



FIELD OF DREAMS: THE CANNABIS MARKET CORRECTION

Valuations Reset as Market Awaits Next Growth Catalyst

Cannabis stocks have underperformed the S&P 500 Index year-to-date amid unprecedented volatility in the global markets. The prices of Canadian and US listed cannabis stocks are testing lows not seen since December 2018 amid a fundamental reckoning for the cannabis markets. Cannabis stocks have undergone yet another correction in 2019 despite robust sales growth forecasts for the global cannabis markets. In our 7thirty Cannabis Market Insights Vol. IV, we examine the 2019 market correction, the evolution of cannabis valuation and next catalysts in the growth of the industry.

US leads weak 2019 cannabis stock performance.

The 52 constituents of the New Cannabis Ventures (NCV) Global Cannabis Stock Index have returned 6.3% YTD versus an 18.8% YTD return for the S&P 500. The NCV Canadian Cannabis Licensed Producer (LP) Index has a YTD return of 4.1%, while the NCV US Cannabis Operator Index declined 14.7% YTD. The poor YTD stock performance of US operators occurred during a period of increased M&A, IPOs and US DOJ review of mergers.

What's behind the correction? Factors in the 2019 cannabis stock prices correction include increased analytical scrutiny of public equities, a risk-off trade by investors, operational challenges for Canadian LPs and ongoing reviews of pending M&A deals by US regulators.

Cannabis stock valuations are...high. Canada's top 5 LPs trade at average FY20E Price/Sales multiple of 11.7x (S&P 500 2.0x) are expensive relative to the top 5 US operators that trade at 4.1x forward sales. The Canadian LPs also appear overvalued based on FY21 due to their limited EBITDA generation. The Canadian LPs trade at an average EV/EBITDA multiple of 35.7x for FY21E compared to the top 5 US operators at 7.5x.

Canadian LPs	Price (\$USD)	Mkt Cap (\$M USD)	YTD Return	52-Wk Return	Price/Sales (CY20E)	EV/EBITDA (CY21E)
Canopy Growth Corp	\$27.66	\$ 10,572	3%	-46%	11.8x	48.9x
Aurora Cannabis	\$6.08	\$ 6,639	23%	-1%	7.4x	24.7x
Cronos Group	\$11.93	\$ 4,377	15%	-1%	26.8x	38.1x
Tilray	\$32.06	\$ 3,412	-55%	-59%	10.0x	54.9x
Aphria	\$7.06	\$ 1,845	24%	-54%	2.7x	12.1x
Canadian LP Average					11.7x	35.7x
US Operators						
Curaleaf	\$7.50	\$ 3,690	58%	N/A	4.1x	12.4x
Cresco Labs	\$9.20	\$ 2,929	36%	0%	4.2x	8.6x
Charlotte's Web	\$17.24	\$ 1,995	55%	58%	6.6x	5.0x
Green Thumb Industries	\$9.47	\$ 1,914	18%	-36%	4.0x	7.4x
Harvest Health & Rec.	\$5.47	\$ 1,561	4%	16%	1.8x	3.9x
US Operator Average					4.1x	7.5x
S&P 500 Index			19%	4%	2.0x	

Source: Y Charts, 420 Investor & 7thirty estimates

Wall St. ramps up cannabis coverage. While marijuana remains federally illegal in the US, Wall St. institutions are positioning to participate in cannabis-related deals. Many notable bulge bracket banks have initiated sell-side research coverage of the Canadian LPs and US-listed entities, joining a roster of 10 or more Canadian investment banks that are active in the space. Broader analytical coverage has led to greater scrutiny of the underlying financials of cannabis equities that remain in the early stages of operation. Wall St. institutions, yet unable to invest directly into cannabis, seem poised to enter the markets when US federal law permits.

Analysts shift focus from top line to bottom line. The stark reality is that despite compelling revenue growth forecasts, many North American cannabis operators are years away from profitability. Sell-side analysts have adopted alternative valuation metrics weighted heavily to sales to account for the high-growth nature of the cannabis industry. In the developing Canadian market, we anticipate that analysts will soon shift from a focus purely on revenue generation to more meaningful profit metrics like EBITDA and net income.

Risk-off triggers cannabis stock rout. The recent US market corrections in 4Q18 & 2Q19 triggered a flight from higher risk investments including the cannabis sector. The trend makes sense from a portfolio strategy standpoint, as investors sell high beta stocks in periods of market volatility to de-risk their portfolios. The ETFMG Alternative Harvest ETF (MJ) declined 39% in 4Q18 compared to a 14% decline in the S&P 500. For 2019 YTD, the MJ ETF has declined 5% compared to a 19% gain for the S&P 500.

Canada's Field of Dreams. "If you build it, they will come," the quote that conjured magic in the movie *Field of Dreams*, may prove to be decidedly less reliable as a cannabis business strategy. Canada has seized the moment as a first-mover in the legalization of cannabis and LPs are establishing industrial-scale cultivation that will far exceed the nation's domestic cannabis demand. Meanwhile, the Canadian supply chain and regulatory structures have been slow to develop. Canada's LPs will be made to pursue exports and offshore investment to support the nation's cannabis industry in the long-term.

CANNABIS MARKET INSIGHTS

Canadian LPs face execution challenges. Canadian operators have consistently struggled to ramp output at the large-scale grows and many LPs have fallen short of preliminary revenue targets in this fledgling market. A major Canadian LP, CannTrust (TSX: TRST), recently experienced an operational snafu as regulators discovered non-compliant cultivation rooms. These themes highlight the fragility of this nascent industry and perhaps also, the emphasis on revenue generation as a barometer of success for LPs.

Canada's market cap dwarfs its market. We estimate that the market cap of Canadian cannabis companies at about \$50B. Canadian cannabis sales are projected to reach \$6B at maturity, according to BDS Analytics. We estimate the market cap of US cannabis operators at closer to \$20B with a peak market potential of more than \$80B. The market cap comparison is staggering when one considers that Canada's population of 37M is about 1/9th the size of the US population of 327M.

Deal Activity Accelerates in 2019, led by US. Cannabis M&A activity has reached \$9.7B YTD or 76% higher y/y, according to Viridian. In 2018, the majority of the cannabis deals took place in the Canadian markets. In the first-half of 2019, the US market took the top spot with Canadian listed companies pivoting to acquire US operators in pursuit of revenues or to expand existing US operations. In fact, 1Q19 marked the first quarter that US cannabis deals outpaced our Northern neighbor. We expect this trend to continue given the much greater long-term potential of the US cannabis markets.

But perhaps the gig is up? Of the \$9.7B in total cannabis deal value transacted YTD in 2019, the majority of that total value has been paid in stock. The recent downward correction in Canadian stock prices stands to influence the pace of cross-border deal flow by draining the primary source of currency for major Canadian players, their equity value. US operators must now be mindful of equity-based deals inked with Canadian-traded operators as these targets may find their equity worth significantly less over time.

US DOJ reviews are a buzzkill. The first-half of 2019 featured a long list of acquisitions targeting US cannabis assets. In April, the DOJ issued a second request for information to Cannex (CSE: CNX) to review potential antitrust considerations for its now completed acquisition of 4Front. The DOJ has issued a number of second requests to potential acquirers of US assets, including Cresco Labs (CSE: CL), MedMen (CSE: MMEN), Harvest Health & Recreation (CSE: HARV), Green Growth Brands (CSE: GGB) and Curaleaf (CSE: CURA).

2019 has been unkind to cannabis IPOs. 2019 has not been friendly to the roster of cannabis companies that listed on the public markets. The weak stock performance of these IPOs indicates that supply of new issues in the cannabis sector may simply have exceeded demand. In the table below, we show the stock price performance of a sample of recent cannabis IPOs.

Company	Date	Ticker	IPO Px	Current Px	% Change
MJardin	15-Nov-18	MJAR	CA\$8.80	CA\$1.07	-88%
DionyMed	29-Nov-18	DYME	CA\$4.25	CA\$1.20	-72%
TILT Holdings	6-Dec-18	TILT	CA\$5.25	CA\$0.67	-87%
Slang Worldwide	29-Jan-19	SLNG	CA\$1.50	CA\$0.99	-34%
Harborside	10-Jun-19	HBOR	CA\$5.10	CA\$2.74	-46%
MJ Freeway	19-Jun-19	KERN	\$11.99	\$7.80	-35%

Source: Company reports, Google Finance & 7thirty estimates. Priced as of September 6, 2019.

But there is reason to be optimistic. There are various catalysts that may boost the Canadian and US cannabis markets over the next 18 months.

Cannabis 2.0 to the rescue. Canada is set to begin sales of new product form factors, including vapes, edibles and beverages. The industry has termed the market shift "Cannabis 2.0" with retail stocking to begin in October of 2019 with the first sales expected by year-end. Currently, only cannabis flower is available to Canadian consumers and this increase in product offerings should provide a significant boost to demand.

US Market Growth Yet Ahead. The US cannabis market remains in its infancy with projections of tremendous growth ahead. The US legal cannabis market is projected to grow at a CAGR of 20% from \$10.5B in 2018 to \$22B by 2022, according to BDS Analytics. Global cannabis sales are projected to reach nearly \$30B over this same timeframe, but the US will be the largest global market by far. US cannabis sales are projected to reach \$80B at maturity by 2030 which would compare to US wholesale alcohol sales of \$125B in 2018.

The Green Tsunami of 2020. We expect the legalization of adult use cannabis in the US to reach a tipping point in 2020. In 2019, Illinois became the 11th US state to legalize adult use cannabis and the first state to do so via a legislative process. This year's efforts to legalize in New York and New Jersey failed by a narrow margin. We expect more states to legalize adult use cannabis in 2020 whether by ballot or through the state legislatures. Probable states include Oklahoma, Arizona, New Mexico, New Jersey and New York. The US House is likely to pass the SAFE Banking Act later in 2019 which will advance the conversation about permitting banking of legal cannabis businesses to the US Senate.



MARKET MONITOR

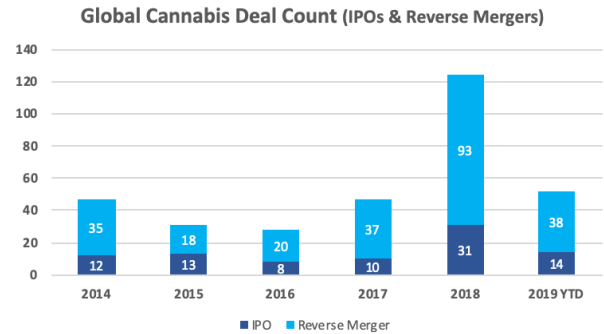
Returns of Selected Cannabis ETF's & S&P 500, YTD



Source: TradingView. YTD returns priced as of September 6, 2019.

Year-to-date, Cannabis-related ETFs, including the Horizons Marijuana Life Sciences Index (HMLSF) ETF (+10%) and ETFMG Alternative Harvest (MJ) ETF (-5%) have underperformed the S&P 500 Index which returned 19%.

Global Cannabis IPO & Reverse Merger Activity



Source: PitchBook, 7thirty data.

Global cannabis deal activity accelerated in 2018 with a record number of IPOs and reverse mergers. While overall public and private cannabis deal activity has increased YTD in 2019, the number of IPOs and RTOs may decline y/y.

Selected Canadian Licensed Producers

Company	Stock Price	Mkt Cap (\$M)	YTD Return	52-wk Return*	52-wk High	52-wk Low
Canopy Growth Corp	\$27.66	\$10,572	3%	-46%	\$59.25	\$22.76
Aurora Cannabis	\$6.08	\$6,639	23%	-1%	\$12.52	\$4.58
Cronos Group	\$11.93	\$4,377	15%	-1%	\$25.10	\$6.50
Tilray	\$32.06	\$3,412	-55%	-59%	\$300.00	\$25.15
Aphria	\$7.06	\$1,845	24%	-54%	\$16.86	\$3.75

Source: Yahoo Finance, 7thirty data. *52-week return or return since trading began. Close as of September 6, 2019.

Private Cannabis Market Activity

Company	Location	Date	Category	Deal Type	Amount (\$M)
Fyllo	Chicago, IL	9/4/19	Software	Seed	\$16
Verdemed	Toronto, CA	8/30/19	Pharmaceutical	Series B	\$9
420 Investments	Calgary, AB	8/29/19	Retail	LBO	\$84
Hound Labs	Oakland, CA	8/27/19	Technology	Series D	\$30
BDS Analytics	Boulder, CO	8/20/19	Intelligence	Series C	\$7

Source: PitchBook, Company press releases.

Public Cannabis Market Activity

Company	Location	Date	Category	Deal Type	Amount (\$M)
Green Organic Dutchman	Mississauga, ON	9/3/19	Licensed Producer	Secondary	\$86.5
FSD Pharma	Cobourg, ON	8/30/19	Medical Cannabis	PIPE	\$5
Sundial Growers	Calgary, AB	8/1/19	Licensed Producer	IPO	\$143
Mojave Jane Brands	Toronto, ON	7/24/19	US Integrated	PIPE	\$6
Neptune Wellness Solutions	Laval, QC	7/18/19	Extract./Formulation	PIPE	\$41

Source: PitchBook, Company press releases



Opportunity Fund Update

7thirty Capital has been hard at work through the dog days of summer, executing a number of deals with others currently in the pipeline. 7thirty now has six portfolio investments placed via the 7thirty Opportunity Fund and our team is currently negotiating terms for our next series of investments.

7thirty In the News

Our team is among the most active in the cannabis sector in terms of deal flow and assessment of opportunities. Below are some highlights of our recent activities at 7thirty.



7thirty co-leads BDS Analytics' first close in \$10M Series C raise for cannabis data leader

BDS Analytics, the leader in cannabis business market intelligence announced the first close of \$7M in the ongoing Series C capital raise...[Read More](#)



7thirty leads \$2.1M raise by Atlanta-based seed-to-sale Flourish Software

Flourish, a supply chain management startup that helps cannabis companies monitor logistics, has raised \$2.1 million in a seed round led by 7thirty...[Read More](#)



7thirty funds Weller, a leading CBD-infused snack & beverage maker

Weller raised \$3 million in a funding round led by Brand Foundry Ventures, with participation by 7thirty Capital and others...[Read More](#)

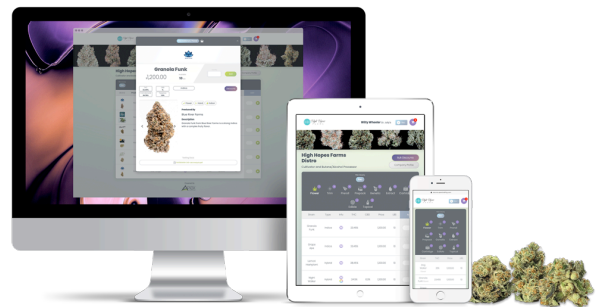
7thirty Opportunity Fund

The 7thirty Opportunity Fund welcomes new portfolio members Flourish Software, Weller and Apex Trading.



Apex Trading

[Apex Trading](#) is a technology company that offers multiple marketplaces, custom storefronts, and data-rich dashboards. The Apex platform provides cultivators, product manufacturers, distributors and retailers with comprehensive tools and services exceeding other available systems. Apex Trading Custom Storefronts create efficiencies with order management, built-in logistics and standardized processes, and also allow producers to present their brand in a refined, professional manner.



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1002 WALNUT STREET, SUITE 300, BOULDER, CO 80302

(303) 325-3501

INFO@7THIRTYCAPITAL.COM



7thirty Group provides a full range of capital services to investors & companies in the frontier legal cannabis, hemp and ancillary markets. 7thirty identifies investment opportunities in emerging cannabis companies related to ag tech, med tech, retail, e-commerce, SaaS solutions, deep tech research, and marketplaces. The 7thirty team includes cannabis investment veterans experienced in commodities, agriculture, technology & trading operations. We take a hands-on approach to investing, working with leading companies to devise smart strategies to thrive in this rapidly evolving market. 7thirty conducts **best-in-class due diligence** and maintains a **strategic partnership with CanopyBoulder**, a leading cannabis business accelerator.

INDUSTRY OUTLOOK

North American legal cannabis sales are projected to exceed \$50B by 2025 with the global market estimated to exceed \$146B.

30-40% CAGR for the next 7-10 years

- U.S. States & other Countries continue to legalize adult-use
- Market expansion & new consumers in old markets
- New uses/benefits to be discovered

Cash Flow from Cannabis-related Companies Will Fuel Expansion Back into Traditional Industries:

- General agriculture
- Supply chain optimization (i.e. blockchain solutions)
- Retail optimization

7THIRTY OPPORTUNITY FUND DETAILS

Financial Overview

- \$30MM private equity fund
- 2% management fee
- 10% performance hurdle
- 25% carried interest
- 5-7 year investment horizon
- US-centric with global exposure
- \$250K minimum commitment (\$50K through OurCrowd)

Primary Investment Verticals

- Ag & Bio-tech
- Robotics & automation
- Machine vision & learning
- Blockchain, Payment tech & Brands

MANAGEMENT



MANAGING PARTNER: MICAH TAPMAN

- **5 years investing in legal cannabis & ancillary markets**
- Founder of CanopyBoulder
- Led >100 investments and over \$18MM in AUM
- **Top-quartile fund manager (~30% IRR on 2015/2016 vintage funds)**
- Led financial services cybersecurity operations for SAIC
- Started three companies in cybersecurity, media & sales
- MBA from The George Washington University
- BS in Computer Networking from Strayer University
- Served in the US Marine Corp

KEY HOLDINGS:



KEY ADVANTAGES

- Unparalleled Deal Flow
- Deep industry knowledge & personal connections
- >100 deals already executed by management team
- Hands-on operational experience
- Global perspective: USA, Canada, Brazil, Colombia, Australia, Israel, and EU
- Experienced international business team w/ 40+ years of deal making around the world)
- Accomplished support team of lawyers, accountants, & subject matter experts

Sources: PitchBook 2018; CanopyBoulder.

TRUSTED ADVISORS & PARTNERS

Venture Partners:

- Peter Vitale
- Dan Stromberg
- Patrick Rea



Advisors:

- Jill Lamoureux
- Travis Howard
- Markus Roggen
- Alan Kane

Financial Control & Taxes:



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