

Cansortium (US OTC: CNTMF: \$0.77): Q3 EBITDA Outperformance Despite FL Pricing Pressure; Remains on Track to Scale Capacity

Cansortium reported Q3/21 results of \$16M in revenues and \$4.9M adjusted EBITDA. Revenues came in modestly below our forecast of \$18M while adjusted EBITDA exceeded our estimate of \$3.9M on higher than anticipated gross margins on achieved operational efficiencies. Results for quarter would have been stronger if not for one-time pricing challenges in Florida as Harvest and Curaleaf each were required to liquidate some inventory at steep discounts following closed transactions. Cansortium management stood pat on pricing which resulted in some lost sales but maintained strong margins. The lost sales in Q3 led to a cut in top line guidance for 2021 as management now expects revenues to come in the range of \$63M to \$66M, down from prior expectations of \$70M to \$80M. Adjusted EBITDA guidance was maintained at between \$18M to \$26M with management expecting full year results to come at the low-end of the guided range.

We believe Cansortium remains mainly on track for Florida expansion initiatives which will translate to strong growth in 2022. The company opened its 27th dispensary in the state in Q3 (has two more in PA) and has been approved to operate with its expanded cultivation and production facility in Sweetwater, FL with increased capacity supporting higher retail sales in February. The company's smaller Tampa expansion project will be delayed by a month until February but remains on track to contribute meaningfully by 2H/22. In Florida, where vertical integration is required, production capacity is a pre-requisite for growth and we believe that once new capacity is fully operational and as new stores come online, Cansortium can have sufficient capacity for >\$200M in annual Florida revenues.

We revise our Q4 outlook on guidance and modestly reduce our 2022 forecast. We note that both our Q4 and 2022 outlook could prove to be conservative given the significant production capacity ramp in Florida that has been completed and opportunity for higher retail contributions from Pennsylvania dispensaries. Our rating and price target remain Buy and \$1.50 respectively. Cansortium continues to be one of the most underappreciated operators in cannabis despite the company's attractive geographic footprint (Pennsylvania and Texas along with Florida and Michigan) and leading position in Florida. We are confident that scaled results in 2022 will translate to enhanced investor awareness and outperforming stock returns for investors. Longer term we believe Cansortium remains very much in play for a takeout by any MSO looking to enter Florida with the company's other assets providing additional incentive. A takeout should warrant meaningful upside for investors beyond current levels and our price target.

Attractively positioned for takeout

Florida remains a top growth market while looming recreational legislation and the potential for reciprocity for tourist medical card holders offer near term expansion catalysts. Cansortium has quietly developed one of the biggest footprints in Florida trailing only large MSOs like Trulieve, Surterra, Curaleaf and AYR in scale. We believe the Florida position makes Cansortium an attractive takeout candidate for any large MSO looking to enter or expand operations in the state. Cansortium's current market cap is smaller than the \$290M AYR paid for Liberty Health despite the company being significantly more developed in terms of footprint and scale of results and established Florida operations now being harder to come by following M&A in 2020 and earlier this year. Meanwhile, Cansortium's position in Michigan, Pennsylvania and Texas offer attractive growth opportunities for any acquiring company with overlapping exposure. In particular, Cansortium's Pennsylvania dispensaries and its Texas license could quickly become valuable if/when regulators expand the markets in these populous states.

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Cansortium

Rating: Buy

Price Target: \$1.50

Investment Highlights

- Q3 Adjusted EBITDA beat despite challenging pricing conditions as large competitors discount prices following recent transactions.
- Company mostly on track with growth initiatives and positioned to scale results in '22 and beyond.
- Scaling production capacity and retail footprint gives Cansortium a top position in Florida market.
- Under-appreciated operator in Florida with attractive growth opportunities in other key markets.
- Expect takeout by large MSO is looming offering upside to investors.
- Takeout candidates include: Ascend, Jushi, Pharmacann and Terrascend.

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Following a successful refinancing this spring and Board of Directors realignment, we believe it is just a matter of time before a larger MSO acquires Consortium. We believe the completion of construction projects in Florida could be a catalyst for completed deals with management wanting to prove its capabilities in order to gain a better takeout price. Any takeout will come at a premium valuation and offer significant upside for investors from current levels and beyond our price target as our price target values the company roughly in line with the broader peer group.

MSOs with the most likely interest in Florida exposure and thus potential acquirers of Consortium include Ascend, Jushi, Pharmacann and Terrascend. We note that Jushi, Pharmacann and Terrascend also have significant Pennsylvania exposure so Consortium's dispensaries in the state could be useful assets.

We revise our 2021 estimates and reiterate our 2022 forecast

- Revenues: Q4/21 from \$26M to \$17M; 2021E from \$76M to \$64.2M; 2022E from \$142M to \$135M.
- Adjusted EBITDA Q4/21 from \$9.8M to \$4.4M; 2021E from \$23M to \$18.9M; 2022E from \$64.2M to \$59M.

Our \$1.50 Price Target reflects an EV/EBITDA multiple of 8.4x our 2022 estimate

FY Income Statement (\$M)

	2021					2022				
	Q1 '21	Q2 '21	Q3 '21	Q4 '21E	2021	Q1 '22E	Q2 '22E	Q3 '22E	Q4 '22E	2022
	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22
Revenues	15.1	16.5	15.6	17.0	64.2	22.0	35.0	39.0	39.0	135.0
COGS	5.4	5.7	5.8	6.8	23.8	8.1	12.6	14.0	14.0	48.8
Gross Profit	12.0	4.8	10.8	10.2	37.7	13.9	22.4	25.0	25.0	86.2
G&A	3.3	2.9	2.1	2.6	10.8	2.8	2.9	2.9	2.9	11.5
Sales & Marketing	3.5	3.5	4.0	3.0	14.1	3.4	3.5	3.6	3.6	14.1
Depreciation & Amortization	1.5	1.5	1.6	1.5	6.2	1.6	1.6	1.6	1.6	6.2
Opex	11.6	8.2	8.5	8.8	37.1	9.5	9.6	9.8	9.8	38.6
Interest	3.1	4.7	3.4	3.8	15.0	3.8	3.8	3.8	3.8	15.2
Total Other Expense	2.7	21.0	(6.5)	4.0	21.1	4.0	4.0	4.0	4.0	16.0
Pre-tax Income	(2.3)	(24.4)	8.8	(2.6)	(20.5)	0.4	8.8	11.2	11.2	31.6
Income Taxes	2.8	0.6	1.4	1.0	5.9	1.0	1.0	1.0	1.0	4.0
Net Income	(5.1)	(25.0)	7.4	(3.6)	(26.3)	(0.6)	7.8	10.2	10.2	27.6
EPS	(0.02)	(0.11)	0.03	(0.02)	(0.12)	(0.00)	0.03	0.05	0.05	0.12
Adjusted EBITDA	4.4	5.2	4.9	4.4	18.9	7.4	15.9	18.3	18.3	59.8
Gross Margin	79%	29%	69%	60%	59%	63%	64%	64%	64%	64%
Adjusted EBITDA	29%	32%	31%	26%	29%	34%	45%	47%	47%	44%
Operating Income	3%	-21%	15%	8%	1%	20%	37%	39%	39%	35%
Revenues										
Y/Y	49%	24%	9%	-15%	11%	46%	113%	151%	129%	110%
Q/Q	-24%	9%	-5%	9%		29%	59%	11%	0%	
Adjusted EBITDA										
Y/Y	513%	99%	34%	2%	67%	69%	203%	274%	315%	216%
Q/Q	2%	19%	-6%	-10%		69%	113%	15%	0%	

Source: Company Reports, Viridian Capital Estimates

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			IB Services in Past 12 months	
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Buy (Buy)	11	92%	0	0%
Hold (Hold)	1	8%	0	0%
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