AN FTI CONSULTING WHITE PAPER
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CANNABIS: VALUATION APPROACHES IN AN EVOLVING MARKET

Introduction

The Federal Government of Canada adopted the Cannabis Act, Bill C-45, on October 17, 2018, legalizing cannabis for recreational use in Canada. As the second country in the world to legalize cannabis nationwide, Canada is in a position to lead the way for cannabis companies across the globe. Further, Canadian companies have an opportunity to capture a meaningful share of the global market, resulting in tremendous growth projections across the value chain. To capitalize on this opportunity, Canadian cannabis companies are actively pursuing growth through acquisition, which has placed increased emphasis on the importance of business valuations in this sector.

A range of complexities exist for corporate valuations in the nascent Canadian cannabis industry. These include uncertainties around industry fundamentals, the regulatory environment and a lack of historical financial data. Traditional valuation multiples have proven to be less meaningful in the current expansionary phase of the Canadian cannabis industry as companies are experiencing high revenue growth and widespread operating losses. Consequently, business valuators are increasingly reliant on expected future cash flow analysis to derive valuations.

Furthermore, a wide array of risk factors must be factored into any corporate valuation. As it relates to the cannabis industry these include regulatory risks such as licensing and compliance, industry consolidation and profitability, supply chain frictions, demand growth, and the potential for agricultural failures, among others.

THE CANADIAN CANNABIS INDUSTRY

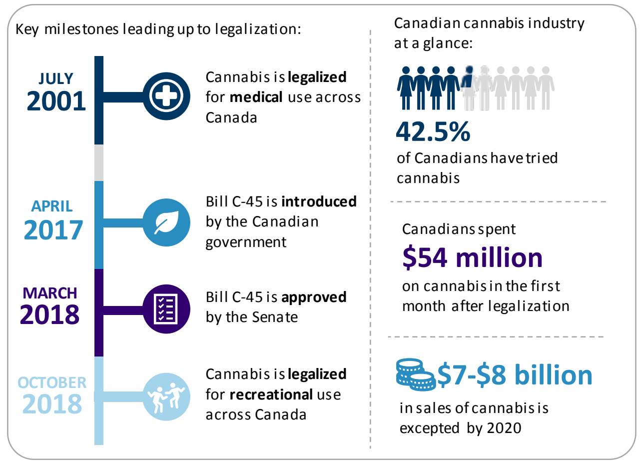
The Cannabis Act sets out a framework for controlling all aspects of the cannabis supply chain including production, distribution, sale and possession of cannabis across Canada. Cannabis companies are required to obtain a license from Health Canada to grow or produce cannabis commercially, sell cannabis for medical purposes or conduct research or testing with cannabis.[1] The Federal Government licenses and regulates cannabis owners, while each province regulates the distribution and sale of cannabis. Provinces and territories set their own age requirements and consumption and cultivation regulations.

[1] https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/industry-licensees-applicants/licensing-summary.html

Preceding the introduction of the Cannabis Act, Canada first legalized cannabis for medical purposes in 2001, allowing individuals to obtain cannabis products if prescribed by a healthcare physician. Medical cannabis is prescribed to patients with medical conditions, such as migraines, arthritis, Alzheimer's disease, among others.

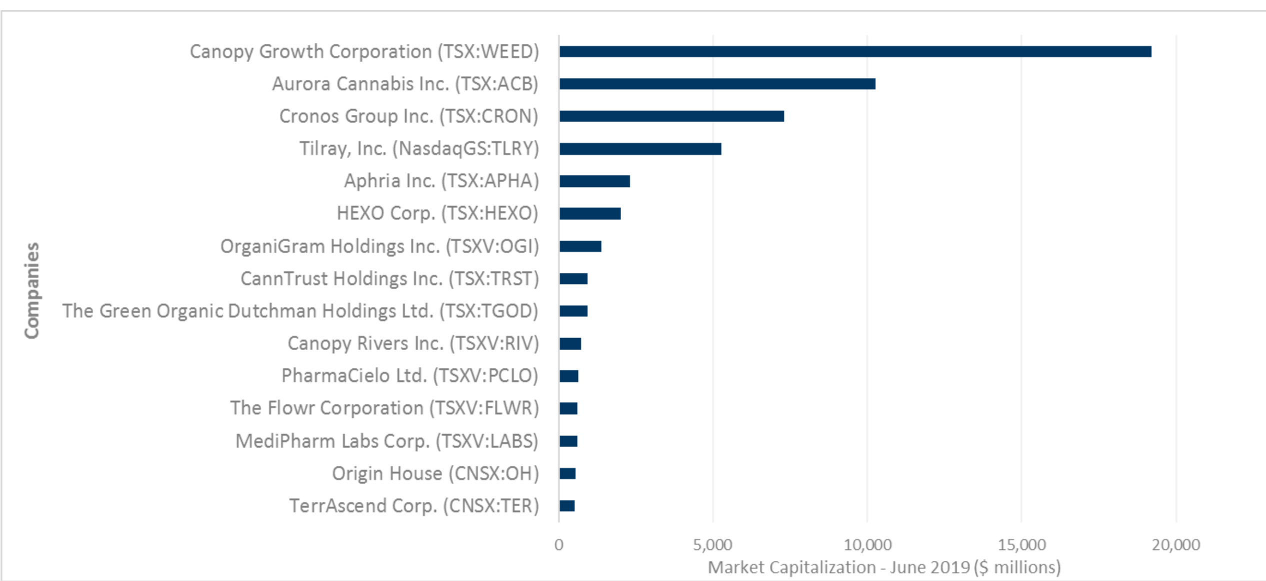
Following the legalization of cannabis for medical purposes, a few companies emerged to service the medical cannabis market. In more recent years, and with the anticipation of the introduction of the Cannabis Act, many Canadian companies began to enter the cannabis market. While the top three cannabis companies currently comprise approximately 58% of the total market capitalization, new entrants in the market will create increased competition and will look to capture a share of the growing market. Specifically, it is estimated that sales of recreational cannabis in Canada alone will be $7 to $8 billion by 2020, followed by steady growth thereafter.[2]

The second wave of cannabis legalization is expected on October 17, 2019 relating to edibles, concentrates and topicals.[3] This next wave of cannabis products is estimated to be worth $2.7 billion annually.[4]



The following graph highlights the 15 largest public cannabis companies with operations primarily in Canada. There are approximately 160 more companies in the industry with market capitalization below $530 million.

Largest Canadian-based Public Companies in the Cannabis Industry by Market Capitalization



Source: Capital IQ

[2] http://aswathdamodaran.blogspot.com/2018/10/high-and-higher-money-in-marijuana.html
[3] https://globalnews.ca/news/5096541/marijuana-cannabis-edibles-canada/
[4] https://www.cbc.ca/news/business/edibles-market-deloitte-1.5159882

THE GLOBAL CANNABIS INDUSTRY

Recreational cannabis is increasingly gaining acceptance globally. Although Canada and Uruguay are currently the only two countries where cannabis is fully legal nationwide, many are re-examining their policies towards cannabis, with some countries legalizing cannabis for medical use, and others decriminalizing the use of cannabis to varying degrees.

Uruguay was the first country to legalize cannabis for recreational purposes back in 2013. Currently, in the United States, recreational cannabis is legal in 10 states, while medical cannabis is legal in 33 states. Recreational cannabis will become fully legalized in Illinois on January 1, 2020. Argentina, Australia, Macedonia, and Turkey most recently legalized medical cannabis. The Pilippines is currently in the process of reviewing a bill seeking to legalize medical cannabis.

Major companies in the industry have started to expand to different regions in order to service the medical cannabis market and to secure supply in these regions in anticipation of legalization for recreational use in upcoming years. As an example, Canopy Growth has production facilities in South America, Europe, Africa and Australia.

Legalization of cannabis has spurred research and development in the industry. Researchers have determined that there are safer ways to ingest cannabis such as vapes, oils and edibles. New research in the industry has led to innovative product development to attract new customers to the market and lead to further product diversification that reinforce market growth.

Globally, the cannabis market is expected to grow at a rapid rate as policies continue to shift favourably towards legalization of cannabis for medical purposes and recreational use. Analysts are predicting global cannabis sales to range between $70 to $150 billion by 2024.[5]

VALUATION CONSIDERATIONS

Given the Canadian cannabis industry is currently in the growth stage of the economic life cycle, there is limited historical financial information on which to base valuations and projections. Further, there are significant uncertainties surrounding the industry as a result of economic, regulatory, political and other external factors that can materially impact financial projections. As a result, commonly used valuation approaches may have to be modified to derive reasonable valuations, and the aforementioned risk factors will need to be appropriately incorporated into valuations.

Valuation Approaches

The following highlights commonly used business valuation approaches and an analysis of their application in the cannabis industry.

Market-Based Approach

- Definition: valuation derived based on comparable assets
- Examples: comparable public companies, precedent transactions
- Considerations and drawbacks for application in the cannabis industry:

Comparable public companies:

✓ Forward-looking multiples can be more reliable measures as compared to multiples based on historical financials

✓ Multiples from other similarly regulated industries can be indicative (e.g. alcohol and tobacco) of stabilized long-term market value

Precedent transactions:

✓ Highly acquisitive industry with a large dataset for past transactions

⊘ Commonly used multiples based on historical financials can be unreliable due to low revenue/ profitability

⊘ Historical earnings may not be indicative of future growth

⊘ Cannabis companies are at various points along the maturity curve and therefore may limit comparability

Income-Based Approach

- Definition: valuation derived based on prospective future cash flows or earnings discounted to present value
- Examples: discounted cash flow (DCF), capitalized cash flow or earnings
- Considerations and drawbacks for application in the cannabis industry:

✓ Forward-looking approach

✓ DCF can account for unique risks and opportunities for a subject company

✓ DCF allows for sensitivity/ scenario analysis to capture varying outcomes associated with uncertain external factors (e.g. regulatory changes, consumer demand, etc.)

✓ DCF considers varying growth rates until market/ business reaches maturity

⊘ Potential uncertainty of cash flow and growth projections due to lack of historical financials

⊘ Potential uncertainty relating to appropriate discount rate

⊘ Capitalized cash flow/ earnings approach assumes consistent cash flows/ earnings are reflective of future operations and therefore would not capture varying annual growth as the industry evolves

[5] http://aswathdamodaran.blogspot.com/2018/10/high-and-higher-money-in-marijuana.html

Market-Based Approach — Comparable Public Companies

Using a market-based approach, value is calculated by applying a valuation benchmark, or "multiple" based on other similar assets. As an example, a multiple derived from other comparable public companies is used to infer value of a subject company. Commonly used public company multiples are enterprise value (EV)[6] to earnings before interest, income taxes, depreciation and amortization (EBITDA)[7] and enterprise value to last twelve months (LTM) revenue.

Multiples for the 20 largest Canadian-based public companies in the cannabis industry are presented below. As described below, there are inherent challenges with utilizing comparable public company multiples for this industry, given companies are in the growth stage and generally not profitable as of yet.

Multiples across the largest Canadian-based companies have significant variability, with EV/ EBITDA ranging from -469x to 716x and EV/ revenue ranging from 12x to 657x.

Implied Multiples for Canada's Top 20 Largest Cannabis Companies

		Company financials - June 2019 ($ millions)				Implied multiples		Forecasted financials ($ millions)		Implied multiples	
	Company	Market cap	Enterprise value (EV)	EBITDA	LTM revenue	EV/ EBITDA	EV/ LTM revenue	2022 forecasted EBITDA	2022 forecasted revenue	EV/ 2022 forecasted EBITDA	EV/ 2022 forecasted revenue
1	Canopy Growth Corporation (TSX:WEED)	19,191.8	15,245.2	(415.5)	155.1	(36.7)	98.3	504.3	1,913.0	30.2	8.0
2	Aurora Cannabis Inc. (TSX:ACB)	10,249.9	10,359.6	(205.8)	168.1	(50.3)	61.6	533.0	1,732.0	19.4	6.0
3	Cronos Group Inc. (TSX:CRON)	7,293.1	4,877.2	(14.7)	19.2	(331.8)	254.0	186.5	462.5	26.2	10.5
4	Tilray, Inc. (NasdaqGS:TLRY)	5,274.2	5,416.1	(94.7)	75.9	(57.2)	71.4	N/A	N/A	N/A	N/A
5	Aphria Inc. (TSX:APHA)	2,319.1	2,291.3	(45.7)	120.6	(50.1)	19.0	423.0	1,412.0	5.4	1.6
6	HEXO Corp. (TSX:HEXO)	2,005.4	1,865.5	(32.3)	33.5	(57.8)	55.7	109.3	497.0	17.1	3.8
7	OrganiGram Holdings Inc. (TSXV:OGI)	1,394.7	1,393.6	85.8	46.0	16.2	30.3	126.0	372.0	11.1	3.7
8	CannTrust Holdings Inc. (TSX:TRST)	943.2	916.1	1.3	54.7	715.7	16.7	164.0	679.0	5.6	1.3
9	The Green Organic Dutchman Holdings Ltd. (TSX:TGOD)	927.1	755.0	(48.7)	4.3	(15.5)	176.0	N/A	N/A	N/A	N/A
10	Canopy Rivers Inc. (TSXV:RIV)	715.9	669.2	N/A	56.5	N/A	11.8	N/A	N/A	N/A	N/A
11	PharmaCielo Ltd. (TSXV:PCLO)	638.4	598.7	(26.6)	N/A	(22.5)	N/A	N/A	N/A	N/A	N/A
12	The Flowr Corporation (TSXV:FLWR)	599.5	617.7	(18.4)	3.9	(33.6)	158.0	137.0	274.0	4.5	2.3
13	MediPharm Labs Corp. (TSXV:LABS)	598.6	596.2	(1.3)	32.1	(469.4)	18.6	N/A	N/A	N/A	N/A
14	Origin House (CNSX:OH)	553.6	531.1	(39.7)	29.2	(13.4)	18.2	N/A	N/A	N/A	N/A
15	TerrAscend Corp. (CNSX:TER)	531.3	570.0	(32.5)	21.4	(17.5)	26.6	N/A	N/A	N/A	N/A
16	Green Growth Brands Inc. (CNSX:GGB)	527.6	507.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
17	Flower One Holdings Inc. (CNSX:FONE)	518.5	584.1	N/A	0.9	N/A	657.0	N/A	N/A	N/A	N/A
18	The Supreme Cannabis Company, Inc. (TSX:FIRE)	488.2	488.7	(9.2)	26.4	(53.0)	18.5	N/A	N/A	N/A	N/A
19	Auxly Cannabis Group Inc. (TSXV:XLY)	461.1	396.0	(44.0)	9.5	(9.0)	41.6	127.0	454.0	3.1	0.9
20	Valens GroWorks Corp. (CNSX:VGW)	446.3	425.8	(14.2)	2.3	(30.0)	187.6	101.0	207.0	4.2	2.1
	Average					(49.5)	55.8			15.9	4.8
	Min					(469.4)	11.8			3.1	0.9
	Max					715.7	657.0			30.2	10.5

Sources: Capital IQ - company financials; Bloomberg - forecasted financials; FTI analysis.

[6] Enterprise value is defined as the total value of a business including both its interest-bearing debt and equity components.

[7] Earnings before interest, income taxes, depreciation and amortization is a measure of a company's operating profit.

Most cannabis companies reported negative operating profit due to low revenues and high operating expenses in the past year. Revenue figures largely reflect sales in the medical cannabis market and as such, do not capture the growth expected from recreational cannabis sales post-legalization and global expansion opportunities. Companies have also made significant investments in operating structures in preparation for servicing the recreational market and ramping up operations to meet anticipated demand. The low historical profitability of these companies is unlikely to be indicative of their forecasted financial performance, and therefore, these multiples (i.e. EV/ LTM EBTIDA and EV/ LTM revenue) are less meaningful.

Given the aforementioned challenges associated with using more traditional public company multiples that rely on historical financials, an alternative approach is to apply forward-looking multiples, such as EV/ forecasted EBITDA or EV/ forecast revenue. Across the largest Canadian-based companies, the average EV/ forecasted EBITDA in 2022 is 16x, as compared to an average EV/ EBITDA of -50x based on historical financials. The average EV/ forecasted revenue in 2022 is 5x, as compared to an average EV/ revenue of 56x based on historical financials. Forward-looking multiples are thought by some analysts to result in more reasonable and reliable valuations, as they reflect a company's growth potential in its early stages and allows for somewhat comparable results. It should be noted however, that given the uncertainty of forecasted financials, business valuators should apply these multiples with caution.

More mature markets that are similarly regulated to the cannabis industry can also be used as a guideline to determine the value of a mature market. As an example, comparable industries might include tobacco and alcohol. The table below highlights the EV/ LTM EBITDA and EV/ LTM revenue multiples in these mature markets. It is of note that even based on forecasted (i.e. 2022) revenues and EBITDA, the multiples observed for cannabis companies exceed those for tobacco and alcohol by a significant margin (an average of 16x EV/ forecasted EBITDA in the cannabis industry versus an average of 11x EV/ EBITDA in the tobacco industry and 12x EV/ EBITDA in the alcohol industry; an average of 5x EV/ forecasted revenue in the cannabis industry vs. an average of 4x EV/ revenue in the tobacco industry and 3x EV/ revenue in the alcohol industry). This may be indicative of growth expectations beyond 2022, generous market valuations, or both.

Multiples for Tobacco and Alcohol Industry

Tobacco companies

Company	EV/ LTM EBITDA	EV/ LTM revenue
Altria Group, Inc. (NYSE:MO)	11.6	5.9
British American Tobacco p.l.c. (LSE:BATS)	10.5	4.2
Philip Morris International Inc. (NYSE:PM)	11.2	4.8
Imperial Brands PLC (LSE:IMB)	9.1	2.3
British American Tobacco p.l.c. (LSE:BATS)	10.5	4.2
Average	**10.6**	**4.3**

Alcohol companies

Company	EV/ LTM EBITDA	EV/ LTM revenue
Constellation Brands, Inc. (NYSE:STZ)	15.7	5.8
Molson Coors Brewing Company (NYSE:TAP)	10.1	2.2
Heineken N.V. (ENXTAM:HEIA)	13.2	2.7
Sapporo Holdings Limited (TSE:2501)	10.7	0.8
Asahi Group Holdings, Ltd. (TSE:2502)	9.6	1.5
Average	**11.9**	**2.6**

Source: Capital IQ

Market-Based Approach — Precedent Transactions

The Canadian cannabis industry has witnessed a proliferation of M&A activity, with 167 closed mergers/ acquisitions and 43 announced mergers/acquisition in Canada since the beginning of 2018. This is the result of companies pursuing various growth strategies via acquisition, including consolidation by some of the larger players to achieve increased scale and market share, expansion along the value chain, as well as companies pursuing vertical integration strategies. As an example, Aurora Cannabis completed eleven transactions since January 2018 and more recently announced two additional transactions. Similarly, Canopy Growth completed seven transactions and investments since January 2018. Key market players are actively pursuing acquisitions to execute their vertical integration strategies and to expand their operations across the value chain.

The following highlights some of the largest Canadian M&A transactions and investments in the cannabis industry since January 2018.

Implied Multiples for Canada's Largest M&A Transactions and Investments in the Cannabis Industry

						Transaction and company financials ($ millions)				Implied multiples	
	Buyer	Target	Transaction date	Transaction type	% acquired	Transaction value	Implied EV	Target co. LTM EBITDA	Target co. LTM revenue	Implied EV/ EBITDA	Implied EV/ LTM revenue
1	Constellation Brands, Inc. (NYSE:STZ)	Canopy Growth Corporation (TSX:WEED)	1-Nov-2018	Private Placement	28%	5,078.7	N/A	(87.3)	88.0	N/A	N/A
2	Aurora Cannabis Inc. (TSX:ACB)	MedReleaf Corp. (TSX:LEAF)	25-Jul-2018	Merger/Acquisition	100%	3,265.2	3,049.3	2.6	43.7	1,172.8	69.9
3	Altria Summit LLC	Cronos Group Inc. (TSX:CRON)	7-Dec-2018 Announced	Private Placement	45%	2,376.1	N/A	(5.2)	11.7	N/A	N/A
4	Green Growth Brands Inc. (CNSX:GGB)	Aphria Inc. (TSX:APHA)	27-Dec-2018 Announced	Merger/Acquisition	99%	1,595.0	1,430.2	27.8	57.3	51.5	25.0
5	iAnthus Capital Holdings, Inc. (CNSX:IAN)	MPX Bioceutical Corporation (CNSX:MPX)	18-Oct-2018 Announced	Merger/Acquisition	100%	653.0	635.3	(16.9)	41.6	(37.7)	15.3
6	Aphria Inc. (TSX:APHA)	Aphria International Inc. (previously: Nuuvera Inc.)	23-Mar-2018	Merger/Acquisition	94%	441.6	425.5	(14.6)	0.04	(29.2)	10,130.7
7	Canopy Growth Corporation (TSX:WEED)	BC Tweed Joint Venture Inc.	5-Jul-2018	Merger/Acquisition	33%	375.0	377.0	N/A	N/A	N/A	N/A
8	Canopy Growth Corporation (TSX:WEED)	Hiku Brands Company Ltd.	5-Sep-2018	Merger/Acquisition	100%	335.1	316.1	(16.8)	1.3	(18.9)	237.7
9	Aurora Cannabis Inc. (TSX:ACB)	ICC Labs Inc.	22-Nov-2018	Merger/Acquisition	100%	288.8	278.3	6.0	0.7	46.6	396.5
10	Trichome Financial Corp.	180 Smoke LLC	27-Sep-2018 Announced	Merger/Acquisition	100%	252.8	252.8	N/A	N/A	N/A	N/A
11	MJardin Group, Inc. (CNSX:MJAR)	Growforce Holdings Inc.	30-Nov-2018	Merger/Acquisition	100%	234.3	234.5	N/A	N/A	N/A	N/A
12	Aleafia Health Inc. (TSXV:ALEF)	Emblem Corp. (TSXV:EMC)	19-Dec-2018 Announced	Merger/Acquisition	100%	226.5	169.5	(13.1)	5.7	(13.0)	29.7
13	Aphria Inc. (TSX:APHA)	Broken Coast Cannabis Ltd.	13-Feb-2018	Merger/Acquisition	100%	224.8	225.1	N/A	N/A	N/A	N/A
14	Aurora Cannabis Inc. (TSX:ACB)	Whistler Medical Marijuana Corporation	14-Jan-2019 Announced	Merger/Acquisition	100%	175.0	175.0	N/A	N/A	N/A	N/A
15	Aphria Inc. (TSX:APHA)	LATAM Holdings Inc.	27-Sep-2018	Merger/Acquisition	100%	172.2	172.2	N/A	N/A	N/A	N/A
16	Aurora Cannabis Inc. (TSX:ACB)	Alcanna Inc. (TSX:CLIQ) (previously: Liquor Stores N.A. Ltd.)	14-Feb-2018	Private Placement	~40%	138.0	N/A	29.6	621.4	N/A	N/A
17	VIVO Cannabis Inc. (TSXV:VIVO) (previously: ABcann Global Corp.)	Canna Farms Limited	31-Aug-2018	Merger/Acquisition	100%	128.0	128.0	4.3	9.4	29.8	13.6
18	SOL Global Investments Corp. (CNSX:SOL)	CannCure Investments Inc.	30-Jul-2018 Announced	Merger/Acquisition	70%	122.7	175.3	N/A	N/A	N/A	N/A
19	Aurora Cannabis Inc. (TSX:ACB)	Anandia Laboratories Inc.	31-Aug-2018	Merger/Acquisition	100%	113.4	113.4	N/A	N/A	N/A	N/A
20	Canopy Growth Corporation (TSX:WEED)	Canopy Health Innovations Inc.	31-Aug-2018	Merger/Acquisition	56%	108.1	185.0	N/A	N/A	N/A	N/A
	Average									(312.8)	40.3
	Min									(37.7)	13.6
	Max									1,172.8	10,130.7

Sources: Capital IQ and FTI analysis

Similar challenges exist when utilizing precedent transaction multiples to derive valuations in the cannabis industry, as those discussed above for comparable public company multiples. Namely, many of the target companies are still in the growth stage, and therefore have low or negative profitability, resulting in either high multiples, or multiples that are not meaningful.

As discussed above, there are alternative approaches to consider when applying multiples to value companies in the cannabis industry that can be useful to overcome these challenges. It is however typically difficult to have a view into target companies' next twelve months (NTM) financials, given many of these companies are privately held businesses, or if acquired by a public company, often times the acquired entity is not reported as a standalone operating unit in the acquiring company's annual report.

When looking at precedent transactions, it may be relevant to consider the extent to which the purchaser has paid a premium for post-acquisition synergies when using the precedent transaction valuation approach.

Income-Based Approach

An income-based approach derives the intrinsic value of a business based on prospective future cash flows or earnings, discounted at an appropriate rate of return that reflects the inherent risk of the investment and the opportunity cost associated with the passage of time. Common income-based approaches deployed by business valuators includes discounted cash flow (DCF) analysis, and capitalized cash flow/ earnings approaches.

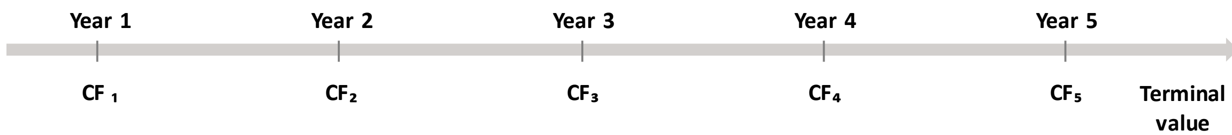
The DCF approach projects future operating cash flows for a number of years and discounts these to a present value. Once a company reaches maturity and expected cash flows are stable, a terminal value can be calculated and discounted back to a present value, which is added to the discrete cash flows from earlier years.

The DCF approach thus allows one to model the impact of a range of possible scenarios over several years, which is useful for high growth companies with historical negative earnings that are not indicative of future performance. Under the DCF, we can model market evolution scenarios under various regulatory or industry developments, various growth opportunities including M&A, product diversification, and geographic expansion.

Further, a DCF approach allows a business valuator to apply a build-up approach when determining the discount rate, which can incorporate a variety of risk premia to reflect the many different risk factors discussed earlier. In particular, the appropriate discount rate of a high growth company may evolve over time as the company matures and stabilizes its market position and future cash flows.

The following highlights the overall DCF approach and factors to consider when forecasting a company's cash flow and determining a discount rate. These factors may also be taken into account when applying alternative valuation approaches.

DCF Approach and Key Factors to Consider



Valuation = ∑ (PV of CFs and terminal value)

Key inputs:

- Cash flows
- Near-term growth rate(s)
- Terminal value growth rate
- Discount rate

Key factors that influence DCF valuation

Factors	Risks
Size of the market	In determining revenues, uncertainty exists around the size of the cannabis market. A surge in demand is expected as a result of legalization through attracting new customers, shifting sales from the illegal market and the introduction of new products. The lack of historical operations in the industry results in uncertainty in demand and the overall size and growth of the market.
Licenses	Companies are required to obtain a license from Health Canada in order to operate in the industry. Obtaining a license can be a time consuming process and could impact a company's ability to operate and generate revenue.
Pricing	Pricing and distribution of cannabis is regulated by provinces and territories. Some provinces allow private retailers to sell cannabis while other are controlled by the government. Pricing will be a key factor in shifting demand to the legal market. In order to encourage consumers to purchase cannabis from legal channels, prices must be competitive with the illegal market. Cash flows for companies will be largely dependent on pricing.
Cost of goods	Cannabis companies are capital intensive at the initial stages of the business, requiring specialized and large-scale agriculture facilities. Companies will also be faced with high operating costs as they scale up production to meet growing demand. Regulations will have an impact on operating costs including requirements for packaging, product testing, etc. High operating costs will put pressure on operating margins, which need to considered when forecasting cash flows.
Access to funding	Despite legalization of cannabis, companies in the industry have a high risk profile. As a result, companies may have difficulty obtaining access to capital. Given the capital intensive nature of the business, a lack of funding could pose a risk to company's operations and expected growth.
Products and branding	The introduction of new products to the market will have a large impact on growth for cannabis companies. Currently, legal products in Canada include dried flowers, pre-rolls, capsules and oils. Tremendous opportunity exists for companies to expand their product offering to include edibles; however, the introduction of edibles is largely dependent on the government's upcoming plans for legalization, the timing of which is uncertain. Additional uncertainty exists around the impact of branding on sales. Cannabis is considered a commodity and while the market is in its infancy stage, the importance and the impact of branding remains uncertain on consumer purchasing decisions.
Management experience	An experienced management team is critical to a company's success as they set the overall strategic direction of the business. It will be important to assess the strength of management, particularly given that many companies in the industry are early-stage businesses with a management team that may not have a proven track record.

CONCLUSION

The cannabis industry is currently experiencing rapid change as a result of an evolving regulatory landscape, changing industry fundamentals, and increased competition as new companies continue to enter the market to capitalize on the explosive growth expected in the industry. Companies are responding by pursuing various acquisitions, strategic partnerships and organic growth initiatives to protect and grow their share of the market. All of this activity has resulted in greater attention on establishing reasonable valuations in the industry, while at the same time it has introduced increased complexities from a valuation perspective.

As discussed, traditional valuation metrics are often less meaningful or unreliable given the current state of the industry. On the surface, it might appear as though valuations of companies in the industry have received unjustifiably high valuations; however, this can be misleading. It is evident that long-term potential is the key driver behind valuations at this stage, and as a result, business valuators may place increased reliance on forward-looking financials. The benefit of additional information regarding the size of the market, revenues across the value chain, and operating costs, for example, will allow market participants to conduct valuations that are based on fundamentals, as opposed to the current state – which appears to be based largely on market sentiment and growth expectations.

ABOUT FTI CONSULTING

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political and regulatory, reputational and transactional.

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78 Cities		**27** Countries
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(1) Number of total shares outstanding as of March 31, 2019, times the closing share price as of April 25, 2019

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FTI CONSULTING

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