is that Whiteman CANNOT can't put any of the Canopy money back into Wana because Canopy lawyers were worried about the appearance of indirect funding of a plant touching operation. She can use it for anything else, including non-Wana US plant touching operations. In contrast, Pharmacann issued \$85m of debt 10 days after the owners received \$110m in option premium from Cronos.
2. The future payment at close is 15% of the fair market value to buy 100% of Wana. Basically, the strike price of the option is an 85% discount to fair

market value; based on today that would value Wana at \$350 million or 9.5X 2020 Wana sales and 5.7X our estimate of \$61m in 2021. We have a new [table of valuation at FMVs up to \\$1b in our Premium article](#).

3. Deal has closed and Whiteman currently has the \$297.5m; and there are no other owners of the Wana LLCs.
4. The potential payments at months 30 and 60 are earnouts contingent on performance; basically they are to incentivize Whiteman to run Wana for the long term for the new owners.
5. The discussions started in the spring 2021 after Canopy under Klein noticed that Wana had achieved 48% market share in Canada. Wana and prior Canopy management had discussed licensing. Key for Canopy was that Wana had consistently high share for years and is not a fad.
6. Wana has \$200 million of retail sales currently; Wana revenue was confirmed at \$36.8m in 2020, and reportedly they had \$120 million of retail sales (hence our estimate of \$61m in sales at a 31% of retail sale yield to Wana).
7. Current growth strategy is expanding to more states and the launch of "Optimals" for specific uses: currently have sleep and weight loss.

### [Tilray buys Breckenridge Distillery with plans for THC beverages upon federal legalization](#)

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Tilray acquired Colorado-based Breckenridge Distillery in an [all-share deal](#) for \$102.9M, adding the second US alcohol acquisition to the company after Aphria purchased [SweetWater](#) Brewing in 2020 (Aphria management took over Tilray, so this is the continuation of the branded CPG strategy of CEO Irwin Simon). The stated strategy continues to be that Tilray sees value in using alcohol brands to establish a supply chain and strategic relationships for their cannabis business ahead of US legalization. While we agree that the future value of capital allocated to Canadian cannabis is lower than US alcohol, we think [options on US plant touching operations](#) provide a more direct path to US cannabis for Canadian operators than alcohol (despite no multiple or accretion on owning merely the right to buy). The Breckenridge valuation was not disclosed, but Tilray said the company will "add to its EBITDA" given its 25% margins – so they are using high Canadian cannabis valuations to buy US alcohol EBITDA and hope the arbitrage holds. Long term, the risk to the multiple would be if investors ask "is Tilray really an alcohol company that loses money in Canadian cannabis?"

## Company News

### [Trulieve Debuts Bhang Cannabis-Infused Edibles in Florida](#)

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Trulieve announced they were expanding their licensing agreement with Bhang edibles,

from Massachusetts to Florida, across the entire base of 108 dispensaries. Trulieve will manufacture and distribute the Bhang bars using Bhang branding and recipes. While this may eventually be interesting for the micro-cap stock (OTC: BHNGF), we believe the stock is already valued at a premium, including the potential ramp of all Trulieve/Harvest stores. It seems Bhang is charging relatively low licensing fees to incentivize their partners (est. 2.83% of GMV vs 4-5% peers), but we commend management on landing a major partner after restructuring the business last year. The partnership with Trulieve benefits Bhang by allowing them to offer a differentiated product at a reasonable price, across most stores in the state. We think this strategy benefits Trulieve, who now has a higher priced product that makes the Trulieve bar appear cheaper (Caddy sells Chevy strategy) and earn higher margins on the Bhang bars: even with a say a 4% license fee (\$1 on \$25) and \$0.29-1.43 for the incremental 95 mg of CBD, Trulieve would make an extra \$2.57-3.71 per Bhang bar, but as noted we wonder if the licensing rate is lower than 4%.

Trulieve Chocolate Products	Retail Price	CBD	THC
Trulieve, TruChocolate	\$20	5mg	100mg
Binske	\$25	0mg	100mg
Bhang	\$25	100mg	100mg

Source: MJResearchCo

### [Verano, Increasing Discounting](#)

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Our observation of this trend is currently anecdotal, but we have noticed increasingly consistent discounting of 25%+ storewide from Verano across nearly every store in their portfolio, including [Illinois](#), [Arizona](#), [Pennsylvania](#), [Florida](#), [Ohio](#), [Michigan](#), and [Maryland](#). We are monitoring this due to the high inventory balance at the company, even though this may be due to the acquisition accounting and transition from IFRS to GAAP. Regardless, this is a trend we've seen for multiple weeks, and it poses a risk to the company's narrative around industry-leading margins. We also noticed more explicit commentary from the CIO this week on a [Twitter spaces](#) around margins compressing going forward, so they may be aiming to communicate this change ahead of Q4 earnings release.

### [Is Weedmaps spoofing their brand followers?](#)

(11/19/2021)

Brand analytics platform Pioneer Intelligence noted they found an anomaly on the WM platform, where the growth in brand followers from Aug 26<sup>th</sup> to Sep 21<sup>st</sup> grew 400x more than the prior weekly average. Basically, they're implying WM is creating fake followers to artificially increase brand presence on their platform. We are unsure of the potential impact to the stock, if any, but when we consider the company's loophole of onboarding illicit operators via a CBD store category, it may represent a questionable decision by the company. The current management team corrected the loophole of onboarding illicit operators via a CBD-only store category by May, after [we first identified](#) this in January 2021, so perhaps they will take a similar action here as well.

## State News

### [New York Abolishing 280E taxes at State level = positive for lenders](#)

(12/20/2021)

We have written about the investing [implications of 280E](#) taxes at length in the past, but one thing that has always struck us as odd was that state taxes used the federal illegality to tax state-legal cannabis businesses with 280E (we know at least Massachusetts does). Marijuana Moment reports that New York has filed a bill to apply NY state taxes normally.

Passing this law would have 2 overall implications for investors:

1. NY dispensaries will have better after tax economics than otherwise similar dispensaries in other states (cultivations would as well, but 280E affects dispensaries more)
2. Interest will be tax deductible at the state level, so lenders to NY will be able to step ahead of state taxes, making NY operators slightly better credits than states that enforce 280E at the state level.

Given NY State's corporate tax rate of 6.5% under \$5m and 7.25% above \$5 million (never mind local taxes), this is significant, though federal taxes of 21% still dominate 280E. We think the biggest misconception about 280E is the fact that interest expense is NOT tax-deductible, so leverage ratios should divide debt by [EBIDA not EBITDA](#) – as we do in the Curaleaf analysis above. The current treatment of 280E by the IRS creates a tax shield through a lessor paying normal taxes and deducting debt vs. a cultivator getting a mortgage themselves on a building or financing with equity and paying 280E taxes.

### [New Jersey | 30 more medical marijuana dispensaries on the way](#)

(12/10/2021)

NJ approved 30 new retail licenses, bringing the state total to 53 approved dispensaries. The regulators originally intended and forecasted to only approve 15 licenses, but they doubled this due to concerns around both pricing and patient access; they also [doubled](#) the planned cultivation and manufacturing license approvals in October for the same reason. *We believe the market may not be fully considering this trend where the license counts may increase faster than most are forecasting.* The [past two](#) NJ regulatory meetings have actively discussed catching up to license issuances, noting they receive an average of nearly 8k calls per month from patients complaining about high prices (reportedly \$5,120-\$7,680/lb retail) and long wait times. Despite the acceleration of license issuances, the state is still behind its targeted license goals. And while the counterargument around limited zoning restrictions preventing license saturation is currently justifiable (particularly for cultivation), the municipal approval trends across recreational states like CO, MI, CA, etc. show how quickly this can change. "Limited License" doesn't mean much if the limit increases a lot every year, and any NJ business model should assume lower prices in the future.

## Industry News

### [What's in Illinois' legal weed? Sometimes contaminants](#)

(12/20/2021)

Chicago Sun Times – A continuation of the trend of questioning laboratory integrity across the country, journalists in Chicago performed independent testing of pre-rolls from dispensaries in Illinois and found most had microbial contaminants above the state limits. They have organized this information into a very useful database ([linked here](#)). After major recalls in MI (our review can be [found here](#)), PA, and OH in the past month, investors should recognize these product issues are not exclusive to the states where recalls are occurring, and there is a risk this could result in a negative health reaction that may have major implications for the industry.

### [Vaporizers may be leaching heavy metals](#)

(11/5/2021)

Study published about heavy metal contamination in vapes. Basically, the study investigated if the metal coil that heats 510 thread vapes is leaching out of the hardware. The researchers investigated 13 products from different manufacturers at licensed dispensaries and they found minimal leaching, except for a product left in a 108 degree (F) container for 7 months - this one had alarming amounts of heavy metals. Finally, the study noted a subtle vape issue known among the industry: if a user is pulling on an empty or nearly empty cartridge, they are consuming leached heavy metals. High amounts of heavy metal ingestion can cause serious health issues.

### [Infused Pre-Rolls, Category Growth and Automation Opportunity](#)

(12/3/2021)

Leafly article highlighting the popularity of infused pre-rolls (infused, meaning pre-rolls mixed with an extract like hash, shatter, kief, etc). These products are so popular, they make up [44% of the best-selling](#) pre-rolls in California. According to Headset data, the pre-roll category has [10%](#) of cannabis product market share (Leafly at [8%](#)), behind flower, vape, and (in some states) edibles. The infused category has grown from 12.7% to 30.9% of pre-roll sales in between 2018 and 2021, and the pre-roll category grew [144%](#). [MJBiz notes](#) the massive opportunity in automation capex for this category, via a comment from John Belushi of Belushi Farms, that his labor costs to produce the package and the joint takes up 75% of his payroll.

## **Non-Cannabis News**

### **BigBrain, Bridging the Gap Between Medical Research and Cannabis Products**

Consumers using cannabis for medicinal purposes make up roughly 25% of purchases in dispensaries, yet there is no way to obtain guidance on choosing products or dosage

for specific conditions. BigBrain solves this by providing a search engine to match established medical studies with specific conditions, then pairing the recommended formats and dosage of the medical studies to products currently on dispensary shelves closest to patients. Both dispensaries and live menu platforms can differentiate themselves through BigBrain's transparent recommendation engine, helping gain client relationships in critical emerging medical markets. BigBrain has been bootstrapped to date by the company's founder, a first-generation immigrant that's spent 8 years in the cannabis industry, building a leading cannabis testing and analysis business in Massachusetts, and the platform is one of the most thoughtfully designed start-up products we've seen. We have no financial involvement, but we are happy to connect you with their founder if you send us a note: [info@mjresearchco.com](mailto:info@mjresearchco.com).

## Non-Cannabis News

### [Meet Oishii, the Tesla of strawberries](#)

(11/9/2021)

An incredible story of a Japanese vertical farming startup that successfully created a process and market for ultra-premium strawberries, grown in Japan. Their product is offered at Michelin-starred restaurants, at \$3-10 per berry (14-30x Driscolls price), and the founders discuss their premium product being inspired by the need to differentiate from the pesticide-ridden strawberries found in every grocery store across the country.

The read-through to cannabis is the pricing power of premium products in an otherwise commoditized category. Premium cannabis products in today's nascent market might be +30-60% above the average, at most, but they will be able to go much higher while avoiding price competition of peers.

## Old Version

### Best of Q42021 MJResearchCo Extracts:

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## **M&A and Funding News**

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Plus revenues while expanding gross margins through their cultivation supply while slashing operating costs. Past [filings](#) imply Plus has an [exclusive](#) distribution relationship with Herbl (same as GLASF) with a presence in 85% of CA retailers, so we expect to see synergies supporting the revenue ramp. Finally, we note investors should consider that the Supreme Court of British Columbia has the right to grant (or deny) the process for a vote on the acquisition of Plus due to the company's creditor protection situation.

**Key takeaways: [Wana-Canopy UPDATED](#) for interview with CEO Nancy Whiteman at MJBizCon. (10/29/2021)**

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Our observation of this trend is currently anecdotal, but we have noticed increasingly consistent discounting of 25%+ storewide from Verano across nearly every store in their portfolio, including [Illinois](#), [Arizona](#), [Pennsylvania](#), [Florida](#), [Ohio](#), [Michigan](#), and [Maryland](#). We are monitoring this due to the high inventory balance at the company, even though this may be due to the acquisition accounting and transition from IFRS to GAAP. Regardless, this is a trend we've seen for multiple weeks, and it poses a risk to the company's narrative around industry-leading margins. We also noticed more explicit commentary from the CIO this week on a [Twitter spaces](#) around margins compressing going forward, so they may be aiming to communicate this change ahead of Q4 earnings release.

### Is Weedmaps spoofing their brand followers? (11/19/2021)

Brand analytics platform Pioneer Intelligence noted they found an anomaly on the WM platform, where the growth in brand followers from Aug 26<sup>th</sup> to Sep 21<sup>st</sup> grew 400x more than the prior weekly average. Basically, they're implying WM is creating fake followers to artificially increase brand presence on their platform. We are unsure of the potential impact to the stock, if any, but when we consider the company's loophole of onboarding illicit operators via a CBD store category, it may represent a questionable decision by the company. The current management team corrected the loophole of onboarding illicit operators via a CBD-only store

category by May, after [we first identified](#) this in January 2021, so perhaps they will take a similar action here as well.

## State News

### [New York Abolishing 280E taxes at State level = positive for lenders \(12/20/2021\)](#)

We have written about the investing [implications of 280E](#) taxes at length in the past, but one thing that has always struck us as odd was that state taxes used the federal illegality to tax state-legal cannabis businesses with 280E (we know at least Massachusetts does). Marijuana Moment reports that New York has filed a bill to apply NY state taxes normally. Passing this law would have 2 overall implications for investors:

1. NY dispensaries will have better after tax economics than otherwise similar dispensaries in other states (cultivations would as well, but 280E affects dispensaries more)
2. Interest will be tax deductible at the state level, so lenders to NY will be able to step ahead of state taxes, making NY operators slightly better credits than states that enforce 280E at the state level.

Given NY State's corporate tax rate of 6.5% under \$5m and 7.25% above \$5 million (never mind local taxes) this is significant, though federal taxes of 21% still dominate 280E. We think the biggest misconception about 280E is the fact that interest expense is NOT tax deductible, so leverage ratios should divide debt by [EBIDA not EBITDA](#) – as we do in the Curaleaf analysis above. The current treatment of 280E by the IRS creates a tax shield through a lessor paying normal taxes and deducting debt vs. a cultivator getting a mortgage themselves on a building or financing with equity and paying 280E taxes.

### [New Jersey | 30 more medical marijuana dispensaries on the way \(12/10/2021\)](#)

NJ approved 30 new retail licenses, bringing the state total to 53 approved dispensaries. The regulators originally intended and forecasted to only approve 15 licenses, but they doubled this due to concerns around both pricing and patient access; they also [doubled](#) the planned cultivation and manufacturing license approvals in October for the same reason. **We believe the market may not be fully considering this trend where the license counts may increase faster than most are forecasting.** The [past two](#) NJ regulatory meetings have actively discussed catching up to license issuances, noting they receive an average of nearly 8k calls per month from patients complaining about high prices (reportedly \$5,120-\$7,680/lb retail) and long wait times. Despite the acceleration of license issuances, the state is still behind its targeted license goals. And while the counterargument around limited zoning restrictions preventing license saturation is currently justifiable (particularly for cultivation), the municipal approval trends

across recreational states like CO, MI, CA, etc. show how quickly this can change. “Limited License” doesn’t mean much if the limit increases a lot every year, and any NJ business model should assume lower prices in the future.

## **Industry News**

### **What’s in Illinois’ legal weed? Sometimes contaminants\_(12/20/2021)**

Chicago Sun Times – A continuation of the trend of questioning laboratory integrity across the country, journalists in Chicago performed independent testing of pre-rolls from dispensaries in Illinois and found most had microbial contaminants above the state limits. They have organized this information into a very useful database ([linked here](#)). After major recalls in MI (our review can be [found here](#)), PA, and OH in the past month, investors should recognize these product issues are not exclusive to the states where recalls are occurring, and there is a risk this could result in a negative health reaction that may have major implications for the industry.

### **Vaporizers may be leaching heavy metals (11/5/2021)**

Study published about heavy metal contamination in vapes. Basically, the study investigated if the metal coil that heats 510 thread vapes is leaching out of the hardware. The researchers investigated 13 products from different manufacturers at licensed dispensaries and they found minimal leaching, except for a product left in a 108 degree (F) container for 7 months - this one had alarming amounts of heavy metals. Finally, the study noted a subtle vape issue known among the industry: if a user is pulling on an empty or nearly empty cartridge, they are consuming leached heavy metals. High amounts of heavy metal ingestion can cause serious health issues.

### **Infused Pre-Rolls, Category Growth and Automation Opportunity (12/3/2021)**

Leafly article highlighting the popularity of infused pre-rolls (infused, meaning pre-rolls mixed with an extract like hash, shatter, kief, etc). These products are so popular, they make up **44% of the best-selling** pre-rolls in California. According to Headset data, the pre-roll category has **10%** of cannabis product market share (Leafly at **8%**), behind flower, vape, and (in some states) edibles. The infused category has grown from 12.7% to 30.9% of pre-roll sales in between 2018 and 2021, and the pre-roll category grew **144%**. [MJBiz notes](#) the massive opportunity in automation capex for this category, via a comment from John Belushi of Belushi Farms, that his labor costs to produce the package and the joint takes up 75% of his payroll.

## Non-Cannabis News

### Meet Oishii, the Tesla of strawberries (11/9/2021)

An incredible story of a Japanese vertical farming startup that successfully created a process and market for ultra-premium strawberries, grown in Japan. Their product is offered at Michelin-starred restaurants, at \$3-10 per berry (14-30x Driscolls price), and the founders discuss their premium product being inspired by the need to differentiate from the pesticide-ridden strawberries found in every grocery store across the country.

The read-through to cannabis is the pricing power of premium products in an otherwise commoditized category. Premium cannabis products in today's nascent market might be +30-60% above the average, at most, but they will be able to go much higher while avoiding price competition of peers.