

Cronos Group

Conflict and increased competition in Israel led to 4Q gross margin miss

Reiterate Rating: UNDERPERFORM | PO: 2.00 USD | Price: 2.08 USD

Top-line miss driven by Israel-Hamas conflict

CRON's 4Q net sales were \$23.9mn, +9% YoY but \$3.7/\$3.2mn below BofA/Visible Alpha (VA) consensus. This miss was due to a 30% drop in Israel medical sales (led by conflict disruption), partially offset 20% growth in Canada. Gross margin improved YoY but fell QoQ to +8.4% (-1% in 4Q22/18.9% in 2Q23), depressed by disruptions in Israel and adverse price/mix in Canadian flower, which drove excise taxes up as a % of sales. CRON achieved \$30mn in cost saves in 2023 (\$20-25mn goal) and updated its 2024 plan to \$5-10mn (from \$10-15mn previously) due to accelerated saves. Given lingering issues in Israel due the conflict (including a pushback in its prescription plan to July 1), we have cut our sales forecasts to \$100mn (from \$103mn) and \$121.5mn (from \$125mn) for 2024 and 2025, respectively, and we introduce \$130.2mn for 2026 (below consensus).

Robust innovation pipeline

In November, CRON launched the Lord Jones brand in Canada, with its first product being Lord Jones Hash Fusions, a premium water hash infused pre-roll. In January, it introduced Lord Jones live resin vapes, and in February, Lord Jones Chocolate Fusion edibles were added. In Israel, CRON introduced 3 new flower offerings under Peace Naturals (Rockstar, Dancehall, and Sonic Fuel). In addition, CRON launched in Israel a new flower brand called "Lit." Lit has a differentiated positioning toward a large patient group seeking a more approachable price point. In vapes, it launched Spinach Feelz Full Tilt Blue Razz Durban TCHV pre-roll, offering an enhanced high due to its THC/THCV blend.

CRON closes out year with strong liquidity

CRON has robust liquidity (\$862mn net cash or \$2.26/share), an asset-light model, GrowCo progress, innovation, entry into Germany/Australia, but the timing of profitability, disruptions due the Israel-Hamas conflict, changes to US federal laws and Canadian reform to the Cannabis Act are unclear. While we recognize CRON's progress on driving sales and cost controls, we retain our belief that market/regulatory forces weigh heavily on the sector's valuation and we expect CRON's stock to remain pressured.

Reiterate Underperform

Our price objectives are US\$2.00/C\$2.64. Our PO values CRON at a modest negative adj EV/sales given its cash position relative to its market cap. Peers trade at a current average CY25 EV/sales of 1.5x. This discount to peers* reflects our view that CRON's path to profitability includes not just cost saves but changes to regulations in key markets.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.45)	(0.19)	(0.03)	0.01	0.05
EPS Change (YoY)	57.9%	57.8%	84.2%	NM	400.0%
DPS	0	0	0	0	0
EPS (YCRON - C\$)	(0.59)	(0.26)	(0.04)	0.01	0.07
DPS (YCRON - C\$)	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	208.0x	41.6x
EV / EBITDA*	NM	NM	NM	NM	-15.8x
Free Cash Flow Yield*	-11.7%	-5.7%	0.3%	6.4%	13.0%

* For full definitions of *IQmethod™* measures, see page 9.

29 February 2024

Equity

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Stock Data

Price (NAS / TOR)	2.08 USD / 2.84 CAD
Price Objective	2.00 USD / 2.64 CAD
Date Established	27-Dec-2023 / 27-Dec-2023
Investment Opinion	C-3-9 / C-3-9
52-Week Range	1.64 USD - 2.64 USD
Market Value (mn)	792 USD
Free Float	51.1%
Average Daily Value	4.40 USD
Shares Outstanding (mn)	381.0 / 381.0
BofA Ticker / Exchange	CRON / NAS
BofA Ticker / Exchange	YCRON / TOR
Bloomberg / Reuters	CRON US / CRON.QQ
ROE (2024E)	-1.1%
Net Dbt to Eqty (Dec-2023A)	-61.1%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

LPs = licensed producers

QoQ = quarter over quarter

THC = tetrahydrocannabinol

THCV = Tetrahydrocannabivarin

YoY = year over year

*Peers include Canopy Growth, Tilray, Aurora, and Organigram

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Timestamp: 29 February 2024 05:18PM EST

iQprofileSM Cronos Group

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-6.8%	-2.3%	-1.2%	0%	1.0%
Return on Equity	-13.6%	-6.6%	-1.1%	0.2%	1.6%
Operating Margin	-126.2%	-90.6%	-62.7%	-48.1%	-38.2%
Free Cash Flow	(92)	(45)	3	51	103

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	20.9x	5.9x
Asset Replacement Ratio	0.3x	0.3x	0.9x	1.0x	1.0x
Tax Rate	NM	4.4%	NM	NM	NM
Net Debt-to-Equity Ratio	-67.0%	-61.1%	-61.5%	-65.4%	-72.8%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	92	88	100	122	130
% Change	23.5%	-4.4%	13.8%	21.5%	7.1%
Gross Profit	12	12	18	26	32
% Change	NM	1.7%	48.1%	42.7%	23.8%
EBITDA	(81)	(64)	(20)	(8)	4
% Change	49.8%	20.9%	69.3%	60.0%	NM
Net Interest & Other Income	(19)	6	50	60	65
Net Income (Adjusted)	(169)	(74)	(12)	3	18
% Change	57.4%	56.2%	83.4%	NM	593.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(169)	(71)	(13)	1	17
Depreciation & Amortization	13	8	5	5	5
Change in Working Capital	21	(26)	8	40	80
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	46	47	8	9	6
Capital Expenditure	(3)	(3)	(4)	(5)	(5)
Free Cash Flow	-92	-45	3	51	103
% Change	43.9%	50.9%	NM	NM	103.9%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	765	669	672	723	826
Trade Receivables	23	14	8	2	1
Other Current Assets	172	250	237	263	262
Property, Plant & Equipment	61	59	59	59	59
Other Non-Current Assets	192	147	155	164	174
Total Assets	1,213	1,140	1,132	1,210	1,322
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	68	41	31	70	72
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	4	3	8	35	117
Total Liabilities	72	44	39	105	188
Total Equity	1,141	1,096	1,092	1,105	1,133
Total Equity & Liabilities	1,213	1,140	1,132	1,210	1,322

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Cannabis

Company Description

Founded in 2012 and based in Ontario, Canada, Cronos sells medicinal and recreational cannabis, primarily in Canada. It exports medical cannabis into select international markets. Altria Group has a 41% investment interest in CRON.

Investment Rationale

Cronos has strong liquidity, which it can use to eventually enter the US market or acquire other cash flow accretive global cannabis assets. We think this is already factored in valuation and see further downside risk to valuation as the company continues to overspend relative to its size and Canadian cannabis industry conditions. The Israel-Hamas conflict may also cause disruption in its second largest market over the near term.

Stock Data

Average Daily Volume	2,115,853
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	-0.05A	-0.01E
Q2	-0.02A	-0.01E
Q3	0A	-0.01E
Q4	-0.12A	0E

4Q23 highlights

4Q23 sales were strong in Canada

Net sales of \$23.92mn rose \$1.03mn (or +4%, or +9% on-going) YoY, driven by higher cannabis flower sales in Canada, Germany, and Australia, partly offset by lower cannabis sales in Israel, driven by the Israel-Hamas conflict and pricing pressure due to new entrants in Israel. Issues in Israel last quarter included pharmacy closures (especially at the start of the conflict) and ~10% of population called up as reserves (impacting active patient count). Further, expected changes in rules for obtaining product (i.e., moving to a subscription model) were pushed back again to July 1 (from originally December 2023). In addition, adverse price/mix in Canadian cannabis drove higher excise tax payments as a percentage of revenue. Excluding FX, sales grew 11%.

Exhibit 1: Net sales by region (US\$mns)

Net sales increased 9% on a continuing operations basis

	4Q22	4Q23	% Change	% of 4Q22	% of 4Q23
Canada	14.90	17.94	20%	65%	75%
USA	0.85	-		4%	0%
Israel	7.14	4.97	-30%	31%	21%
Other countries	-	1.01		0%	4%
Total net sales	22.89	23.92	4%	100%	100%
On-going ops (ex. US)	22.03	24.81	9%		

Source: Company reports. Recall that CRON exited its US operations earlier in the year.

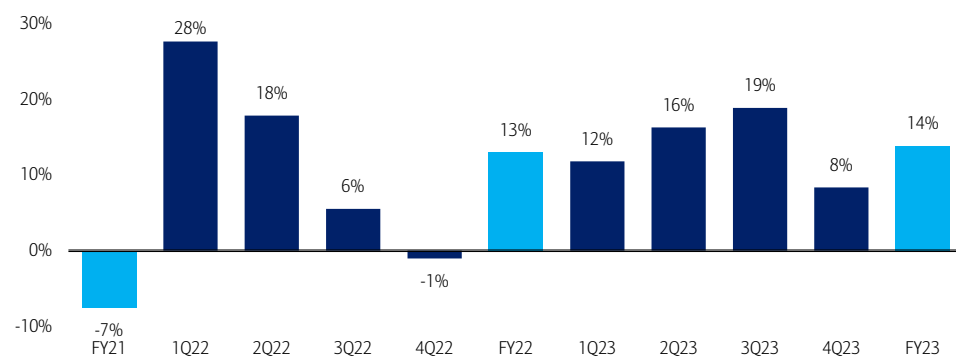
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Gross profit margin disappointed

Adjusted gross margin was 8.4% in 4Q, improving from -1% in 4Q22 but below 9-month trends. The improvement year over year was led by higher Canada, Germany, and Australian sales. This was partially offset by lower cannabis flower sales in Israel due to the conflict and pricing pressure in Israel.

Exhibit 2: Underlying gross margins

The Israel-Hamas conflict, along with increased price competitive activity, dampened 4Q gross margin



Source: Company reports

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Operating cost cutting coming through

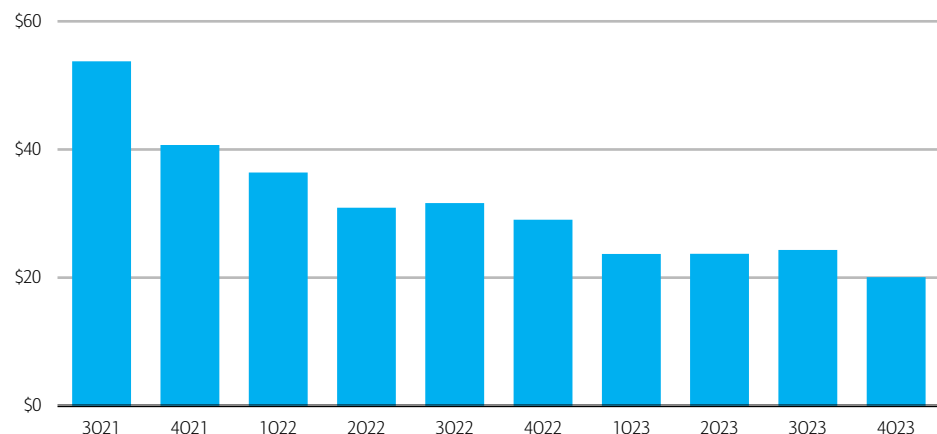
Operating costs fell \$9.0mn YoY, highlighting the layering in of savings from its 2022 program (\$28.7mn) and progress on its 2023 program. The 2023 program reached \$30mn, surpassing its original \$20-25mn goal. For 2024, it narrowed its 2024 cost savings program to \$5-10mn (from \$10-15mn) due the 2023 beat. These saves come from the wind-down and eventual sale of its fermentation facility.

Adjusted, 4Q continuing operations EBITDA was -\$14.82mn in 4Q23, improving \$6.5mn YoY. For the 12-month period, continuing operations EBITDA was -\$61.6mn, compared to -\$69.6mn in 2022.

For the full year, operating costs fell by \$36.2mn as 2022/23 cost savings were fully realized. In 2024, we forecast a \$12mn drop in operating costs as plant closure savings are realized.

Exhibit 3: Underlying Operating expenses (\$mns)

Operating costs fell \$9mn in 4Q YoY, illustrating management's focus on rightsizing its operations for current market conditions



Source: Company reports

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Management updated cost saves outlook

CRON achieved \$30mn in cost saves in 2023, besting its target of \$20-25mn. Given that it captured cost saves earlier than anticipated, CRON now expects an incremental \$5-10mn in operating expenses in 2024, compared to its previous target of \$10-15mn. (In total, cost saves are unchanged.)

Management expects that costs saves will be led by general and administrative and R&D cost saves. It also expects some cost saves as it winds down its fermentation facility by late 2023.

Operating cash flow was a positive \$15.6mn, indicating its first positive FCF quarter since at least 1Q20 and highlights its progress in reducing cash burn. The company maintains its plan to be **cash flow positive in 2024**. Interest income is guided to \$40-50mn for the 2024 period given interest rates and cash balances.

Uncertainty in Israel. At present, management's guidance assumes limited impact on its operations, facilities, and business in Israel due to the Israel-Hamas conflict. In August, the Health Ministry of Israel published reform measures for the use of medical cannabis that were originally expected to come into effect in December, but the timing has been shifted to July 1 as the government focuses on the conflict. These reform changes will allow more patients to have access to medical cannabis and also reduce bureaucratic obstacles that slowed permit authorizations. While the market has been stabilizing since the start of the conflict, we do not expect meaningful growth in Israel until at least mid-year, when the new patient access reform is expected to commence.

Exhibit 4: 2024 sales growth: reported versus organic

Reported sales rose 1%, negatively impacted by 5pts of adverse FX

	2023	
	As reported (ex. disc ops)	FX neutral
Cannabis flower	-2%	+3%
Cannabis extracts	+9%	+13%
Other	-5%	-%
Net sales	1%	6%

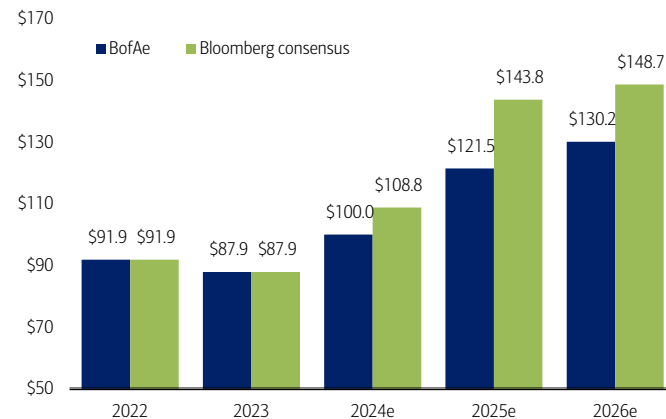
	2023	
	As reported (ex. disc ops)	FX neutral
Canada	+15%	+19%
Israel	-31%	-24%
Other	NM	NM
Net sales	+1%	+6%

Source: Company reports

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Exhibit 5: Updated annual sales forecasts (US\$mns)

We remain below consensus given uncertainty in Israel



Source: Company reports, BofA Global Research

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Canadian share trends

CRON has focused its Spinach brand on 4 key subsegments: flower, edibles, pre-rolls, and vapes. Overall, Spinach is the #2 player in Canadian cannabis (per Hifyre). It is the #1 edible, #1 flower, #8 pre-rolls, and #5 vape brand. The Spinach brand features many rare cannabinoids, such as CBN, CBG, and CBC¹ and most recently THCV. In vapes, it held a 7.7% share of the category in Canada in 4Q; its flower share in Canada was 6.9%. Its edible share was 16.2%.

Exhibit 6: Cronos share trends in Canada

CRON ranks #2 overall in Canada

	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Edibles category	14.3%	15.3%	15.9%	15.3%	14.5%	17.9%	16.2%
Gummy subcategory	18.6%	19.8%	20.9%	21.9%	21.8%		
Spinach			#1 edible	#1 edible	#1 edible	#1 edible	#1 edible
Spinach's rank				1Q23	2Q23	3Q23	4Q23
Cannabis brand overall				3	3	3	2
Edibles				1	1	1	1
Flower				3	2	2	1
Pre-rolls				8	8	7	8
Vapes				7	7	6	5
Vape share					4.5%	6.4%	7.7%
Flower share						5.8%	6.9%

Source: Hifyre, Company reports

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Innovation

- In November 2023, CRON launched its Lord Jones brand in Canada. The first product was Lord Jones Hash Fusions, a premium water hash infused pre-roll. In January 2024, CRON introduced Lord Jones live resin vapes, and in February, Lord Jones Chocolate Fusion edibles were added to the line-up.
- In Israel, CRON introduced 3 new flower offerings under the Peace Naturals name, including Rockstar, Dancehall, and Sonic Fuel.

¹ CBN (cannabinol) research suggests that it can be used as a potential sleep aid. CBG (or cannabigerol) research shows many therapeutic effects on anxiety, depression, chronic pain, and other ailments. CBC (cannabichromene) is said to help with inflammation.

- In addition, CRON launched in Israel a new flower brand called “Lit.” Lit has a differentiated positioning toward a large patient group seeking a more approachable price point.
- In vapes, CRON launched Spinach Feelz Full Tilt Blue Razz Durban TCHV pre-roll, which offers an enhanced high to its THC² and THCV blend.

New markets

- In September, CRON sent its first shipment of Peace Naturals medical cannabis to Germany through a strategic partnership with Cansativa GmbH, a German cannabis company. CRON launched GMO Cookies and Wedding Cake, two of its top flower strains.
- In 3Q23, CRON began shipping medical cannabis to Vitura Health Limited for sale in the Australia medical market. Recall that CRON owns ~10% of Vitura.

Exhibit 7: Net sales by country (US\$mns)

We forecast a 14% rise in sales in 2024

Net sales composite	1Q23	2Q23	3Q23	4Q23	2023	2024E	2025E	2026E
Canada	14.4	13.6	18.7	17.9	64.7	69.0	80.3	82.7
USA	0.6	-	-	-	0.6	-	-	-
Israel	5.1	5.4	5.7	5.0	21.1	23.5	28.2	30.4
Other countries	=	=	0.4	1.0	1.4	7.5	13.0	17.0
Total net sales	20.1	19.0	24.8	23.9	87.9	100.0	121.5	130.2
YoY % change								
Canada	6%	-6%	40%	20%	15%	7%	16%	3%
USA	-72%				-87%			
Israel	-45%	-25%	-19%	-30%	-31%	11%	20%	8%
Other countries						436%	73%	31%
Total net sales	-20%	-18%	19%	4%	-4%	14%	21%	7%

Source: Company reports, BofA Global Research

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Exhibit 8: Consolidated income statement (\$mns)

We forecast gross margin of 18% in 2024

	1Q23	2Q23	3Q23	4Q23	FY23	FY24E	FY25E	FY26E
Consolidated gross revenue	26.55	25.80	33.91	34.01	120.27	142.27	172.79	185.11
Excise taxes	(7.06)	(6.78)	(9.10)	(10.09)	(33.03)	(42.22)	(51.27)	(54.93)
Net revenue	20.14	19.02	24.81	23.92	87.89	100.05	121.51	130.18
YoY % change in net sales	-20%	-18%	19%	4%	-4%	14%	21%	7%
QoQ % change in net sales	-12%	-6%	30%	-4%				
FX neutral net sales	21.65	20.22	26.01	24.48	91.71			
YoY \$ change in FX neutral sales	-14%	-6%	27%	11%	6%			
Underlying cost of sales	17.76	15.92	20.12	21.91	75.72	82.03	95.80	98.35
Reported gross profit (loss)	2.93	3.10	3.97	1.91	11.91	18.02	25.71	31.83
Addback inventory write-down	=	=	0.72	0.09	0.81	=	=	=
Adjusted gross profit (loss)	2.38	3.10	4.69	2.00	12.17	18.02	25.71	31.83
Adj. gross margin	11.8%	16.3%	18.9%	8.4%	13.8%	18.0%	21.2%	24.4%
Adj. GM change YoY	-1590bps	-160bps	1340bps	940bps	80bps	420bps	310bps	330bps
Operating expenses								
Sales and marketing	5.74	5.30	5.30	6.37	22.70	21.57	20.92	20.29
Research and development	2.04	1.11	1.25	1.45	5.84	5.32	5.16	5.00
General and administrative	11.86	13.45	14.37	9.80	49.48	43.73	42.42	41.15
Share-based payments	2.54	2.33	1.96	1.93	8.76	8.00	9.72	9.11
Depreciation and amortization	1.53	1.53	1.46	0.53	5.04	2.12	6.00	6.00
Underlying operating expenses	23.70	23.72	24.32	20.1	91.82	80.74	84.22	81.56
Adjustments	=	=	1.42	3.47	4.89	=	=	=
Reported operating expenses	23.70	23.72	25.75	23.55	96.71	80.74	84.22	81.56
% of sales (margin)								

² THC= tetrahydrocannabinol. THC is the substance that is primarily responsible for the effects of marijuana on a person's mental state.

Exhibit 8: Consolidated income statement (\$mns)

We forecast gross margin of 18% in 2024

	1Q23	2Q23	3Q23	4Q23	FY23	FY24E	FY25E	FY26E
Sales and marketing	28%	28%	21%	27%	26%	22%	17%	16%
Research and development	10%	6%	5%	6%	7%	5%	4%	4%
General and administrative	59%	71%	58%	41%	56%	44%	35%	32%
Share-based payments	13%	12%	8%	8%	10%	8%	8%	7%
Depreciation and amortization	8%	8%	6%	2%	6%	2%	5%	5%
Underlying operating expenses	118%	125%	98%	84%	104%	81%	69%	63%
YoY % growth								
Sales and marketing	15%	-5%	-11%	10%	2%	-5%	-3%	-3%
Research and development	-50%	-74%	-51%	-41%	-56%	-9%	-3%	-3%
General and administrative	-47%	-21%	-16%	-33%	-30%	-12%	-3%	-3%
Share-based payments	-31%	-11%	-54%	-57%	-42%	-9%	21%	-6%
Depreciation and amortization	18%	9%	-15%	-67%	-16%	-58%	184%	0%
Underlying operating expenses	-35%	-23%	-23%	-31%	-28%	-12%	4%	-3%
QoQ % growth								
Sales and marketing	0%	-8%	0%	20%				
Research and development	-17%	-46%	13%	16%				
General and administrative	-19%	13%	7%	-32%				
Share-based payments	-44%	-8%	-16%	-1%				
Depreciation and amortization	-5%	1%	-5%	-64%				
Underlying operating expenses	-18%	0%	3%	-17%				
Operating expenses								
Reported operating expenses	23.7	23.7	25.7	23.5	96.7	80.7	84.2	81.6
Charges	-	-	1.4	3.5	4.9	-	-	-
Adjusted operating expenses	23.7	23.7	24.3	20.1	91.8	80.7	84.2	81.6
Reported operating income (loss)	(20.8)	(20.6)	(21.8)	(21.6)	(84.8)	(62.7)	(58.5)	(49.7)
Adjusted operating income / (loss)	(21.3)	(20.6)	(19.6)	(18.1)	(79.7)	(62.7)	(58.5)	(49.7)
Interest income, net	11.2	12.5	13.4	14.2	51.2	48.0	58.2	62.8
Other income (loss)	0.1	-	-	-	0.1	-	-	-
Adj non-operating (expense)/Income	11.3	12.5	13.4	14.2	51.3	48.0	58.2	62.8
One-time items								
Gain (loss) on revaluation of derivative liabilities	(0.1)	0.0	0.0	(4.3)	(4.3)	-	-	-
Share of loss from inv in equity investees	(0.5)	0.3	1.1	0.8	1.6	1.8	2.1	2.4
Financing and transaction costs	-	5.2	-	-	5.2	-	-	-
Review costs/other	(9.4)	(3.2)	4.5	(34.6)	(42.7)	-	-	-
Total other income /(expense)	1.3	14.8	18.9	(23.9)	11.1	49.8	60.3	65.2
GAAP pretax income / (loss)	(19.5)	(5.8)	(2.8)	(45.5)	(73.7)	(12.9)	1.8	15.5
Income tax expense / (benefit)	(1.4)	(0.2)	(1.3)	(0.4)	(3.2)	-	(0.3)	(2.3)
Loss from continuing operations	(18.0)	(5.7)	(1.6)	(45.2)	(70.4)	(12.9)	2.1	17.8
Non-controlling interest	0.4	0.1	(0.2)	0.2	0.6	0.6	0.6	0.6
Other	(1.5)	(2.8)	0.1	0.1	(4.1)	-	-	-
GAAP net income	(19.2)	(8.4)	(1.6)	(44.8)	(74.0)	(12.3)	2.7	18.4
GAAP EPS	(\$0.05)	(\$0.02)	(\$0.00)	(\$0.12)	(\$0.19)	(\$0.03)	\$0.01	\$0.05
EPS - continuing ops	(\$0.05)	(\$0.01)	\$0.00	(\$0.12)	(\$0.18)			
EPS - disc ops	\$0.00	(\$0.01)	\$0.00	\$0.00	(\$0.01)			
Diluted Weighted Avg Shares	380.6	381.0	381.1	381.2	381.0	381.2	381.2	381.2
Shares for EPS	380.6	381.0	381.1	381.2	381.0	381.2	381.2	381.2
	1.5%	1.3%	0.8%	0.7%	1.1%	0.1%	0.0%	0.0%

Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Cronos Group (CRON / YCRON)

Our POs are US\$2.00/C\$2.64. Our PO values CRON at a modest negative adjusted EV/sales (-0.5x) given its cash position relative to its market cap. Peers trade at a current average CY25 EV/sales of 1.5x. This discount to peers reflects our view that CRON's path to profitability includes not just cost saves but changes to regulations in key markets to drive investor interest in CRON.

Upside risks to our price objective are potential successful M&A, a faster path to profitability than anticipated, and earlier-than-expected re-entry into the US market and market reform.

Downside risks to our price objective are an highly competitive recreational cannabis channel in Canada, an accelerated cash burn, and a longer-than-expected path to federal legalization in the US.

Analyst Certification

I, Lisa K. Lewandowski, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLK	KLK US	Peter T. Galbo, CFA

UNDERPERFORM

	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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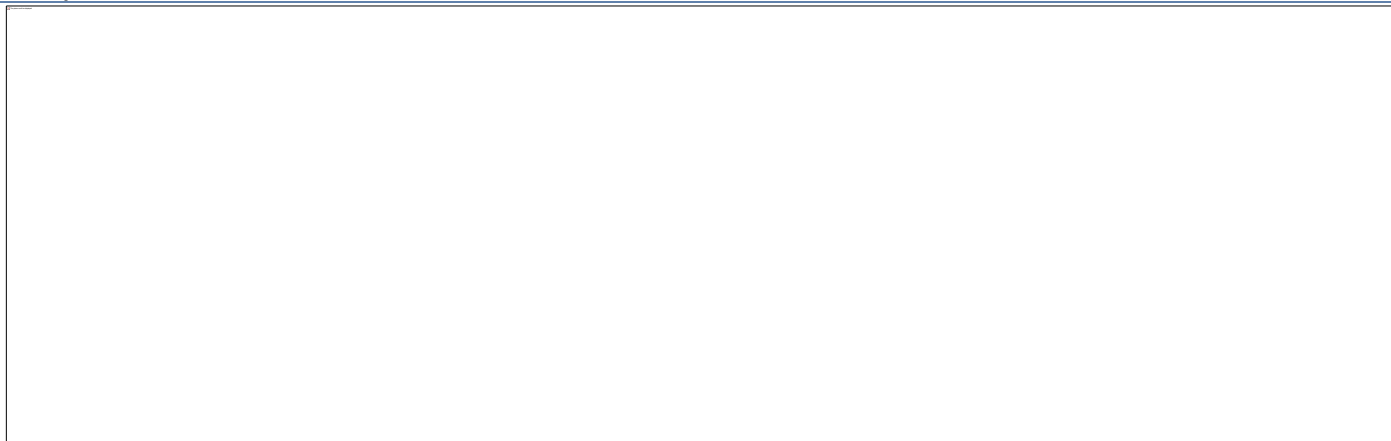
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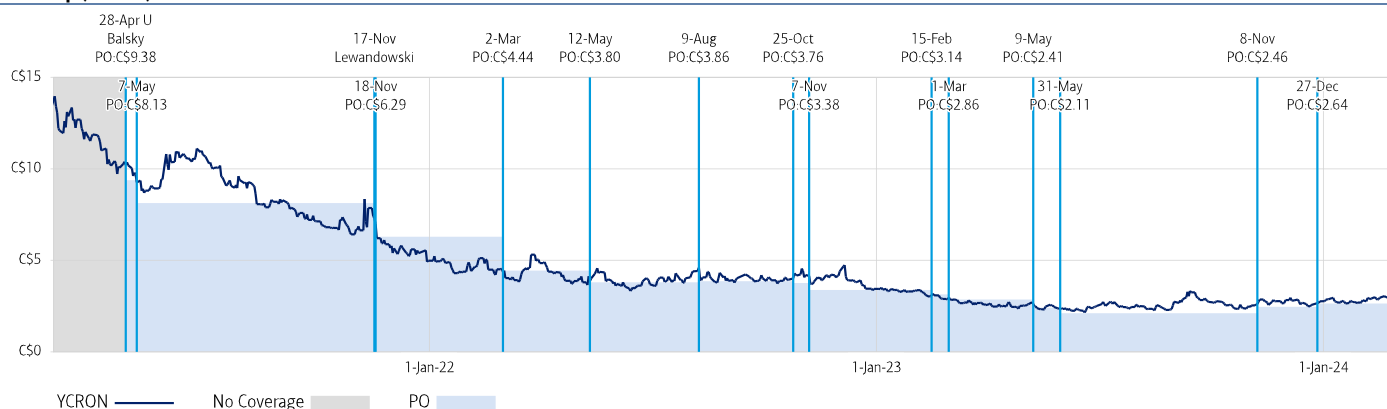
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Cronos Group (CRON) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Cronos Group (YCRON) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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