

CANACCORD Genuity Cannabis

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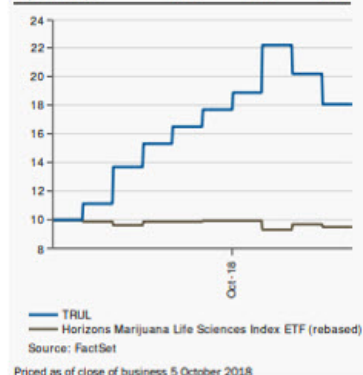
Canadian Equity Research 9 October 2018

Company	Rating	Price	Target
Cannabis			
LHS-CNSX	Spec Buy	C\$1.38	C\$2.00
TRUL-CNSX	Spec Buy	C\$18.05	C\$24.00

Priced as of close of business 5 October 2018

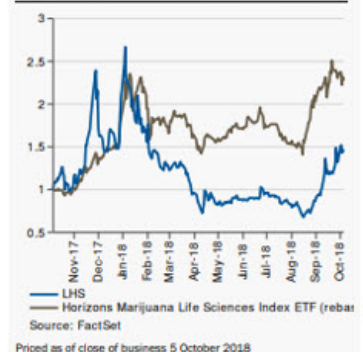
Trulieve Cannabis Corp.

FYE Dec	2018E	2019E	2020E
Revenue (US\$M)	112	236	275
SG&A (US\$M)	35.1	74.1	86.2
EBITDA Adj (US\$M)	48.2	101.6	118.3
EPS (C\$)	0.47	0.38	0.48
EV/EBITDA (x)	31.3	14.8	12.7



Liberty Health Sciences Inc.

FYE Feb	2019E	2020E	2021E
Revenue (C\$M)	20	104	159
SG&A (C\$M)	15.8	31.1	43.3
EBITDA Adj (C\$M)	(4.2)	26.1	51.2
EPS (C\$)	(0.05)	0.00	0.03
EV/EBITDA (x)	-	18.3	9.3



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Initiation of Coverage

Playing cannabis in the Sunshine State

Since medical cannabis became legal in Florida in late 2016 via ballot initiative (with ~71% voting in support), the Florida market continues to see strong growth in its registered patient base, which currently sits at >170,000 (up ~300% YoY). With a population of 21 million and an aging demographic, we believe Florida's annual medical revenues could grow to >US\$1.5B over the next five years. Further, should the state legalize recreational cannabis (with lobbying in place to have it on the ballot in 2020), we believe the annual revenue opportunity has attractive optionality to grow to as much as US\$5.0B over the long term. We are initiating coverage of two vertically integrated licensed companies in Florida that we believe provide investors with attractive and the most direct exposure to this growing market:

- Trulieve Cannabis Corp. (TRUL-CSE | SPECULATIVE BUY; C\$24.00 target price).**
 Trulieve was the first to market when medical cannabis officially became legalized in Florida. Since then, the company has grown to become the largest operator in Florida on virtually all metrics, including its production footprint, retail reach, employees, home delivery platform and revenues. The company's retail locations account for >30% of all locations in the state and its trailing sales represent ~70% of all sales in Florida by volume. As a result, the company currently has a revenue and Adj. EBITDA run rate of ~US\$93M and US\$45M, respectively, virtually unheard-of levels in the cannabis industry today given its nascent stage (and higher than any other public cannabis company to date). Although already a market leader, as the Florida market continues to ramp-up, we forecast Trulieve's top line to grow at a CAGR of ~30% over the next 5 years, reaching US\$336M by FY2022.
- Liberty Health Sciences Inc. (LHS-CSE | SPECULATIVE BUY; C\$2.00 target price).**
 We believe Liberty is starting to establish a strong presence in Florida's rapidly growing medical cannabis market. Over the past year, the company has demonstrated strong execution by securing a variety of strategic partnerships and brand licences (including with Aphria Inc., one of Canada's largest Licensed Producers), while continuing to roll out its retail presence in Florida. Further, the company is in the midst of a multi-state expansion strategy, with licences/assets already secured in both Massachusetts and Ohio. As a result, we estimate that LHS will reach C\$20M in revenues in its current fiscal year (FY2019), increasing by a CAGR of ~90% to C\$267M by FY2023.

Valuation: We value TRUL and LHS using a sum-of-the-parts analysis for each market where it has exposure (predominantly Florida). We utilize a DCF methodology, with discount rates ranging from 8% to 13% and a terminal growth rate of 2%.

Trulieve currently trades at ~12.7x our FY2020E EV/Adj. EBITDA, which compares to its US peer average of ~9.5x. Although TRUL trades at a premium, given its dominant position in the Florida market (and strong financial performance to date), we believe a premium valuation is warranted. Our C\$24.00 target price implies a 17.0x multiple.

Liberty currently trades at ~10.6x our CY2020E EV/Adj. EBITDA vs. its US peers at ~9.5x. As we believe Florida represents the healthiest medical cannabis market in the US today, given Liberty's strong positioning in the state, we believe a higher premium for LHS is warranted. Our C\$2.00 target price implies a 16.1x multiple.

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Executive summary

Since medical cannabis became legal in late 2016 via ballot initiative (with ~71% voting in support), the Florida market continues to see strong growth in its registered patient base, which currently sits at >170,000 (up ~300% YoY). With a population of 21 million and an aging demographic, we believe Florida's medical revenues could grow to >US\$1.5B over the next five years. Further, should the state legalize recreational cannabis we believe the annual revenue opportunity could grow to as much as US\$5.0B. We believe this is plausible with lobbying in place to have it on the ballot in 2020 led by John Morgan (an attorney who was instrumental to bringing medical cannabis to the ballot in 2016).

In this report, we are initiating coverage of Trulieve and Liberty Health Sciences; two of the roughly five vertically integrated licensed companies in Florida that have operations off the ground (out of 14 licenses in total). We believe these companies provide investors with attractive and the most direct exposure to this growing market. In addition to these companies, we already cover iAnthus Capital Holdings (Restricted) and MedMen Enterprises Inc. (MMEN-CSE | HOLD | C\$5.25 TP), which are also licensed Florida operators.

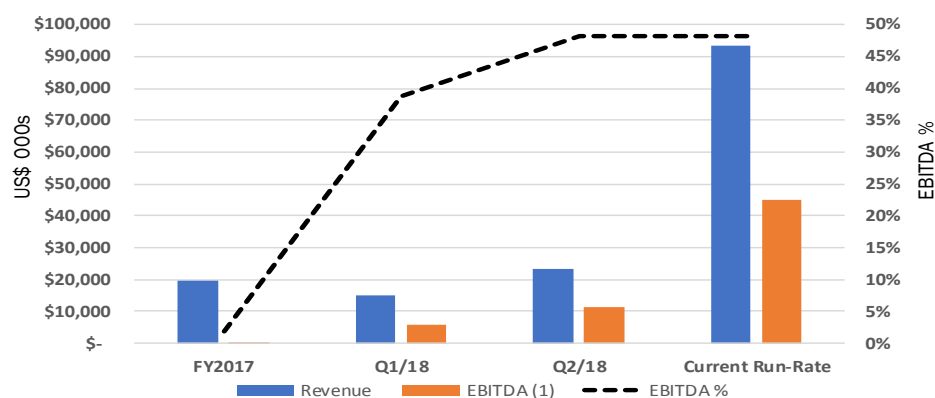


Trulieve Cannabis Corp. (TRUL-CSE | SPECULATIVE BUY; C\$24.00 target price): Number one with a bullet

We are initiating coverage of Trulieve Cannabis Corp. with a SPECULATIVE BUY rating and a target price of C\$24.00. Trulieve is a Florida-based vertically integrated cannabis operator that was the first to market when medical cannabis became legalized in the state. Since then, the company has grown to become the largest operator in Florida on virtually all metrics, including its production footprint, retail reach, employees, home delivery platform and revenues.

The company's retail locations account for >30% of all locations in the state; however, more impressively, its trailing sales represent ~70% of all sales in Florida by volume. As a result, the company has a current revenue and Adj. EBITDA run rate of ~US\$93M (~C\$120M) and US\$45M (C\$59M), respectively. These are virtually unheard-of levels in the cannabis industry today given its nascent stage, and higher than any public cannabis company in the world (including the large-cap Canadian Licensed Producers).

Figure 1: Trulieve: Historical revenue and adjusted EBITDA



Source: Company Reports, Canaccord Genuity estimates



**Liberty Health Sciences Inc. (LHS-CSE | SPECULATIVE BUY; C\$2.00 target price):
Scaling up in Florida's burgeoning medical market**

We are initiating coverage of Liberty Health Sciences Inc. with a SPECULATIVE BUY rating and a target price of C\$2.00. Liberty is a Florida-based, vertically integrated cannabis operator that we believe is starting to establish a strong presence in the state's rapidly growing medical cannabis market. Over the past year, we believe Liberty has demonstrated strong execution by securing a variety of strategic partnerships and brand licenses (including with Aphria Inc. - one of Canada's largest Licensed Producers), while continuing to roll out its retail presence in Florida. Further, the company is in the midst of a multi-state expansion strategy, with licenses/assets already secured in both Massachusetts and Ohio.

Figure 2: Liberty's current house of brands in Florida

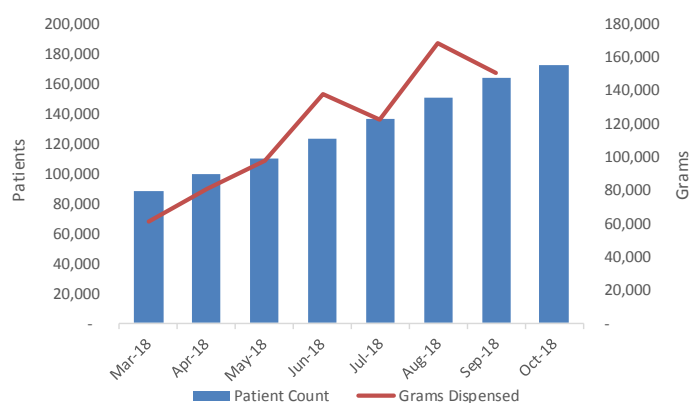


Source: Company Reports

An introduction to the burgeoning Florida medical cannabis market

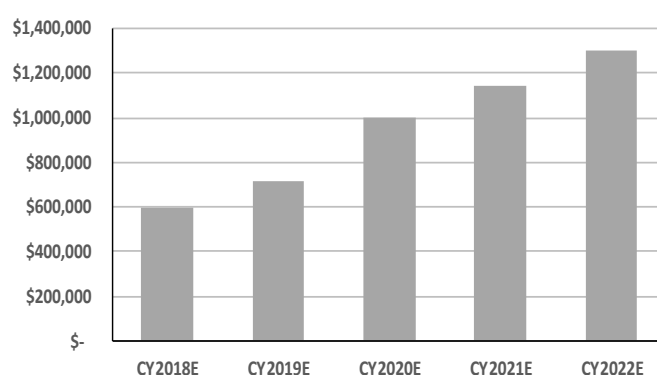
Although medical cannabis became legal in late 2016 via ballot initiative, the Florida market continues to see strong growth in its registered patient base. As the state with the third-highest population in the US (with ~4 million residents over the age of 65), Florida has quickly ramped up to a patient base of >170,000. We forecast the state to reach a patient base of ~500,000 at maturity, representing an annual revenue potential of >US\$1.5 billion (without including potential upside from legalized rec sales).

Figure 3: Florida historical patient count and grams dispensed



Source: www.floridahealth.gov

Figure 4: Florida revenues; medical only (2018 to 2022) - US\$000's



Source: Canaccord Genuity estimates

Although Florida has issued 14 licenses to date, we note that only five to seven of them currently have operations that are up and running (including both Trulieve and Liberty Health). In addition, the state's regulatory framework has taken a relatively conservative approach to issuing new licenses, limiting each license holder to opening

up to 30 dispensaries until various patient registration thresholds are met in the state. As a result, we believe the capitalized players among these initial licensees will likely achieve a significant first-mover advantage in the Florida medical opportunity (with a valuable recreational optionality over the medium to long term). Although we do not believe inter-state consolidation will occur in the near term (as owners are limited to holding one license each), we believe additional capitalized multi-state operators could enter the Florida market by acquiring and building-up some of the licenses issued by the state that have not yet commenced operating.

Figure 5: List of Florida state licensees (Oct 5)

Company	# of dispensaries	Delivery	Cultivation
Existing store operations, delivery, and cultivation			
Trulieve	18	Yes	Yes
Surterra Wellness	11	Yes	Yes
Curaleaf	11	Yes	Yes
Knox Medical	7	Yes	Yes
Liberty Health Sciences	4	Yes	Yes
VidaCann	3	Yes	Yes
AltMed Florida	2	Yes	Yes
Delivery and cultivation only			
iAnthus (GrowHealthy)	0	Yes	Yes
Columbia Care Florida	0	Yes	Yes
The Green Solution	0	Yes	Yes
Green Thumb Industries (KSGNF)	0	Yes	Yes
Cultivation only			
MedMen (Remeny Wellness)	0	No	Yes
3 Boys Farm	0	No	Yes
Licensed to cultivate, but no material operations			
Green Owl Pharms	0	No	No




Source: www.floridahealth.gov

Overview of company holdings

Trulieve's exposure is currently limited to the Florida market, albeit with the number one market share in the state and an almost US\$100M revenue run rate. The company operates one of the largest cultivation/production facilities in the state (located near Tallahassee) along with 18 dispensaries (soon to be 30). Further, with a fleet of over 50 vehicles for home delivery, the company has by far the largest infrastructure to cater to Florida's rapidly growing patient base.

Although Liberty does not have nearly the reach of Trulieve at this time, the company has been rapidly expanding over the past six months. Liberty is currently building out a state-of-the-art 225,000 sq. ft. greenhouse in Gainesville, Florida (with a "know-how" agreement in place with Aphria to leverage Aphria's expertise). Further, the company has begun rolling out its retail presence, with four dispensaries up and running, increasing to what management estimates will be 12 retail locations by early 2019. In addition, Liberty has secured assets/licenses in both Massachusetts and Ohio as it begins to execute on a multi-state approach.

Figure 6: Overview of TRUL and LHS exposure

State/Region	Market Size	Trulieve Exposure	Liberty Health Exposure
Florida 	<ul style="list-style-type: none"> Population of ~21.0 million Legal for medical, rec possible within next few years Market opportunity of >US\$1.5 billion at peak. 	The company is licensed to cultivate and sell medical cannabis in Florida and currently operates 18 dispensaries with plans to open another 12 dispensaries by January 2019. The company has three cultivation facilities in the state with a planned area of ~560,000 sq. ft. and production capacity of 27,000 kg. Trulieve currently operates at a revenue run-rate of US\$93 million and adjusted EBITDA of US\$45 million.	The company is licensed to produce and sell medical cannabis in Florida and has recently opened up four existing dispensaries with plans to open another 12 dispensaries by the end of February 2019. The company also created three delivery hubs with plans to open another two hubs by the end of fiscal 2019.
Massachusetts 	<ul style="list-style-type: none"> Population of ~7.0 million Legal for medical and rec; rec sales expected to begin later this year Market opportunity of >US\$1.5 billion at peak. 	No exposure	The company announced the proposed acquisition of 75% interest in William Noyes Webster Foundation, a Massachusetts-based owner of a licensed dispensary and cultivation facility. WNWF also has leases and local government approvals for two additional dispensary locations.
Ohio 	<ul style="list-style-type: none"> Population of ~12.0 million Legal for medical, rollout expected early 2019 Market opportunity of >US\$580 million at peak. 	No exposure	The company, through a 51% ownership interest in a JV, was awarded one of 56 Ohio dispensary licenses with plans to open a dispensary and begin operations by the end of calendar 2018. LHS also has a 51% interest in another JV with a processing license pending.

Source: Company Reports, Canaccord Genuity estimates

Sum-of-the-parts valuation

We have performed a sum-of-the-parts valuation for both Trulieve and Liberty Health for each market where it has exposure (which is predominantly Florida at this time). We utilize a DCF methodology, with discount rates ranging from 8% to 13% and a terminal growth rate of 2%.

Our SOTP for Trulieve results in a valuation of C\$24.04 per share, representing ~17.0x our CY2020 EV/adjusted EBITDA, and we are therefore initiating on TRUL with a C\$24.00 target and a SPECULATIVE BUY rating.

Our SOTP for Liberty results in a valuation of C\$2.01 per share, representing ~16.1x our CY2020 EV/adjusted EBITDA and we are therefore initiating on LHS with a C\$2.00 target and a SPECULATIVE BUY rating.

Given the risks and uncertainties surrounding execution, regulatory changes, and other market factors, we believe a SPECULATIVE BUY rating is appropriate at this time. Refer to the “[Estimates and valuation](#)” section of this report for a detailed description of each component of our valuation of Trulieve and Liberty.

Figure 7: TRUL sum-of-the-parts valuation

SOTP Valuation	C\$ per share	Value (Millions)	CY2020 EV/EBITDA
Florida	\$ 23.58	\$ 2,602	16.9x
Cash (1 yr fwd)	\$ 0.46	\$ 51	n/a
SOTP Valuation	\$ 24.04	\$ 2,652	17.0x

Source: Canaccord Genuity estimates

Figure 8: LHS sum-of-the-parts valuation

SOTP Valuation	C\$ per share	Value (Millions)	CY2020 EV/EBITDA
Florida	\$ 1.58	\$ 603	16.6x
Massachusetts	\$ 0.26	\$ 98	13.9x
Fwd Cash and Strategic Inv.	\$ 0.17	\$ 65	n/a
SOTP Valuation	\$ 2.01	\$ 767	16.1x

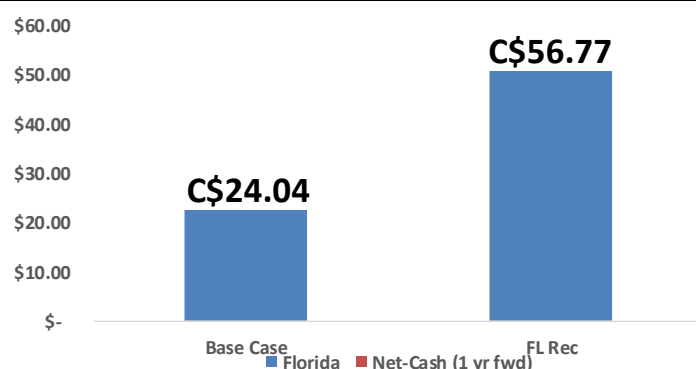
Source: Canaccord Genuity estimates

Further upside to our base case valuation with Florida rec legalization

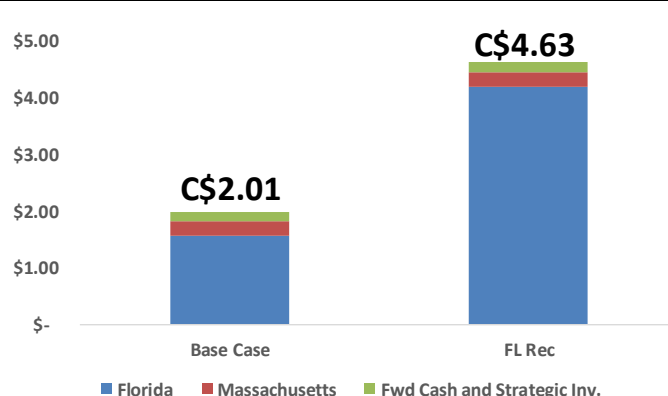
Our base case valuations conservatively include value only for cannabis markets that are already legal and operating (or are in the process of implementation). We believe the current Florida medical market is attractive given its ~21 million residents; however, we believe there will be blockbuster recreational upside should Florida regulate adult-use cannabis down the road. Given the significant optionality for this event, we have prepared a scenario analysis to our base case valuations (that supports our target price) by adjusting for the impact of a legalized Florida recreational market.

The figure below provides a scenario assuming Florida allows recreational use. In our assumptions, we have increased the annual market size for Florida to a US\$5B opportunity to reflect increased sales that would come along with recreational use. Additionally, we have increased the discount rate by 200 bps to reflect the uncertainty around regulations associated with a recreational market and added incremental capex for more retail/cultivation.

As a result, we note that without having to secure additional assets or expand geographically, should Florida legalize adult-use cannabis, our valuation for Trulieve would increase to ~**C\$56.77** (~215% upside from current levels) and our valuation for Liberty would increase to ~**C\$4.63** (~236% upside from current levels), all else being equal.

Figure 9: TRUL scenario valuation: Florida going rec

Source: Company Reports, Canaccord Genuity estimates

Figure 10: LHS scenario valuation: Florida going rec

Source: Company Reports, Canaccord Genuity estimates

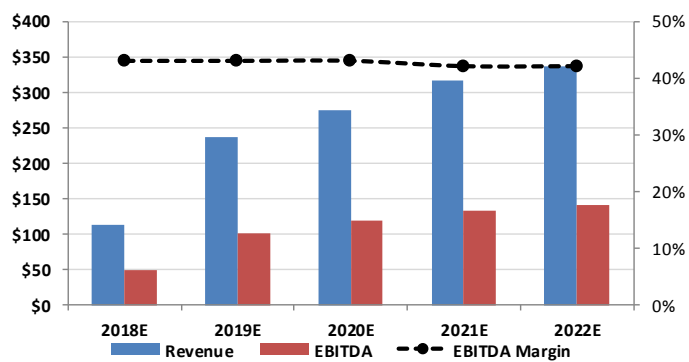
Revenue and adjusted EBITDA estimates

Trulieve: As the Florida market continues to grow and the company continues to build out its infrastructure, we estimate that Trulieve will realize revenue of US\$112M in FY2018, increasing by a CAGR of ~30% to US\$336M by FY2022; we estimate the company will achieve Adj. EBITDA of US\$48M in FY2018, increasing to US\$141M by FY2022. With ~C\$65M of cash on the balance sheet and operations that are already cash flow positive, we estimate that Trulieve is fully funded to meet our long-term estimates (excluding cash for potential future acquisitions).

Liberty: With one of the better cultivation/production facilities we have seen in the US and a rapidly increasing dispensary profile in Florida, we estimate that Liberty will realize revenue of C\$20M in FY2019, increasing by a CAGR of ~90% to C\$267M by FY2023; we estimate the company will become Adj. EBITDA positive in FY2020 at C\$26M, increasing to C\$100M by FY2023. With ~C\$39M of cash the balance sheet, we estimate that Liberty will require ~C\$50M to fully build out its Florida and

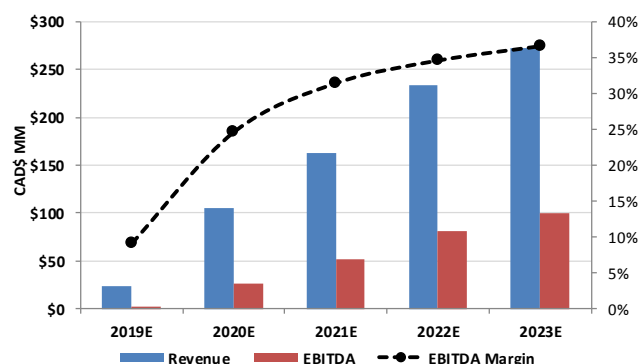
Massachusetts operations. However, with an additional ~C\$54M available in options and warrants that are largely already in the money, we believe the company is fully funded to meet our long-term estimates (excluding cash for potential future acquisitions).

Figure 11: TRUL: Revenue and Adj. EBITDA forecasts US\$MM (FYE Dec)



Source: Company Reports, Canaccord Genuity estimates

Figure 12: LHS: Revenue and Adj. EBITDA forecasts C\$MM (FYE Feb)



Source: Company Reports, Canaccord Genuity estimates

As one of the more robust US cannabis markets to date, Florida ain't cheap

We note that both Trulieve and Liberty trade at premiums to their US peers. However, as Florida represents one of the most robust markets in the US to date (evidenced by Trulieve's industry leading run rate), we believe the Florida market provides more certainty and less regulatory risk compared to other markets that are still tendering out licenses. As a result, we believe the economics derived from Florida should command a premium. As both Trulieve's and Liberty's exposure predominantly comes from this state, we believe a premium multiple for these companies is justified.

Trulieve: Trulieve currently trades at ~12.7x our CY2020 EV/adjusted EBITDA compared to the average of all US peers at ~9.5x. Although TRUL trades at a premium to most of its US peers in the space, given its leading position in Florida with 70% of the market and an impressive existing Adj. EBITDA run rate of US\$45M, we believe a premium valuation is warranted.

Liberty: LHS currently trades at ~10.6x our CY2020 EV/adjusted EBITDA, compared to average US peers at ~9.5x. Given LHS's exposure to the third largest state in the US by population, we believe a higher premium multiple is warranted.

Figure 13: Comparable valuations

Company	Ticker	Share Price (\$)	Market Cap (M)	EV/EBITDA		EV/Revenue	
				Calendar 2019	Calendar 2020	Calendar 2019	Calendar 2020
Canopy Growth	WEED	61.49	\$31,038	70.5x	37.1x	23.5x	14.7x
Aphria Inc.	APH	16.31	\$ 4,139	23.2x	12.5x	8.8x	5.0x
OrganiGram Holdings	OGI	7.45	\$ 1,047	15.2x	12.1x	5.7x	4.8x
Supreme Cannabis Company	FIRE	2.14	\$ 786	14.6x	9.0x	4.8x	3.4x
Wayland Group Inc.	WAYL	1.80	\$ 247	5.8x	3.6x	1.9x	1.4x
Aurora Cannabis	ACB	12.81	\$13,393	57.3x	30.0x	21.7x	13.0x
CannTrust	TRST	12.02	\$ 1,287	38.0x	18.4x	5.6x	3.8x
HEXO Corp.	HEXO	8.47	\$ 1,940	30.0x	19.8x	9.3x	7.3x
Cronos Group Inc.	CRON	12.57	\$ 2,595	54.1x	27.5x	16.8x	10.9x
Average				29.6x	16.2x	9.3x	6.1x
CannaRoyalty	CRZ	7.09	\$ 539	13.7x	6.9x	3.1x	1.8x
MPX	MPX	0.91	\$ 436	7.1x	5.3x	2.0x	1.7x
MedMen	MMEN	5.51	\$ 2,545	30.4x	14.5x	6.5x	3.9x
Average of U.S. companies				19.8x	9.5x	4.1x	3.1x
Trulieve	TRUL	18.05	\$ 1,992	14.8x	12.7x	6.4x	5.5x
Liberty Health Sciences	LHS	1.38	\$ 526	21.9x	10.6x	5.4x	3.3x

Source: Company Reports, Canaccord Genuity estimates

Investment risks

US Federal Government Schedule I classification

We believe the largest overhang facing the US cannabis industry today is marijuana's continued classification as a Schedule I controlled substance (the most restrictive labeling for any narcotic) by the US Federal Government. Although this risk should remain top of mind for investors, we believe there are a number of competing factors, including a large degree of bipartisan support for cannabis, a lack of federal funding for cannabis enforcement, and laws that protect existing medical markets throughout the US, that help mitigate this risk.

Sessions rescission of the Cole Memo

In early January, US Attorney General Jeff Sessions rescinded the Cole Memo. This Obama-era memo, dating back to 2013, provided guidance on allowing state-sanctioned cannabis companies to operate without federal interference. With these guidelines now removed, it is unclear what standard the Federal Government might use in deciding whether to prosecute under federal cannabis laws within states with legalized platforms. Although clearly a headwind for the industry, we believe this represents more of a 'headline risk' (albeit a significant one), for the following reasons:

- Medical markets are still protected by existing legislation prohibiting federal interference.
- Significant practical/logistical hurdles that the US government would have to overcome to implement federal enforcement (including insufficient funding).
- Over 60% of Americans support the legalization of cannabis, including bipartisan support in many US states.
- Sales from legalized markets bring in hundreds of millions of dollars in taxes annually.
- There are several bills currently in Congress that call for the protection of legalized rec markets in the US, in order to eliminate crime and protect youth.
- Although a drag on industry valuations today, we also believe the continued lack of US federal support could serve as a catalyst for a valuation re-rating over the medium term, as we think the Federal Government will eventually have to play catch-up with the wide acceptance of cannabis use in the US.

US cannabis operators are subject to unfavourable federal tax rules

Legal cannabis operators are still subject to unfavourable tax treatments on federal filings. Specifically, Revenue Code Section 280E outright disallows the deduction of expenses related to the trafficking of illegal drugs. As such, normal course operating expenses that are directly linked to the sales of cannabis are not deductible for federal tax purposes, in many cases. As a result, effective tax rates for US cannabis operators can range from 40% (if fully integrated) to as high as 70%, and tax returns could more likely be subject to increased scrutiny and risk of reassessment by the IRS.

Financing risk

As Canada appears to be the only market where US cannabis operators can raise public funds, this limits the opportunity set for financing should LHS or Trulieve require additional capital to execute its growth strategy. Should sentiment or regulations regarding US cannabis operations materially change, this could make it difficult (or impractical) for the company to secure additional public market capital for expansion initiatives.

Repatriation of profits

We believe a potential issue that will require resolution in the medium to long term will be the mechanics of how legal cannabis operators in the US can distribute profits to out-of-state and international shareholders (due to the illicit nature of cannabis at the federal level). We believe this is not a near-term issue, as essentially all profits in the US market are being re-deployed to fund growth and keep pace with industry demand. However, we believe increased clarity on this issue will be critical (with many states already seeking federal commentary) as the market reaches a more normalized state.

FX risk

As LHS and Trulieve both operate in US markets (but are listed on a CAD exchange), their stock prices are subject to USD/CAD FX fluctuations. Should the USD depreciate materially against the CAD, the stock price of both companies could experience headwinds independent of their underlying operational performance.

Regulatory/licensing risk

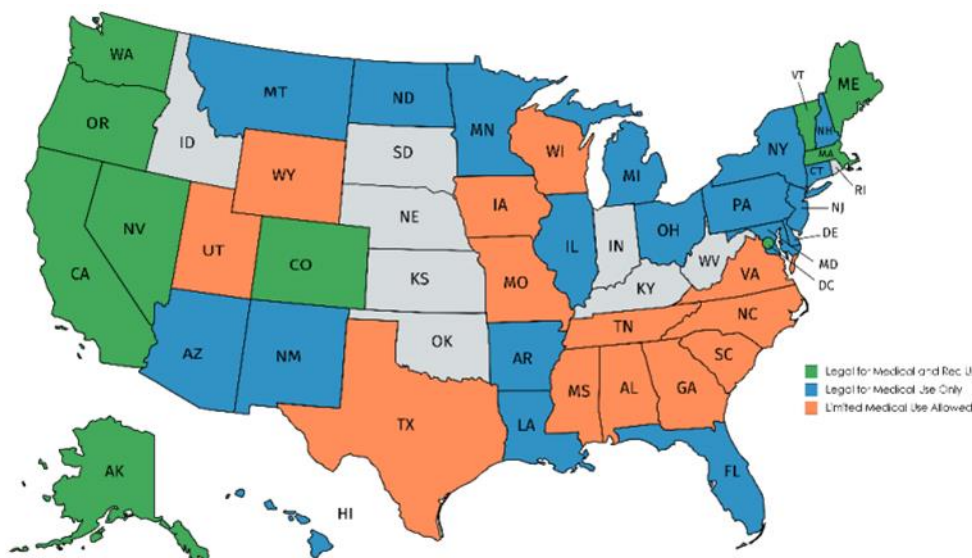
LHS and Trulieve operate in several US states with different regulatory, licensing and compliance requirements. Changes to or noncompliance with regulations in any of the states where the company currently has a presence could have a material adverse impact on their operating and financial performance going forward.

Cannabis legalization in the United States

In the United States, under the Controlled Substances Act, the Federal Government has classified Cannabis as an illegal Schedule I narcotic (the most restrictive classification for any controlled substance) dating back to the 1970s. This remained largely unchanged until 1996 when California's state legislature enacted a regulatory framework for medicinal use cannabis. Due to the Federal Government's negative stance against cannabis, the legal and regulatory framework continues to be determined on a state-by-state basis and can vary considerably across regions. For the most part, states that have legalized medical marijuana allow cannabis to be sold at authorized clinics and dispensaries as long as the patient is registered with a public health department and/or carries a medical cannabis ID card. Since California's legalization of medical cannabis in 1996, many other states have followed suit, and there are now 29 states, and Washington D.C., that have legalized (or are in the process of legalizing) medical cannabis, with many others that have decriminalized the drug for minor possession/personal use.

In 2012, Colorado and Washington were the first two states to legalize recreational use marijuana, passing ballot initiatives during the 2012 presidential election. Today, there are nine states that have formulated a regulated framework for recreational sales, many of which will be implementing commercialization within the next year. In total, a majority of the states in the US have provided some allowance for cannabis use, either for medical or for both medical/recreational purposes, as shown below.

Figure 14: US: Map of legalized cannabis



Source: Canaccord Genuity estimates

Schedule I classification continues to weigh on the US industry

Although legal recreational sales of cannabis commenced in the United States in 2014 (starting with Colorado), as marijuana remains an illegal narcotic from the standpoint of the US Federal Government, the operating environment in many legal US regions is not without its complexities. As a result, each state that elects to legalize recreational marijuana must enact its own regulations, which can differ from state to state. Although we do not believe cannabis will likely become legalized at the federal

level any time soon, we believe that as additional markets come on line via legislation on a state-by-state basis and ballot initiatives, the negative stigma surrounding the use of cannabis will continue to dissipate, allowing legal markets to convert historically illicit markets into legalized channels.

In the meantime, lack of federal support in the US has created the following complications in legal markets:

- **Regulation and enforcement have been pushed down to the state level**, with fewer resources that would otherwise be overseen by federal agencies, such as the FDA.
- **Lack of capital.** Many financial institutions, which are regulated on a federal level, are hesitant to provide banking services to cannabis companies. This has created issues when cannabis operators need to raise capital or manage cash flows, as the options available to them can be extremely limited due to existing federal restrictions.
- **Supply of cannabis is restricted within the perimeters of state lines.** Even though neighbouring states (such as Washington and Oregon) may both allow recreational marijuana, the act of crossing a state line with cannabis is still a federal crime. Therefore, all supply must come from 'domestic' sources within each state (even when climates are not conducive to cannabis cultivation).
- **Unfavourable tax rates.** Cannabis distributors are restricted in the deductions that are allowed for federal income tax purposes under Section 280E. As a result, it is difficult to become a profitable dispensary in some markets within the United States, as a number of standard business deductions are denied for cannabis producers due to the illegal status of marijuana at the federal level. As a result, it is increasingly common for dispensaries to consolidate with cultivators, which allows for more favourable tax treatment when vertically integrated.
- **Unclear criteria surrounding federal enforcement.** After Attorney General Jeff Sessions rescinded the Cole Memo earlier this year, it has become increasingly unclear what criteria the Federal Government might use in deciding whether to intervene in existing, legalized cannabis markets. Although we assess the risk of intervention as low, we believe the removal of the Cole Memo does incrementally increase the risk profile of US cannabis markets.

Although the Federal Government continues to represent a significant overhang to the industry as a whole, we believe there are a number of mitigating factors which should give investors some level of comfort when assessing the potential risk of federal interference in existing legalized cannabis regimes. These factors include the following:

Figure 15: US Federal interface: Mitigating factors

US Federal Interference: Mitigating Factors and Considerations	
Rohrabacher-Blumenauer legislation (formerly Rohrabacher-Farr)	Rohrabacher-Blumenauer is US legislation that prohibits the federal Justice Department from allocating any funds for the purpose of intervening in legalized medical cannabis markets. We believe this law helps provide a risk floor for the industry, as although recreational markets are expected to provide substantial upside, we believe the US has many attractive medical markets that represent standalone opportunities for significant growth on its own.
States' rights	Donald Trump and many other Republicans have publicly supported the use of cannabis for medical purposes and also considers the issue of marijuana legalization a matter to be determined at the state level.
Popular support	Currently, ~65% of Americans support the legalization of cannabis for recreational purposes, and >90% support access to marijuana for medical purposes. Due to the relatively wide acceptance of cannabis use, we do not believe there is much political incentive to intervene in these legalized programs that garner a lot of public support.
Bi-partisan support	The federal government is receiving mounting pressure from the governors of states with legalized cannabis frameworks already in place to provide clarity over important issues that impact the industry as a whole and to work in partnership with the states before considering significant changes to the status quo, if any.
Farm Bill	The Agriculture Improvement Act of 2018 (aka the "Farm Bill") was passed by the U.S. Senate on June 28th 2018. In essence, the Bill removed hemp derived CBD, and all naturally occurring cannabinoids derived from hemp from the controlled substance list.
Federal Decriminalization	In June of 2018, Senator Chuck Schumer introduced a bill to decriminalize marijuana at the federal level. If passed the bill would further provide support for states that have legalized cannabis and only allow federal enforcement where states have chosen to keep recreational use illegal.
Other Bills in front of congress	A number of bills have already been introduced in an effort to change the federal government's current hardened stance on marijuana regulations. These bills aim to tackle issues such as respecting current state regulations already in place, removing all federal funding for DEA enforcement of marijuana offences, and ending federal cannabis prohibition altogether.

Source: Company Reports, Canaccord Genuity estimates

Overview of the Florida cannabis market



History of the Florida cannabis legislation

The medical cannabis regulations in Florida began in 2014 with the passing of the Compassionate Use Act, allowing CBD, or cannabis with <0.8% THC, to be sold to patients with epilepsy and cancer. Licensing was very restrictive and the criteria for applicants were stringent. It was not until November 2016, when the Florida Medical Marijuana Legalization Initiative was passed with an overwhelming 71.3% support from the voters, that the state's medical cannabis program was expanded. Also in 2016, the Right to Try Act was passed, which allowed the dispensing of full potency THC products to patients diagnosed with a terminal condition. In June 2017, the Florida legislature officially passed the legislation to implement the expanded medical program and allowed license holders in Florida to open up to 30 store locations (25 initially, and for every 100,000 patients added, the license-holder could open an additional five).

Florida licensing process

Only approved medical marijuana treatment centers are allowed to cultivate, process and dispense medical marijuana. A license is required and issued by the Florida Department of Health for each of the three stages (cultivation, processing, and dispensing). Licenses can be renewed every two years and there is no limitation on the size of the cultivation facility or the number of plants that can be grown. However, cannabis flower intended for vaporizing must only be sold in a tamper-proof container; otherwise, the sale of dry flower in the state is prohibited.

Currently, Florida legislation does not permit the wholesaling of cannabis; only under certain circumstances, such as a crop failure, would companies be permitted to make a wholesale purchase from another licensed operator. As a result, we believe licensees with leading cultivation footprints (such as Trulieve and Liberty) have a significant advantage vs. their Florida peers who will be limited in their retail expansions until they have in-house production that can support 100% of their sales.

Each license holder can distribute cannabis to patients who are diagnosed and entered into the Florida state electronic registry by a qualified physician who determines patient eligibility, the form of cannabis administration, and the amount (in mg) of cannabis the patient can obtain.

We believe Florida's regulations are some of the most straightforward in the industry with a cap on licenses until certain registered patient benchmarks are achieved and a consistent number of medical dispensaries allocated to each license holder. Each license holder can only own one license within the state which allows the license holder to operate up to 30 dispensaries and an additional five dispensaries for every 100,000 patients added to the license holder's patient registry. These dispensaries must be located in a site zoned for pharmacy purposes and must be at least 500 feet from a church or school, which further suggests that companies who were able to obtain prime locations in the state would have first-mover advantage over new entrants.

Currently, there are 14 license holders (described below) within the state of Florida with a total of 58 approved dispensary locations. Out of 14 license holders, only half have operations that are up and running to date.

List of 14 licensed Medical Marijuana Treatment Centers:

- **Trulieve** – Trulieve is the leading player in the Florida medical cannabis market with what the company estimates to be a 70% market share on a trailing basis. With 18 dispensaries in operation servicing >80,000 customers, the company plans to open another 12 by January 2019. The company also has ~436,000 square feet of total grow capacity with an additional ~95,000 square feet currently under construction that the company estimates will bring its total annual capacity to ~27,000 kg.
- **Curaleaf** – Curaleaf currently operates 13 dispensaries in the state of Florida and also offers same-day and next-day delivery in certain locations.
- **Surterra Wellness** – Surterra Wellness currently operates 10 medical cannabis dispensaries in Florida and has a license to operate in the Texas market. William Wrigley Jr. II, whose family used to operate the Wrigley gum and candy business prior to its sale to Mars Inc. in 2008, has invested \$100 million in Surterra since 2015 through his private equity firm Wychwood Asset Management and has assumed the role of chairman. Most recently, Jimmy Buffett, the man behind the Margaritaville brand, announced he will be partnering with Surterra to launch a new brand of medical marijuana, Coral Reefer, and will provide Surterra with exclusive rights to this new brand in Florida.
- **Liberty Health Sciences** – Liberty Health Sciences currently operates four dispensaries in Florida and expects to open up to 12 dispensaries by February 2019. The company currently operates a ~12,000 square feet greenhouse facility and has acquired another 387-acre site in Gainesville with production targeted for early 2019, totaling a pro forma capacity of 14,600 kg annually.
- **Knox Medical** – Knox currently operates seven medical dispensaries in Florida and also has other assets in Texas, Pennsylvania, and Puerto Rico.
- **iAnthus Capital Holdings (GrowHealthy)** – GrowHealthy currently offers statewide delivery in Florida and has plans to open six dispensaries in the coming months. The company also has a hydroponic, indoor nursery in rural Central Florida. GrowHealthy was acquired early this year by New York based multi-state operator iAnthus Capital Holdings.
- **Columbia Care Florida** – Columbia Care is the largest manufacturer and provider of medical cannabis products in the U.S. with a presence in 10 states and Puerto Rico. The company was authorized in July 2018 to dispense cannabis-based medicines in Florida and is offering home delivery of its products to registered patients.
- **Green Thumb Industries (KSGNF)** – Green Thumb Industries has entered into an agreement with KSGNF to purchase the assets/share of this licensed Florida operator. This would provide Green Thumb with access to a Florida Medical Marijuana Treatment Center license. The closing of this transaction is expected in Q4 2018.
- **MedMen (Remeny Wellness)** – Recently, MedMen Enterprises Inc. announced a definitive agreement to acquire dispensary and cultivation assets from Treadwell Nursery for US\$53 million in cash and shares, operating under the

name Remeny Wellness. Treadwell Nursery has a license to operate 30 medical marijuana dispensaries and a cultivation facility.

- **The Green Solution** – The Green Solution currently operates 15 dispensaries in Colorado with two more in the pipeline. The company received medical marijuana dispensary certificates in early 2018 in Osceola County, Florida and has plans to open three dispensaries.
- **VidaCann** – VidaCann is a plant nursery based out of Jacksonville, Florida. The company currently has three dispensaries open in Florida with another 14 expected to come online. The company has a partnership with the Stanley Brothers, creators behind the CBD and hemp extracts company Charlotte's Web.
- **Other dispensaries** – 3 Boys Farm, AltMed Florida (MuV), and Green Owl Pharms.

Figure 16: Summary of Florida state licensees (as at Oct 5, 2018)

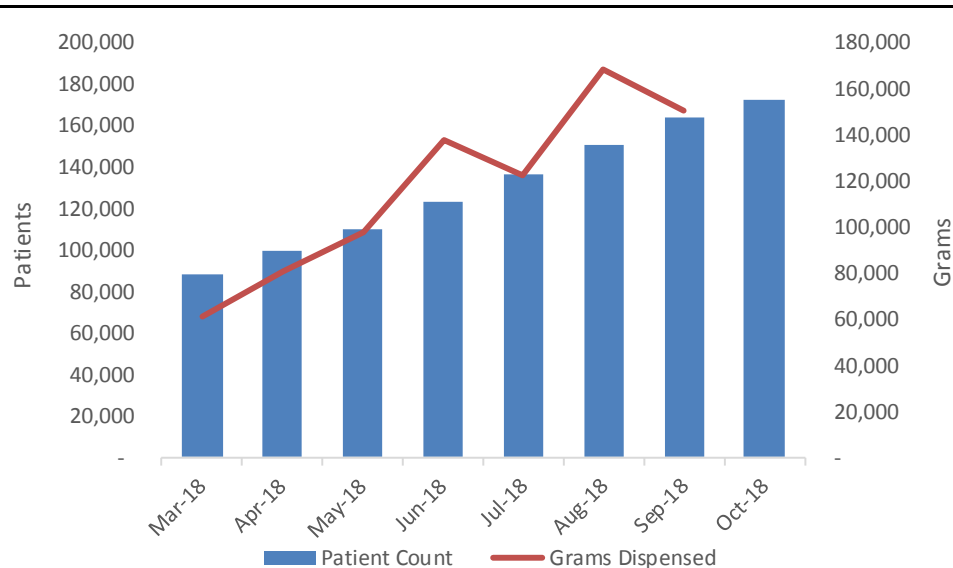
Company	# of dispensaries	Delivery	Cultivation
Existing store operations, delivery, and cultivation			
Trulieve	18	Yes	Yes
Surterra Wellness	11	Yes	Yes
Curaleaf	11	Yes	Yes
Knox Medical	7	Yes	Yes
Liberty Health Sciences	4	Yes	Yes
VidaCann	3	Yes	Yes
AltMed Florida	2	Yes	Yes
Delivery and cultivation only			
iAnthus (GrowHealthy)	0	Yes	Yes
Columbia Care Florida	0	Yes	Yes
The Green Solution	0	Yes	Yes
Green Thumb Industries (KSGNF)	0	Yes	Yes
Cultivation only			
MedMen (Remeny Wellness)	0	No	Yes
3 Boys Farm	0	No	Yes
Licensed to cultivate, but no material operations			
Green Owl Pharms	0	No	No

Source: www.floridahealth.gov

Florida market potential

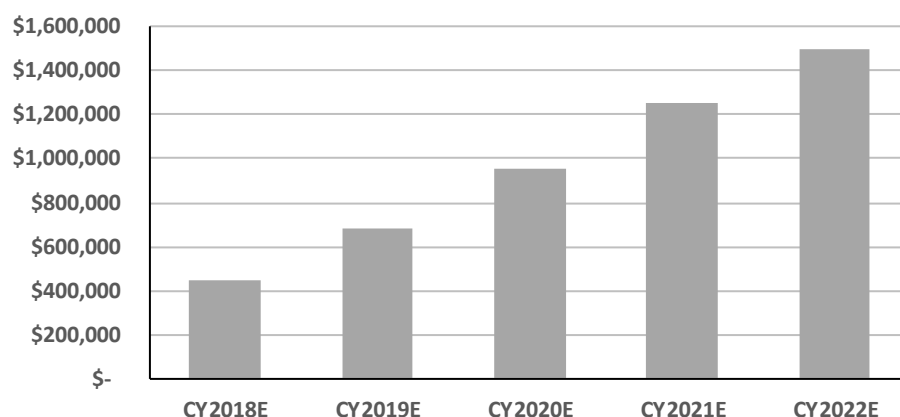
As the third largest state in the US by population with ~21 million residents (4 million of which are over the age of 65), we believe the Florida medical market ranks as one of the largest cannabis opportunities in the US and will likely see its registered patient base for cannabis mature at a level that is higher than the current national average of ~2% (even before considering recreational optionality).

The state's patient count (which currently sits at >170,000) and grams of medical marijuana dispensed in Florida is summarized in the chart below.

Figure 17: Florida historical patient count and grams dispensed

Source: www.floridahealth.gov

Since the 2016 ballot initiative was passed in Florida, the state's medical market has been growing at a pace faster than experienced in many other states. With over 170,000 patients registered, we believe the medical cannabis market will continue to grow, both in terms of patient count and spending, and could reach ~US\$1.5 billion in annual revenues at peak. Our annual revenue estimates for Florida's medical market are illustrated below.

Figure 18: Est. Florida state revenues; medical only (2018 to 2022) - US\$000's

Source: Canaccord Genuity estimates

We believe Florida represents one of the more attractive newly regulated states with a medical patient base that could grow fourfold in the coming years, coupled with a regulatory framework that has formed a relatively conservative approach to issuing new licenses (pegged to the overall number of patients registered in the state's medical program). As a result, we believe the capitalized players among the first 14 licenses already issued will likely achieve a significant first-mover advantage in the Florida medical opportunity (with potentially valuable recreational optionality over the medium to long term).

Canadian Equity Research

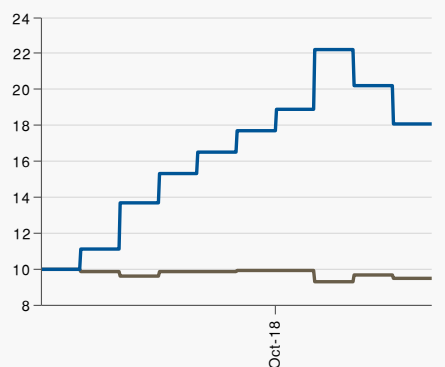
8 October 2018

SPECULATIVE BUY

PRICE TARGET C\$24.00
Price (5-Oct) C\$18.05
Ticker TRUL-CNSX

52-Week Range (C\$): 9.51 - 23.85
 Avg Daily Vol (000s): 1,280.2
 Market Cap (C\$M): 1,986
 Shares Out., FD (M): 110.3
 Total Return to Target (%): 33.0
 Enterprise Value (C\$M): 1,953

FYE Dec	2018E	2019E	2020E
Revenue (US\$M)	112	236	275
SG&A (US\$M)	35.1	74.1	86.2
EBITDA Adj (US\$M)	48.2	101.6	118.3
EPS (C\$)	0.47	0.38	0.48
EV/EBITDA (x)	31.3	14.8	12.7



Source: FactSet

Priced as of close of business 5 October 2018

Trulieve is a Florida-based vertically integrated medical cannabis producer and provider. As one of 14 medical cannabis operator licenseholders in Florida, the company is a leading player in Florida's medical cannabis market holding ~70% of market share. Trulieve currently operates 18 dispensaries and have plans to grow to 30 throughout the state.

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Initiation of Coverage

Number one with a bullet

We are initiating coverage of Trulieve Cannabis Corp. with a SPECULATIVE BUY rating and a target price of C\$24.00. Trulieve is a Florida-based vertically integrated cannabis operator that was first to market when medical cannabis became legalized in the state. Since then, the company has grown to become the largest operator in Florida on virtually all metrics, including its production footprint, retail reach, employees, home delivery platform and revenues. The company's retail locations account for >30% of all locations in the state; however, more impressively, its trailing sales represent ~70% of all sales in Florida by volume. As a result, the company has a current revenue and Adj. EBITDA run-rate of ~US\$93M (~C\$120M) and US\$45M (C\$59M), respectively, virtually unheard-of levels in the cannabis industry today given its nascent stage. We believe Trulieve gives investors a glimpse (today) of the significant growth potential that many US operators could achieve as markets continue to open up in the years to come. With many of its peers in Florida likely as much as a year behind Trulieve in terms of scale, we believe the company will continue to carve out a significant first mover advantage in the state.

Trulieve currently trades at ~12.7x our FY2020 EV/EBITDA, compared to the average of its US peers at ~9.5x. Although TRUL trades at a premium to many of its US peers in the space, given its dominant position in the Florida market and an existing Adj. EBITDA run-rate of US\$45M, we believe a premium valuation is warranted at this time.

Investment Highlights

- **Robust operations.** Trulieve operates one of the largest cultivation facilities in the state (located near Tallahassee) along with 18 dispensaries (soon to be 30). Further, with a fleet of over 50 vehicles for home delivery, the company has by far the largest infrastructure to cater to Florida's rapidly growing patient base.
- **Florida medical market continues to experience strong growth.** As the Florida market continues to see strong growth in its registered patient base (currently sitting at >170,000 patients), with a population of 21 million, we believe FLA's annual medical revenues could grow to US\$1.5B at maturity. Should the state legalize recreational cannabis, our BlueSky scenario for TRUL (which includes rec) could support a valuation of ~C\$57.00.
- **Florida medical market drives our forecasts.** As the Florida market continues to grow and the company continues to build out its infrastructure, we estimate that Trulieve will realize revenue of US\$112M in FY2018, increasing by a CAGR of ~30% to US\$336M by FY2022; we estimate the company achieves Adj. EBITDA of US\$48M in FY2018, increasing to US\$141M by FY2022.

Valuation: We value Trulieve utilizing a DCF methodology with an 8% discount rate and 2% terminal growth rate. Our valuation yields a target price of C\$24.00 (~17.0x its FY2020 EV/Adj. EBITDA). This represents a forecast return of 33.0% and supports our SPECULATIVE BUY rating. Given the risks and uncertainties surrounding execution, regulatory changes, and other market factors, we believe a SPECULATIVE BUY rating is appropriate at this time.




Trulieve: Overview of assets and operations

Headquartered near Tallahassee, Trulieve is a Florida-based vertically integrated cannabis operator (referred to as Medical Marijuana Treatment Centre or MMTC) that currently has a leading (and dominate) market position in the state's recently implemented medical cannabis market. As the company had existing operations in Florida's CBD program (which allowed for low concentrate CBD oil), Trulieve was quick to execute as the first producer to market with one of the first five licenses issued when medical cannabis officially became legalized. Since then, the company has grown to become the largest operator in Florida on virtually all metrics, including its production footprint, retail reach, employees (at almost 1,000), home delivery platform and revenues. The company's retail locations account for >30% of all locations in the state; however, more impressively, its trailing sales represent ~70% of all sales in Florida by volume (with its next closest competitor estimated to represent just ~11%).

With many of its peers in Florida likely as much a year behind Trulieve in terms of size and scale, we believe the company will continue to carve out a significant first mover advantage in a market that we estimate will reach **US\$1.5B** at peak (excluding potential further upside from recreational legalization).

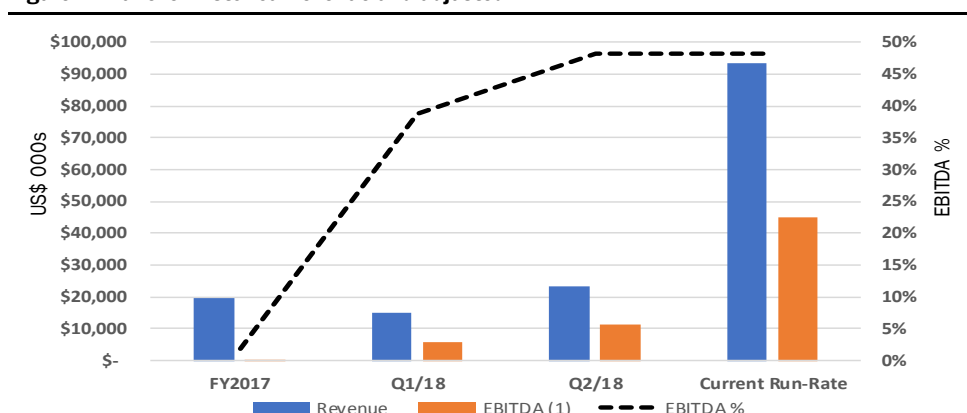
Figure 1: Overview of the Florida market and TRUL's exposure

State/Region	Market Size	Exposure
Florida 	<ul style="list-style-type: none"> Population of ~21.0 million Legal for medical, rec possible within next few years Market opportunity of >US\$1.5 billion at peak. 	The company is licensed to cultivate and sell medical cannabis in Florida and currently operates 18 dispensaries with plans to open another 12 dispensaries by January 2019. The company has three cultivation facilities in the state with a planned area of ~560,000 sq. ft. and production capacity of 27,000 kg. Trulieve currently operates at a revenue run-rate of US\$93 million and adjusted EBITDA of US\$45 million.

Source: Company Reports, Canaccord Genuity estimates

Due to the nascent state of most cannabis markets, many cannabis companies (both in the US and Canada) are currently burning cash and operating at relatively modest revenue and adjusted EBITDA run rates. However, with a dominate position in what is likely the fastest growing cannabis market in the US, Trulieve is already operating at revenue and adjusted EBITDA run rates of **~US\$93M** (~C\$120M) and **US\$45M** (C\$59M, respectively). Although the Florida market does not provide the company with exposure to the highest Total Addressable Market (TAM) compared to some of its multi-state peers, we note that at current levels, Trulieve has the highest revenue and adjusted EBITDA run rates of any public company cannabis company in the world. As a result, we believe Trulieve gives investors a glimpse at the significant growth potential that many US operators could achieve as markets continue to open up in the years to come.

Figure 2: Trulieve: Historical revenue and adjusted EBITDA



Source: Company Reports, Canaccord Genuity; (1) Excludes fair value adjustments on biological assets

Summary of Trulieve's existing and planned exposure in the Sunshine State

As the third largest state in the US by population with ~21 million residents, we believe the Florida medical market ranks as one of the largest cannabis opportunities in the US (even before considering recreational optionality). After medical cannabis was approved via ballot initiative in 2016, the state has experienced rapid growth in its registered patient base, which now stands at >170,000 patients. However, we believe as the state's market continues to grow and as producers continue to build out infrastructure, we estimate that Florida's medical market (i.e., excluding recreational upside) can support >500,000 patients at peak and ~US\$1.5B in annual revenues. As the number one licensed operator in the state, Trulieve has already posted impressive financial performance with plans to significantly increase its exposure in the state as outlined next.

Cultivation/production

As wholesaling between producers is not yet permitted in Florida, Trulieve has secured its leading position in the state by cultivating, manufacturing and branding 100% of the products sold through its robust retail platform. Trulieve's cultivation and production is located in the Tallahassee area with a current footprint of approximately 468,000 square feet (spanning three sites), which incorporates both indoor and greenhouse grow. As part of its production operations, Trulieve utilizes super critical ethanol extraction systems to manufacture its cannabis products. In addition, the company has recently installed CO2 extractors and will be launching new products using this system in the coming months.

In total, management estimates that its existing facilities are able to produce >17,000 kg of cannabis per year. At this scale, we estimate that Trulieve is among the largest producers in the state (if not the largest). However, the company is also in the process of adding an incremental ~95,000 square feet of cultivation space, which could bring its total capacity to ~27,000 kg heading into 2019. In our view, this is sufficient infrastructure to potentially support annual revenues of close to US\$300M at retail pricing. Going forward, the company plans to utilize a higher proportion of greenhouses, which will likely result in an overall reduction in its production cost per gram and help maintain margins over the longer term.

Figure 3: Inside Trulieve's cultivation facility

Source: Company Reports

Figure 4: Inside Trulieve's cultivation facility

Source: Company Reports

With no state-imposed cap on the size of Trulieve's cultivation and production operations, the company has designed its facilities with scalability in mind using robust standard operating procedures (SOPs) to ensure quality consistency in its products. We believe product consistency is likely one of the most critical elements to ensure patient retention as patients are likely to look to alternative products if they do not receive a consistent response for the indication being treated. The company also has an in-house R&D and testing lab where all of its products are thoroughly screened for any impurities or contaminants. From this lab, Trulieve also has a team focused on future innovations and product development.

Lastly, as part of its SOPs, the company also utilizes a variety of data analytics that monitor a vast array of variables and production inputs (including temperature, humidity, CO2 levels, light intensity, etc.). Data is then compared in every production batch to continually improve yields and maximize output.

Retail distribution

Trulieve currently has the largest dispensary network in Florida (and likely the US), with 18 dispensaries already up and running with the same consistent design and atmosphere. These locations represent ~30% of the state's ~58 MMTCs and reach more than two-thirds of Florida by population (not including home delivery). As of Q2/18, approximately 14 of these dispensaries that contributed to the top line during the period achieved an annualized revenue and adjusted EBITDA run rate of ~US\$93M and ~US\$45M, respectively. As of August, the company estimates it has ~83,000 unique patients (growing at 11% month over month), which we forecast could potentially support revenues of US\$150M to US\$200M per year.

Going forward, Trulieve plans to continue aggressively expanding its retail footprint, with an additional 12 leases secured for MMTCs, which are expected to be opened by early 2019. As part of its planned retail expansion, the company is targeting locations with high concentrations of authorized physicians and potential patients. Once complete, Trulieve will bring its total dispensary profile to 30 locations, currently the maximum allowed for each licensee based on the state's current patient count. Trulieve also operates a patient call center in Clearwater, which receives up to 2,000 calls per day as the company continues to ramp up its patient base.

A summary and map of Trulieve's current dispensary network is provided below:

Figure 5: Summary of existing retail exposure

#	Location	County	(000s)	Sq. Ft.
1	Tallahassee	Leon	286	2,800
2	Clearwater	Pinellas	950	2,105
3	Tampa	Hillsborough	1,349	2,832
4	Pensacola	Escambia	311	2,946
5	Miami	Miami-Dade	2,693	1,108
6	Edgewater	Volusia	518	1,155
7	Lady Lake - Villages	Lake	326	1,500
8	Jacksonville	Duval	913	2,550
9	St. Petersburg	Pinellas	950	2,421
10	Bradenton	Manatee	363	1,500
11	Gainesville	Alachua	260	1,832
12	North Ft. Myers	Lee	702	2,064
13	Orlando	Orange	1,288	3,000
14	Vero Beach	Indian River	148	1,225
15	New Port Richey	Pasco	498	2,400
16	Dadeland	Miami-Dade	2,693	1,800
17	Palm Coast	Flagler	105	Not yet disclosed
18	Boynton Beach	Palm Beach	1,423	Not yet disclosed
Total			15,776	33,238

Source: Company Reports, Canaccord Genuity estimates

Figure 6: Retail map



Source: Company Reports, Canaccord Genuity estimates

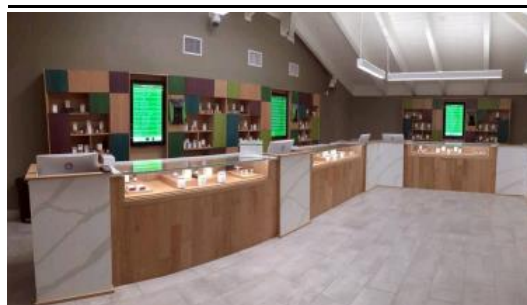
In addition to the locations summarized above, the leases Trulieve has secured for its additional 12 dispensaries include geographies with attractive population and demographic profiles, including areas such as Sarasota, Fort Lauderdale, West Palm Beach and Miami beach.

Figure 7: Outside Jacksonville MMTC



Source: Company Reports

Figure 8: Inside Tampa MMTC



Source: Company Reports

Figure 9: Inside Clearwater MMTC



Source: Company Reports

Home delivery

In addition to its leading brick-and-mortar platform, Trulieve also operates the largest next-day home delivery service in the state. Due to its existing diverse geographic reach via its 18 MMTCs, Trulieve is able to leverage many of these locations as “distribution hubs” for home delivery. The company has a fleet of over 50 vehicles throughout the state that management estimates will facilitate home deliveries that will equate to ~15% of its top line in 2018 (i.e., US\$15M to US\$20M in sales this year). Due to the proportionally large retirement community in the state, we believe the online/home delivery model could become increasingly important as the market continues to grow. In addition to home delivery, Trulieve also offers online sales for pick-up at any location. This allows patients to expedite their purchasing experience by having product ready and packaged for them in advance of arriving at a dispensary.

Product offerings

We believe Trulieve also has the most diverse product portfolio amongst cannabis operators in Florida with over 80 SKUs in various categories ranging from vape pens, topical cream, capsules, sprays, tinctures, and a cannabis nebulizer (nasal spray). Although some of its competitors have launched (or licensed) various brands independent of their retail name, we note that almost all of Trulieve's products are "Trulieve" branded as the company continues to aggressively target awareness of its name in the Florida market. As summarized below, ~63% of Trulieve's sales for FY2017 were composed of the company's inhalation products (most notably vape pens), while oral syringes contributed to 16% of sales and capsules 15%.

Figure 10: Revenue split by product type

Product Type	2016	2017
Inhalation products	49.92%	62.52%
Oral syringes	16.16%	13.86%
Capsules	15.41%	6.13%
Accessory/ancillary devices	10.22%	10.36%
Other	8.29%	7.13%

Source: Company Reports

Some of Trulieve's more popular SKUs include:

- **600 mg ceramic cartridge.** The 600 mg ceramic cartridge is one of the most popular products offered by Trulieve. This product uses ethanol extracted cannabis oil mixed with Medium Chain Triglycerides (MCTs) which allows for a faster break down of the cannabinoids and increases absorption.
- **TruFlower.** TruFlower is the closest SKU in the Florida market to dried bud, which includes flower that is sold in a tamperproof container for vaping. Management indicated that this product sells very well as it is currently only offered by Trulieve and one other licensee in the state.
- **TruShatter.** TruShatter is a recent addition to Trulieve's inhalation product line and provides patients with a very high concentrate alternative.



In addition to its in-house developed products, the company recently announced a partnership with Bhang, a manufacturer and distributor of cannabis-infused chocolate bars. Bhang products are currently sold in California, New Mexico, and Michigan, with plans to expand its product offering to Canada and other international jurisdictions where regulations allow. Bhang products were developed by a professional chef and chocolatier with more than 25 years of experience formulating gourmet chocolate products. Bhang's cannabis-infused edibles have won multiple awards throughout the United States.

Edible products were authorized by the Florida Legislature in 2017 but still require approval from the Florida Department of Health. If approved, Trulieve would be the exclusive distributor of Bhang's edible cannabis-infused products in Florida and offer Bhang's product in its dispensaries.

Figure 11: TruFlower Cups

Source: Company reports

Figure 12: Trulieve vape pen

Source: Company reports

Figure 13: Concentrate syringe

Source: Company reports

Patient and practitioner centric focus

The core of Trulieve's medical strategy lies in its direct focus on interfacing with its patients and healthcare practitioners. This starts with an integrated training program for all employees to update for new product launches or regulatory changes. The company has high quality control benchmarks and actively monitors service activity at its call center. As a result, Trulieve has experienced a sales return rate of less than 2%, which it believes is relatively low due to its patient and quality centered approach. As noted above, the company also maintains a consistent design across all its dispensaries with private patient consultation areas where patient consultants are available to answer questions. Trulieve also participates in a number of community events every month as a means to reach out to potential patients and provide insight on the benefits of cannabis use as a medical therapy.

In addition, the company created a patient loyalty program ("Trulievers") to award patients with points per every dollar spent, which can be redeemed for discounts. Trulieve also communicates promotions and limited product offerings through email, text messaging, and social media.

In terms of physician outreach, the company provides education services and support to all registered medical cannabis physicians in the state, including in-person outreach and marketing materials related to the benefits of utilizing cannabis for various indications.

Looking to expand out of Florida?

Although details on Trulieve's specific expansion plans into additional US states remains thin, management has indicated that it is currently reviewing various options and plans to branch out to at least one additional state by the end of FY2019. With pro forma cash of ~\$65M, net of funds required for capex and other Florida initiatives, the company has earmarked ~\$15M of its current cash balance for M&A opportunities outside of Florida. Trulieve also noted that it plans to target states where it can leverage its experience with product development, patient acquisition and patient service. Although we have not included anything in our SOTP valuation for expansion optionality, with 30 states legal for medical cannabis use and another 9 for recreational (and counting!) we believe near-term geographic expansion could represent an attractive catalyst for TRUL, and we look forward to updates from management in the future.

Community Redevelopment Agency Investigation

We note that in 2015, a US grand jury in Florida began an investigation on alleged corruption by local officials in Tallahassee. Last year, in June 2017, the grand jury issued subpoenas to the City of Tallahassee and the Community Redevelopment Agency for records of communication, bids for proposals and applications from approximately two dozen businesses and individuals, including Trulieve's CEO Kim Rivers. The company notes that Ms. Rivers has complied with the subpoena, which did not relate in any way to her capacity as an officer of Trulieve. In addition, Trulieve's Board of Directors independently retained counsel to investigate the matter and concluded that Ms. Rivers was not a target of the investigation, which should not impact her ability to continue acting as the CEO of the company. Since then, Ms. Rivers has complied with all requests of the investigation and federal prosecutors have stated that Ms. Rivers is not currently a target of their investigation.

Although the investigation remains ongoing, based on our understanding of the facts of the investigation and our discussions with management, we are satisfied at this time that this issue is unrelated to both Ms. Rivers and Trulieve; but we await further updates on this matter in the future.

Trulieve: Estimates and valuation

We value Trulieve using a DCF analysis of its existing operations in Florida:

- **Florida.** The company currently has a leading market position in Florida's existing medical cannabis market. Ignoring potential recreational upside down the road, we estimate sales in the state to reach ~US\$1.5B at maturity as Florida continues to ramp up its medical cannabis infrastructure. With an estimated normalized market share of ~30% at maturity, we forecast peak revenues of ~US\$455M for Trulieve in the Florida medical market.
- **Forward value cash and strategic investments.** We include the value of Trulieve's forward cash at book value.

Valuation of Florida's #1 cannabis operator

As previously outlined, Trulieve holds the #1 market share in Florida with 70% market share by trailing volumes of the 14 licenses currently issued by the state of Florida. Each of these licensees is required to be vertically integrated, responsible for their own cultivation, production, manufacturing and retailing. We believe Florida represents one of the more attractive newly regulated states with a medical patient base that could grow by four times in the coming years, coupled with a regulatory framework that has formed a relatively conservative approach to issuing new licenses (pegged to the overall number of patients registered in the state's medical program).

We estimate that Florida's medical cannabis market has trailing revenues of >US\$100M; however, with >170,000 registered patients to date, we estimate the state is currently operating a run-rate of > US\$300M and could reach a peak market potential of ~US\$1.5B at maturity (excluding any potential recreational upside). Using these overall macro estimates and taking into account Trulieve's dominant position in the market, our revenue estimates for the company's continued penetration into the Florida medical market are described in detail below.

We have estimated Trulieve's Florida medical revenues in the near term based on the timing of its planned retail expansion and its longer-term forecasts using a market share percentage of our above macro forecast. Although Trulieve's sales represent ~70% of sales in the state by volume, due to the increasing competitive landscape (as a number of additional large capitalized players have recently acquired licenses in the state), we do not believe this market share is sustainable over both the near and long term. However, based on our site visits in the Florida market, we note that Trulieve has already secured a significant first mover advantage with ~3/10 stores in the state under its banner. As a result, we believe the company is building very strong brand equity in Florida and have confidence that it will likely remain the market leader as the market matures. Nevertheless, we do not believe any one player in the state will be able to secure more than a 25% to 30% market share and due to the company's strong execution to date, we have selected the high end of that range in preparing our forecasts by utilizing a mature market share of 30% for Trulieve over the long term.

As a result, we estimate that the company will achieve revenues of ~US\$112M in FY2018, increasing to US\$455M at peak.

Figure 14: Trulieve: Forecast Florida revenues (\$MMs)

US\$MMs	2018E	2019E	2020E...	2026E	2027E	TV
Est. FL State Retail Revenue (\$USD)	\$ 300	\$ 675	\$ 834	\$ 1,432	\$ 1,479	\$ 1,494
Assumed market share		35%	33%	30%	30%	30%
Est. TRUL FLA Revenues	\$ 112.0	\$ 236.2	\$ 275.1	\$ 436.5	\$ 450.9	\$ 455.4

Source: Company Reports, Canaccord Genuity estimates

Using our above revenue estimates for Trulieve's penetration into the Florida medical market, our valuation is modeled as follows:

- i. We assume that Trulieve will be able to maintain a normalized **Adj. EBITDA margin of ~40%** as the market does not currently allow for the sale of lower margin flower, and we expect a majority of its sales to be sold through its vertically integrated dispensaries. Further, we note that Trulieve is already operating at a ~48% Adj. EBITDA margin at this time (excluding fair value adjustments).
- ii. Due to the continued uncertainty surrounding IRC Section 280E, we have assumed an elevated **tax rate of ~40%**, gradually decreasing over time as we expect long-term resolution of this issue at the federal level.
- iii. We have modeled in **capex of >US\$25M** for Trulieve over the next year to complete its remaining cultivation expansion and dispensary roll-outs.
- iv. We have discounted the resulting cash flows using a **WACC of 8.0%** and terminal growth of 2.0%. This represents a 200 bp discount to our base case discount rate for medical only markets. We have selected a lower rate due to Trulieve's significant leading position in the state and that it has already demonstrated strong execution (in our view) as one of the largest cannabis companies in the world to date (by revenues).
- v. As a result, using a CAD/USD f/x rate of 1.30, we value Trulieve's Florida operations at **C\$2.6B**, which equates to **C\$23.58** per share (as illustrated below).

Figure 15: Valuation Trulieve's Florida operations

US\$MMs	2018E	2019E	2020E	2021E...	2026E	2027E	TV
Est. TRUL FLA Revenues	\$ 112.0	\$ 236.2	\$ 275.1	\$ 316.6	\$ 436.5	\$ 450.9	\$ 455.4
Est. TRUL Florida EBITDA	\$ 48.2	\$ 101.6	\$ 118.3	\$ 133.0	\$ 174.6	\$ 180.4	\$ 182.2
EBITDA Margin	43%	43%	43%	42%	40%	40%	40%
Taxes	19.3	40.6	41.4	42.6	41.9	41.5	40.1
Working Capital	11.2	12.4	3.9	4.2	2.4	1.4	0.5
Capex	25	31	25	10	5	5	5
Free Cash Flow	\$ (7.4)	\$ 18.0	\$ 48.0	\$ 76.3	\$ 125.3	\$ 132.4	\$ 136.6
Terminal Value							\$ 2,530.2
PV of Cash Flow	\$ (7.4)	\$ 17.6	\$ 43.9	\$ 64.8	\$ 74.2	\$ 72.9	\$ 1,418.7
Discount Rate	8%						
Terminal Growth	2%						
Present Value of FCF (USD\$)	\$ 1,994						
FX Rate	1.30						
Value of TRUL Florida (CAD\$)	\$ 2,602						
Shares outstanding	110						
Value per share (C\$)	\$ 23.58						

Source: Company Reports, Canaccord Genuity estimates

Note: The above valuation only considers the existing *medical* opportunity in Florida.

Balance sheet

Trulieve currently has ~C\$65M of cash on its balance sheet. With ~US\$18M expected to be earned from operations over the next 12 months, net of US\$25M need or capex, we forecast Trulieve's one-year forward cash balance to be ~**C\$51M**, or **C\$0.46 per share**.

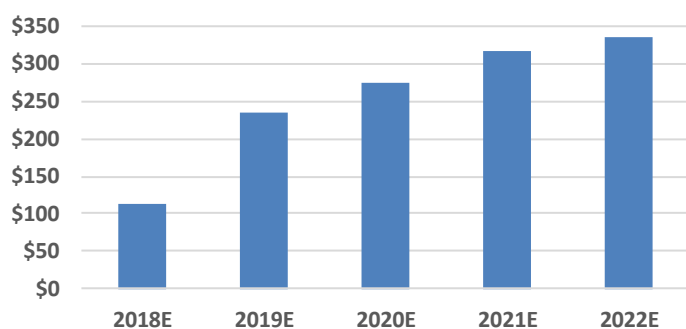
Figure 16: Value of Trulieve's fwd cash and other strategic investment

Asset	Book Value	Premium / Discount to Book Value	Value (C\$ MMs)
Net-Cash available (1 yr fwd)	\$ 51	1.0x	\$ 51
Value Net-cash, Options and Warrants			\$ 51
# of shares outstanding			110
Value per Share (USD\$)			\$ 0.46

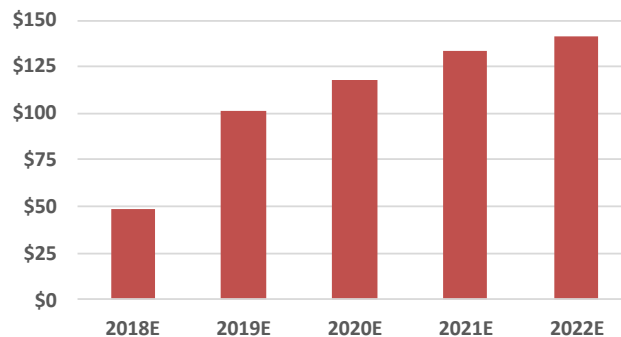
Source: Company Reports, Canaccord Genuity estimates

Consolidated estimates

The revenue and Adj. EBITDA we forecast that Trulieve could derive from its current exposure in Florida is illustrated below.

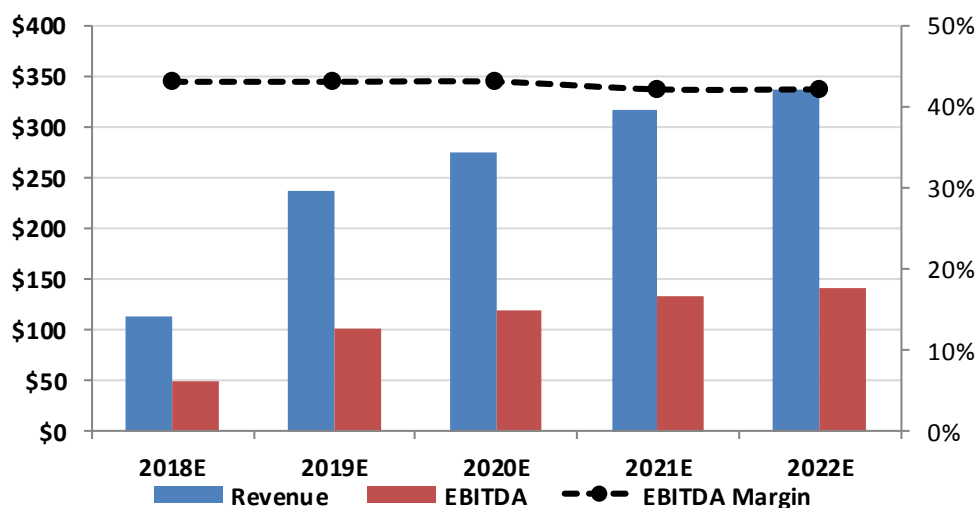
Figure 17: Estimated Trulieve revenue by state (US\$MM)

Source: Company Reports, Canaccord Genuity estimates

Figure 18: Estimated Trulieve adjusted EBITDA by state (US\$MM)

Source: Company Reports, Canaccord Genuity estimates

We estimate that Trulieve will realize consolidated revenue of **US\$112M** in FY2018, increasing by a CAGR of ~30% to **US\$336M** by FY2022; and, we estimate the company will realize Adj. EBITDA of **US\$48M** in FY2018, increasing to **US\$141M** by FY2022.

Figure 19: Trulieve: Consolidated revenue and adjusted EBITDA estimates: FY2018 to FY2022 (US\$MMs) – FYE Dec 31

Source: Company Reports, Canaccord Genuity estimates

Sum-of-the-parts valuation

Initiating coverage of Trulieve with a SPEC BUY rating and C\$24.00 target

Based on our DCF valuation for Trulieve, our resulting valuation for the company is C\$24.04 per share, as illustrated below.

Figure 20: Trulieve: Sum-of-the-parts valuation

SOTP Valuation	C\$ per share	Value (Millions)	CY2020 EV/EBITDA
Florida	\$ 23.58	\$ 2,602	16.9x
Cash (1 yr fwd)	\$ 0.46	\$ 51	n/a
SOTP Valuation	\$ 24.04	\$ 2,652	17.0x

Source: Canaccord Genuity estimates

As a result, we are initiating coverage of Trulieve with a SPECULATIVE BUY rating and a **C\$24.00** target price. Our target represents a forecast annualized return of 33.0%.

Further, below is a sensitivity table of our base valuation if we increased/decreased the Florida market discount rate of 8% and market share of 30% utilized in our DCF valuations. We note that should Trulieve continue to expand its Florida reach and obtain incremental market share, a 500 bp increase to our market share estimate and 100bps decrease to our WACC would result in a valuation of C\$34.31 (or ~90% higher than current trading levels).

Figure 21: Trulieve SOTP sensitivity table

		Market Share				
		20%	25%	30%	35%	40%
Discount Rate	6%	26.72	32.81	38.89	44.97	51.05
	7%	20.68	25.23	29.77	34.31	38.86
	8%	16.88	20.46	24.04	27.62	31.20
	9%	14.27	17.19	20.11	23.03	25.95
	10%	12.36	14.80	17.24	19.69	22.13

Source: Company Reports, Canaccord Genuity estimates

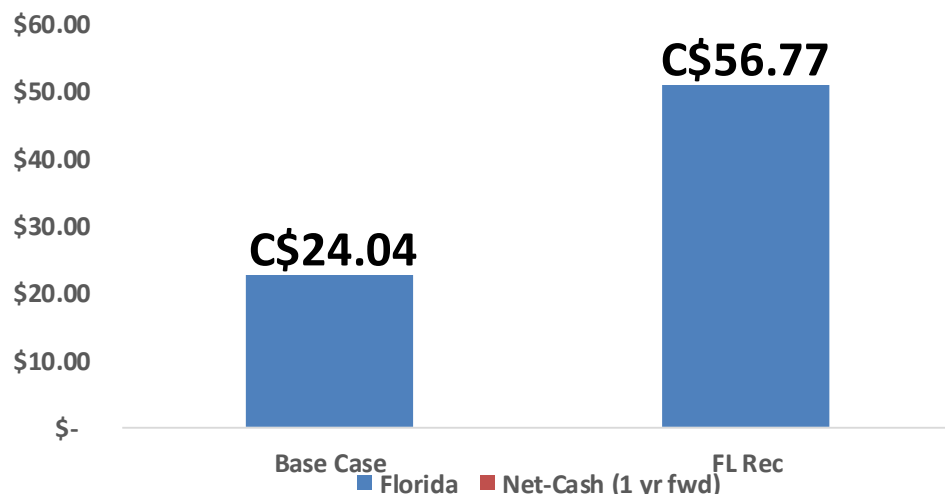
Further upside to our base case valuation with FLA rec legalization

Our base case valuation conservatively only includes value for cannabis markets that are already legal and operating or in the process of implementation. We believe Florida's current medical market is attractive given its ~21 million residents; however, we believe there will be blockbuster recreational upside should these states regulate adult-use cannabis down the road. Given the significant optionality that Trulieve has in that state, we have prepared a scenario analysis to our base case valuation that supports our target price by adjusting for the impact of a legalized Florida recreational market.

The figure below provides a scenario assuming Florida allows recreational use. In our assumptions, we have increased the market size for Florida by roughly three times over the long term to reflect increased sales that would come along with recreational use. Additionally, we have increased the discount rate by 200 bps to reflect the uncertainty around regulations associated with a recreational market and added incremental capex for more retail/cultivation.

As a result, we note that without having to secure additional assets or expand geographically, should Florida legalize adult-use cannabis, our valuation would increase to ~C\$56.77, or ~215% upside from current levels (inclusive of incremental financing required to expand its existing medical operations). Therefore, we believe favourable developments in this state towards rec use could serve as a medium-term valuation catalyst and would provide substantial upside to our existing estimates/valuation.

Figure 22: Scenario valuations: Florida going rec



Source: Company Reports, Canaccord Genuity estimates

Comparable company analysis

Trulieve currently trades at ~12.7x our CY2020 EV/adjusted EBITDA compared to the average of all US peers at ~9.5x. Although TRUL trades at a premium to many of its peers, given its leading position in Florida with 70% of the market and an impressive existing Adj. EBITDA run-rate of US\$45M, we believe a premium valuation is warranted at this time.

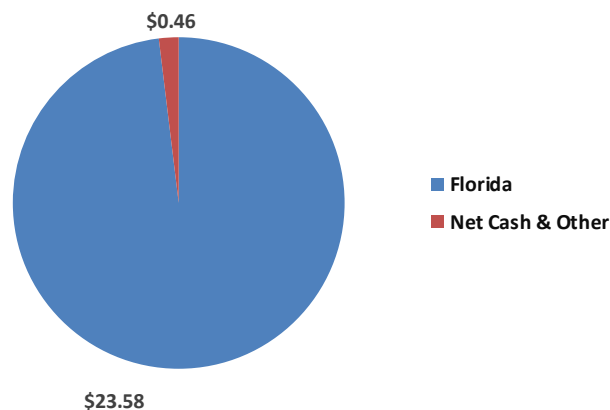
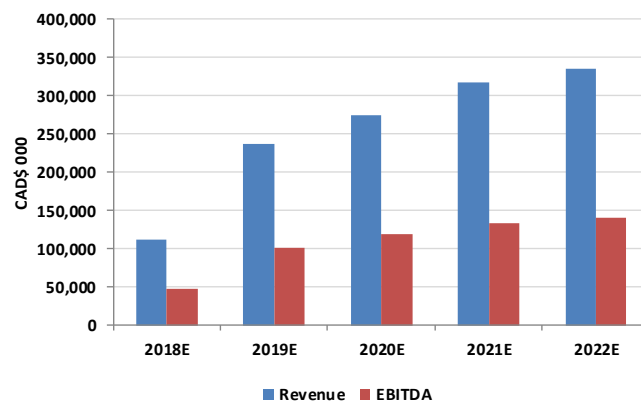
Figure 23: Trulieve Comp Table

Company	Ticker	Share Price (\$)	Market Cap (M)	EV/EBITDA		EV/Revenue	
				Calendar 2019	Calendar 2020	Calendar 2019	Calendar 2020
Canopy Growth	WEED	61.49	\$31,038	70.5x	37.1x	23.5x	14.7x
Aphria Inc.	APH	16.31	\$ 4,139	23.2x	12.5x	8.8x	5.0x
OrganiGram Holdings	OGI	7.45	\$ 1,047	15.2x	12.1x	5.7x	4.8x
Supreme Cannabis Company	FIRE	2.14	\$ 786	14.6x	9.0x	4.8x	3.4x
Wayland Group Inc.	WAYL	1.80	\$ 247	5.8x	3.6x	1.9x	1.4x
Aurora Cannabis	ACB	12.81	\$13,393	57.3x	30.0x	21.7x	13.0x
CannTrust	TRST	12.02	\$ 1,287	38.0x	18.4x	5.6x	3.8x
HEXO Corp.	HEXO	8.47	\$ 1,940	30.0x	19.8x	9.3x	7.3x
Cronos Group Inc.	CRON	12.57	\$ 2,595	54.1x	27.5x	16.8x	10.9x
Average				29.6x	16.2x	9.3x	6.1x
CannaRoyalty	CRZ	7.09	\$ 539	13.7x	6.9x	3.1x	1.8x
MPX	MPX	0.91	\$ 436	7.1x	5.3x	2.0x	1.7x
Liberty Health Sciences	LHS	1.38	\$ 526	21.9x	10.6x	5.4x	3.3x
MedMen	MMEN	5.51	\$ 2,545	30.4x	14.5x	6.5x	3.9x
Average of U.S. companies				19.8x	9.5x	4.1x	3.1x
Trulieve	TRUL	18.05	\$ 1,992	14.8x	12.7x	6.4x	5.5x

Source: Company Reports, Canaccord Genuity estimates

Figure 24: Summary sheet

Company Description					Consolidated Balance Sheet				
Trulieve is a Florida-based vertically-integrated medical cannabis producer and provider. As one of 14 medical cannabis operator licenseholders in Florida, the company is a leading player in Florida's medical cannabis market holding ~70% of market share. Trulieve currently operates 18 dispensaries and have plans to grow to 30 throughout the state.					Year end Dec 31 USD\$000s	2018E	2019E	2020E	2021E
					Cash	64,523	72,836	107,912	167,771
					Current Assets	89,337	150,607	198,475	273,004
					Non Current Assets	(21,302)	(4,708)	(22,646)	(81,332)
					Total Assets	132,558	218,735	283,741	359,443
					Current Liabilities	14,197	81,894	93,553	106,014
					Debt	27,071	9,000	9,000	9,000
					Shareholders Equity	86,006	127,841	181,188	244,429
					Total Liabilities & S/E	132,558	218,735	283,741	359,443
P&L Forecasts					Revenue				
Year end Dec 31 USD\$000s	2018E	2019E	2020E	2021E					
Revenue	112,000	236,241	275,102	316,641					
Cost of Goods Sold	20,495	60,596	70,564	82,643					
Operating Expenses	44,681	93,177	109,788	128,200					
Adj. EBITDA	48,160	101,584	118,294	132,989					
Depreciation/Amortization	3,185	5,650	7,863	8,827					
Interest Expense/Other	2,019	2,019	2,019	2,019					
Income Before Taxes	46,840	82,468	94,750	105,797					
Taxes	19,264	40,634	41,403	42,557					
Net Income	27,576	41,835	53,347	63,241					
Shares o/s (basic)	58,192	109,805	109,805	109,805					
Shares o/s (FD)	58,460	110,340	110,340	110,340					
EPS - FD	0.47	0.38	0.48	0.57					
Cash Flow Forecasts					Breakdown of NAV by Region				
Year end Dec 31 USD\$000s	2018E	2019E	2020E	2021E					
Net Income	27,576	41,835	53,347	63,241					
Adj. EBITDA	48,160	101,584	118,294	132,989					
Investment in Working Capital	5,277	(8,582)	(808)	131					
Cash Taxes	19,264	40,634	41,403	42,557					
Capex	25,118	30,557	25,000	10,000					
Free Cash Flow	(1,499)	38,975	52,699	80,301					
Growth Analysis									
Year end Dec 31 USD\$000s	2018E	2019E	2020E	2021E					
Revenue	466%	111%	16%	15%					
EBITDA	12705%	111%	16%	12%					
Net Income	672%	52%	28%	19%					
Margin Analysis					Valuation Ratios				
Year end Dec 31 USD\$000s	2018E	2019E	2020E	2021E	Year end Dec 31 USD\$000s	2018E	2019E	2020E	2021E
Gross Margin	82%	74%	74%	74%	Enterprise Value / Revenue	13.4x	6.3x	5.4x	4.7x
EBITDA	43%	43%	43%	42%	Enterprise Value / EBITDA	31.1x	14.8x	12.7x	11.3x
Net Income	25%	18%	19%	20%					



Source: Company Reports, Canaccord Genuity estimates

Selected management and director bios

Kim Rivers | Chief Executive Officer

Ms. Rivers obtained her Juris Doctorate from the University of Florida and her Bachelor of Multinational Business and Political Science from Florida State University. She practiced as a lawyer specializing in mergers, acquisitions and securities for multimillion-dollar companies. Ms. Rivers also ran multiple successful ventures from real estate to finance.

Mohan Srinivasan | Chief Financial Officer

Mr. Srinivasan joined Trulieve in June 2018 and brings over 35 years of finance and accounting experience. He has served as the CFO for over 12 years at multiple high growth companies such as AINS Inc., ARA Inc. PPIC Ltd. and Household Financial Toronto assisting with capital raising, strategic planning, IPO preparation and public company reporting. Mr. Srinivasan also earned a Master of Business Administration degree from the University of Toronto and holds CPA licenses in Florida and Ontario.

Jason Pernell | Chief Information Officer

Mr. Pernell was the owner and operator of successful engineering consulting firms and operated several cannabis companies including SACS and 3Jays. Mr. Pernell holds a Master of Business Administration degree from Florida State University and a Bachelor of Science Degree in electrical engineering.

Benjamin Atkins | Director

Mr. Atkins has over 25 years of experience holding executive positions in the Healthcare industry. He holds a majority ownership in 35 senior healthcare facilities throughout the U.S. Mr. Atkins holds a Master of Business Administration degree and a Master of Gerontology degree from the University of South Florida.

Thad Beshears | Director

Mr. Beshears is the Co-Owner and Chief Operating Officer of Simpson Nurseries facilitating sales operations, production, and inventory tracking. He has played an instrumental role in doubling the sales of the company.

Richard May | Director

Mr. May is the General Manager and Sales Manager of May Farms Inc. He has sat on multiple agricultural boards and served as Chairman on the Gadsden County Chamber of Commerce board. Mr. May holds a Bachelor of Science degrees in Agricultural Economics and Horticulture from Auburn University.

George Hackney | Director

Mr. Hackney held the role of President and Owner of the Hackney Nursery Company. He has managed the company's operations and has served on a number of agricultural industry associations' boards.

Michael J. O'Donnell Sr. | Director

Mr. O'Donnell is the Executive Director of Innovation at the University of Central Florida. As a principal of MOD Ventures LLC, he has led the firm to invest in multiple new ventures across various sectors. Mr. O'Donnell also holds a Bachelor of Science in Business Administration from Central Michigan University and a Master of Science in Management from the University of Central Florida.

Figure 25: Trulieve: Forecast P&L

Fiscal Year End (USD\$'000s)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Total Revenue	\$ 112,000	\$ 236,241	\$ 275,102	\$ 316,641	\$ 335,788	\$ 393,654	\$ 401,191	\$ 412,529	\$ 436,495	\$ 450,880	\$ 455,388
Revenue growth %	466%	111%	16%	15%	6%	17%	2%	3%	6%	3%	1%
Cost of goods sold	20,495	60,596	70,564	82,643	87,641	104,515	106,516	111,383	117,854	121,737	122,955
Loss (Gain) on FV Changes	-	-	-	-	-	-	-	-	-	-	-
Adj. Gross Margin	\$ 91,505	\$ 175,645	\$ 204,538	\$ 233,998	\$ 248,147	\$ 289,139	\$ 294,675	\$ 301,146	\$ 318,641	\$ 329,142	\$ 332,433
General & Administrative	\$ 12,768	\$ 26,932	\$ 31,362	\$ 36,730	\$ 38,951	\$ 46,451	\$ 47,341	\$ 49,503	\$ 52,379	\$ 54,106	\$ 54,647
Share-based payments	6,384	13,466	15,681	18,365	19,476	23,226	23,670	24,752	26,190	27,053	27,323
Sales & Marketing & Promotion	22,344	47,130	54,883	64,278	68,165	81,290	82,846	86,631	91,664	94,685	95,632
Amortization and Depreciation	3,185	5,650	7,863	8,827	8,694	8,325	7,992	7,693	7,424	7,181	6,963
Other Operating Costs	-	-	-	-	-	-	-	-	-	-	-
Income (loss) from operations	\$ 46,824	\$ 82,468	\$ 94,750	\$ 105,797	\$ 112,861	\$ 129,848	\$ 132,826	\$ 132,567	\$ 140,985	\$ 146,118	\$ 147,869
Adjusted EBITDA	\$ 48,160	\$ 101,584	\$ 118,294	\$ 132,989	\$ 141,031	\$ 161,398	\$ 164,488	\$ 165,012	\$ 174,598	\$ 180,352	\$ 182,155
Adj. EBITDA %	43%	43%	43%	42%	42%	41%	41%	40%	40%	40%	40%
Interest expense & other	\$ 2,019	\$ 2,019	\$ 2,019	\$ 2,019	\$ 2,019	\$ 2,019	\$ 2,019	\$ 2,019	\$ 2,019	\$ 2,019	\$ 2,019
Income (Loss) before taxes	\$ 46,840	\$ 82,468	\$ 94,750	\$ 105,797	\$ 112,861	\$ 129,848	\$ 132,826	\$ 132,567	\$ 140,985	\$ 146,118	\$ 147,869
Tax Expense	\$ 19,264	\$ 40,634	\$ 41,403	\$ 42,557	\$ 42,309	\$ 40,350	\$ 41,122	\$ 41,253	\$ 41,904	\$ 41,481	\$ 40,074
Net Income	\$ 27,576	\$ 41,835	\$ 53,347	\$ 63,241	\$ 70,552	\$ 89,499	\$ 91,704	\$ 91,314	\$ 99,081	\$ 104,637	\$ 107,795
# of Shares (FD)	58,460	110,340	110,340	110,340	110,340	110,340	110,340	110,340	110,340	110,340	110,340
Earnings per Share	\$ 0.47	\$ 0.38	\$ 0.48	\$ 0.57	\$ 0.64	\$ 0.81	\$ 0.83	\$ 0.83	\$ 0.90	\$ 0.95	\$ 0.98

Source: Company Reports, Canaccord Genuity estimates

Figure 26: Trulieve: Forecast balance sheet

Fiscal Year End (USD\$'000s)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Assets											
Cash & equivalents	64,523	72,836	107,912	167,771	241,878	331,684	426,124	518,458	619,073	725,356	834,947
Accounts receivable	-	23,624	27,510	31,664	33,579	39,365	40,119	41,253	43,650	45,088	45,539
Inventory	5,592	41,504	48,331	56,605	60,028	71,586	72,956	76,290	80,722	83,382	84,216
Prepaid expenses	1,251	830	967	1,132	720	859	875	915	969	1,001	1,011
Biological Assets	17,971	11,812	13,755	15,832	16,789	19,683	20,060	20,626	21,825	22,544	22,769
Current Assets	89,337	150,607	198,475	273,004	352,994	463,177	560,134	657,543	766,237	877,371	988,481
Property, Plant and Equipment	41,221	66,128	83,266	84,439	80,745	77,421	74,429	71,736	69,312	67,131	65,168
Investments and Deposits	-	-	-	-	-	-	-	-	-	-	-
Intangible Assets	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Other	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Assets	132,558	218,735	283,741	359,443	435,739	542,598	636,563	731,278	837,549	946,502	1,055,649
Liabilities											
Accounts payable & accruals	3,175	70,872	82,531	94,992	100,736	118,096	120,357	123,759	130,949	135,264	136,617
Notes Payable	5,026	5,026	5,026	5,026	5,026	5,026	5,026	5,026	5,026	5,026	5,026
Other current liabilities	5,996	5,996	5,996	5,996	5,996	5,996	5,996	5,996	5,996	5,996	5,996
Current Liabilities	14,197	81,894	93,553	106,014	111,758	129,118	131,379	134,781	141,971	146,286	147,639
Convertible notes payable	27,071	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Other liabilities	5,284	-	-	-	-	-	-	-	-	-	-
Total Liabilities	46,552	90,894	102,553	115,014	120,758	138,118	140,379	143,781	150,971	155,286	156,639
Shareholder's Equity											
Share capital	58,764	58,764	58,764	58,764	58,764	58,764	58,764	58,764	58,764	58,764	58,764
Deficit	27,242	69,077	122,424	185,665	256,217	345,715	437,419	528,733	627,815	732,452	840,246
Total Shareholder's Equity	86,006	127,841	181,188	244,429	314,981	404,480	496,183	587,498	686,579	791,216	899,011
Total Liabilities and Shareholder's Equity	132,558	218,735	283,741	359,443	435,739	542,598	636,563	731,278	837,549	946,502	1,055,649

Source: Company Reports, Canaccord Genuity estimates

Figure 27: Trulieve: Forecast statement of cash flows

Fiscal Year End (USD\$'000s)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
OPERATING ACTIVITIES											
Net profit (loss) for the period	27,576	41,835	53,347	63,241	70,552	89,499	91,704	91,314	99,081	104,637	107,795
Adjustments for non-cash items											
Depreciation and Amortization	3,185	5,650	7,863	8,827	8,694	8,325	7,992	7,693	7,424	7,181	6,963
Other	(8,233)	6,159	(1,943)	(2,077)	(957)	(2,893)	(377)	(567)	(1,198)	(719)	(225)
Changes in working capital	(5,277)	8,582	808	(131)	818	(123)	120	(1,106)	308	185	58
Cash from Operations	\$ 17,252	\$ 62,226	\$ 60,075	\$ 69,859	\$ 79,107	\$ 94,806	\$ 99,439	\$ 97,334	\$ 105,614	\$ 111,284	\$ 114,590
FINANCING ACTIVITIES											
Shares issued for cash	47,308	-	-	-	-	-	-	-	-	-	-
Proceeds on Notes Payable	17,635	(18,071)	-	-	-	-	-	-	-	-	-
Proceeds from additional cash contributions	-	-	-	-	-	-	-	-	-	-	-
Other	7,039	(5,284)	-	-	-	-	-	-	-	-	-
Cash from Financing	71,983	(23,355)	-	-	-	-	-	-	-	-	-
INVESTING ACTIVITIES											
Purchase of PP&E	(25,118)	(30,557)	(25,000)	(10,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Purchase of Intangibles	(1,000)	-	-	-	-	-	-	-	-	-	-
Cash from Investing	(26,118)	(30,557)	(25,000)	(10,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Increase in cash and cash equivalents	63,116	8,313	35,075	59,859	74,107	89,806	94,439	92,334	100,614	106,284	109,590
Cash and cash equivalents, beginning of year	1,407	64,523	72,836	107,912	167,771	241,878	331,684	426,124	518,458	619,073	725,356
Cash and cash equivalents, end of year	64,523	72,836	107,912	167,771	241,878	331,684	426,124	518,458	619,073	725,356	834,947
Cash and cash equivalents, Balance Sheet	64,523	72,836	107,912	167,771	241,878	331,684	426,124	518,458	619,073	725,356	834,947

Source: Company Reports, Canaccord Genuity estimates

Canadian Equity Research

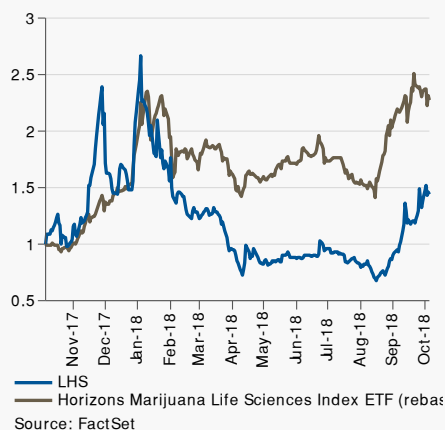
8 October 2018

SPECULATIVE BUY

PRICE TARGET	C\$2.00
Price (5-Oct)	C\$1.38
Ticker	LHS-CNSX

52-Week Range (C\$):	0.62 - 2.88
Avg Daily Vol (000s) :	2,347.2
Market Cap (C\$M):	526
Shares Out., FD (M) :	381.0
Total Return to Target (%) :	44.9
Enterprise Value (C\$M):	463

FYE Feb	2019E	2020E	2021E
Revenue (C\$M)	20	104	159
SG&A (C\$M)	15.8	31.1	43.3
EBITDA Adj (C\$M)	(4.2)	26.1	51.2
EPS (C\$)	(0.05)	0.00	0.03
EV/EBITDA (x)	-	18.3	9.3



Priced as of close of business 5 October 2018

Liberty Health Sciences Inc. is a Florida-based vertically integrated cannabis operator. The company launched in 2017 after acquiring the assets of Chestnut Hill Tree Farm LLC (one of a limited number of medical licences in the state). Liberty's primary operations are headquartered in Gainesville, Florida where it is currently one of the leading players in the rapidly growing Florida medical cannabis market. In addition to Florida, the company is in the process of branching out its exposure to Massachusetts and Ohio and is closely monitoring licensing and expansion opportunities in other regions.

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Initiation of Coverage

Scaling up in Florida's burgeoning medical market

We are initiating coverage of Liberty Health Sciences Inc. with a SPECULATIVE BUY rating and a target price of C\$2.00. Liberty is a Florida-based vertically integrated cannabis operator that we believe is starting to establish a strong presence in the state's rapidly growing medical cannabis market. Over the past year, Liberty has demonstrated strong execution by securing a variety of strategic partnerships and brand licences (including with Aphria Inc., one of Canada's largest Licensed Producers), while continuing to roll out its retail presence in Florida. Further, the company is in the midst of a multi-state expansion strategy, with licenses/assets already secured in Massachusetts and Ohio.

Although we believe Florida currently represents the material value driver for the company, we note that the three US states where Liberty has secured exposure have a cumulative population of ~40 million, with an annual revenue opportunity in excess of US\$3B at peak (without considering further upside from rec legalization in current medical-only markets). Liberty currently trades at ~10.6x our CY2020 EV/Adj. EBITDA, vs. its US peers at ~9.5x. As we believe Florida represents the healthiest medical cannabis market in the US today, given Liberty's strong positioning in the state we believe a higher premium for LHS is warranted, and we would be buyers at current levels.

Investment Highlights

- **Establishing strong infrastructure.** Liberty is currently building out a state-of-the-art 225,000 sq. ft. greenhouse in Gainesville, Florida (with a "know-how" agreement in place with Aphria, to leverage Aphria's expertise). With four dispensaries up and running (increasing to 12 by early 2019), we believe the company is well positioned to be a top-five player in what is the third-largest state in the US by population.
- **Florida medical market continues to experience strong growth.** As the Florida market continues to see strong growth in its registered patient base (currently sitting at >170,000 patients), with a population of 21 million, we believe FLA's annual medical revenues could grow to US\$1.5B at maturity. Should the state legalize recreational cannabis, our BlueSky scenario for LHS (which includes rec exposure) could support a valuation of ~C\$4.50.
- **Florida medical market drives our forecasts.** With one of the better cultivation/production facilities we have seen in the US and a rapidly increasing dispensary profile in Florida, we estimate that Liberty will realize revenue of C\$20M in FY2019, increasing by a CAGR of ~90% to C\$267M by FY2023; we estimate the company will become EBITDA positive in FY2020 at C\$26M, increasing to C\$100M by FY2023.

Valuation: We value Liberty Health using a sum-of-the-parts analysis for each market where it has exposure. We utilize a DCF methodology, with discount rates ranging from 10% to 13% and a terminal growth rate of 2%. Together, our SOTP valuation yields a target price of C\$2.00 (or ~16.1x our CY2020 EV/Adj. EBITDA). This represents a forecast return of 44.9% and supports our SPECULATIVE BUY rating. Given the risks and uncertainties surrounding execution, regulatory changes, and other market factors, we believe a SPECULATIVE BUY rating is appropriate at this time.






Liberty Health: Overview of assets, operations and geographic exposure

Liberty Health Sciences Inc. is a Florida-based vertically integrated cannabis operator. The company launched in 2017 after acquiring the assets of Chestnut Hill Tree Farm LLC (one of a limited number of medical licences in the state). Liberty's primary operations are headquartered in Gainesville, Florida where it is currently building out a presence in the rapidly growing Florida medical cannabis market. In addition to Florida, the company is in the process of branching out its exposure to Massachusetts and Ohio and is closely monitoring licensing and expansion opportunities in other regions such as New Jersey and Michigan.

Over the past year, we believe Liberty has demonstrated strong execution by securing a variety of strategic initiatives and brand licenses while rolling out its retail operations in Florida (which are soon to be expanded to Massachusetts and Ohio). Although we believe Florida currently represents the material value driver for the company, we note that the three US states where Liberty has secured exposure have a cumulative population of ~40 million with an annual revenue opportunity in excess of US\$3B at peak (without consideration of further upside from recreational legalization in markets that are medical-only today). A more detailed description of LHS's existing assets and geographic exposure follows below.

Figure 1: Overview of Liberty Health's holdings and geographic exposure

State/Region	Market Size	Liberty Health Exposure
Florida 	<ul style="list-style-type: none"> Population of ~21.0 million Legal for medical, rec possible within next few years Market opportunity of >US\$1.5 billion at peak. 	The company is licensed to produce and sell medical cannabis in Florida and has recently opened up four existing dispensaries with plans to open another 8 dispensaries by the end of February 2019. The company also created three delivery hubs with plans to open another two hubs by the end of fiscal 2019.
Massachusetts 	<ul style="list-style-type: none"> Population of ~7.0 million Legal for medical and rec; rec sales expected to begin later this year Market opportunity of >US\$1.5 billion at peak. 	The company announced the proposed acquisition of 75% interest in William Noyes Webster Foundation, a Massachusetts-based owner of a licensed dispensary and cultivation facility. WNWF also has leases and local government approvals for two additional dispensary locations.
Ohio 	<ul style="list-style-type: none"> Population of ~12.0 million Legal for medical, rollout expected early 2019 Market opportunity of >US\$580 million at peak. 	The company, through a 51% ownership interest in a JV, was awarded one of 56 Ohio dispensary licenses with plans to open a dispensary and begin operations by the end of calendar 2018. LHS also has a 51% interest in another JV with a processing license pending.

Source: Company Reports, Canaccord Genuity estimates

Florida's rapidly growing medical market represents material value driver for LHS

As the third largest state in the US by population, with ~21 million residents, we believe the Florida medical market ranks as one of the largest cannabis opportunities in the US (even before considering recreational optionality). Since medical cannabis was approved via ballot initiative in 2016, the state has experienced rapid growth in its registered patients base, which now stands at >170,000 patients (a YoY increase of ~300%). However, as the state's market continues to grow and as producers continue to build out infrastructure, we estimate that Florida's medical market (i.e., excluding recreational upside) can support >500,000 patients at peak and ~US\$1.5B

in annual revenues. To date, we believe Liberty ranks as one of the top-five producers in the state by infrastructure built and retail exposure, as further detailed below.

Cultivation/production

After initially planning to build out its Chestnut Hill location to facilitate all cultivation and production requirements for its Florida operations, the company purchased an additional 387 acres of land back in February (in relatively close proximity to Chestnut) with existing infrastructure and ample greenfield for future expansions. From this location (dubbed “Liberty 360”), the company plans to build out a majority of its cultivation/production footprint using state-of-the-art hybrid greenhouse technology. We believe this will allow the company to better protect its margins and compete on cost, as a majority of the cultivation/production facilities we have seen in the US are typically higher-cost indoor facilities (including some of Liberty’s most direct peers).

- **Initial facility.** After expanding the original ~12,000 square foot Chestnut Hill facility by ~11,000 square feet, including three purpose-built greenhouses and obtaining GMP certification, management estimates that this facility is currently operating at an annual run-rate of ~1,600 kg. Although future expansion plans will be done at its 360 campus (see below), this location is still expected to house many of the company’s mother plants as well as provide incremental production capacity.
- **Liberty 360 Innovation Campus.** In February, Liberty Health acquired 387 acres of property in Gainesville (relatively close to Chestnut Hill) for net proceeds of ~C\$8.5M. The property contained an existing ~200,000 square feet of greenhouse, laboratory and possessing space that the company is in the process of retrofitting while adding a 16,000 square foot area for cannabis extraction. This new lab will be able to produce a variety of oil/derivative products (including capsules, tinctures, topicals, vaporizers and concentrates) as well as a commercial kitchen for the production of edibles (expected to be included in the state’s regulations in the coming year). Management forecasts that upon completion of its retrofit and incremental expansion (expected to cost ~C\$18M), Liberty 360 will reach an annual output potential of ~12,000 kg by early 2019.



When Liberty Health Sciences was originally formed in 2017, its initial capital structure included ~37% ownership held by Aphria Inc., one of Canada’s largest Licensed Producers. More recently, due to the regulatory requirements of the TMX Group that does not support listed entities having ownership in US cannabis assets, Aphria has since divested its position in LHS (although it has entered into an option to potentially reacquire these shares if/when regulations allow). More importantly, as part of Aphria’s initial investment in Liberty, the two companies entered into a “know-how” license agreement that allows LHS to utilize any knowledge, methodologies and techniques from Aphria, including standard operating procedures that have been approved by the most robust regulatory body in the industry today (Health Canada). We believe this represents a significant competitive advantage to Liberty vs. many of its peers, as it can leverage the expertise and know-how of a company that is already several years into building one of the largest cultivation footprints in the world. Further, we note that Aphria’s CEO, Vic Neufeld, currently sits as Liberty’s Chairman.

Based on management's current expansion plans, we believe the above footprint will be sufficient to support vertically integrated sales in excess of >US\$150M at current retail pricing. However, given the significant greenfield available at 360 (387 acres), we believe Liberty Health has ample room to expand its operations further if/when needed. Although this represents more capacity than Liberty will likely require over the next 24 months, management believes that having robust cultivation/manufacturing capacity will be advantageous should the state allow for wholesaling between producers as the market continues to expand.

Figure 2: Summary of LHS' Florida capacity

Location	Current Facility size (sq.ft)	Current Capacity (kg)	Expanded size (sq.ft.)	Expanded Capacity (kg)
Chestnut Hill	25,000	1,600	25,000	1,600
Liberty 360	20,000	1,600	225,000	13,000
Total	45,000	3,200	250,000	14,600

Source: Company Reports, Canaccord Genuity estimates

Further, based of our site tour of Liberty 360, we believe its current operations and expansion design make it one of the more impressive facilities we have seen in the US to date. In our view, it is evident that its strategic relationship with Aphria has likely given it a leg up with respect to the design of its cultivation/production sites. See photographs below of Liberty's existing operations.

Figure 3: Arial view of Liberty 360 campus



Source: Company Reports

Figure 4: Construction of 360 campus



Source: Canaccord Genuity

Figure 5: Liberty's cultivation



Source: Canaccord Genuity

Figure 6: Liberty's existing extraction lab



Source: Canaccord Genuity

Retail distribution

Currently, each of the 14 licensees in Florida is permitted to open up to 30 medical dispensaries. This cap is expected to increase by five dispensaries for every additional 100,000 registered patients in the state. To date, it is estimated that the state has >170,000 patients and approximately 58 dispensaries.

Liberty began opening vertically integrated medical cannabis dispensaries (referred to as Cannabis Education Centres, or "CECs") in January 2018, with four CECs in Florida opened to date servicing ~10,000 patients. With another six leases signed for additional CECs, management is planning to have a total of 12 locations opened by February and upwards of 18 locations by the end of CY2019.

Existing CEC locations

- **The Villages.** Located in Central Florida, Liberty opened its first medical dispensary in January 2018. The Villages, which represents the state's largest retirement community, has a population of ~150,000 and an average resident age of >60. We believe this represents one of the better strategic locations in the state where Liberty has secured a first-mover advantage in the community.
- **St. Petersburg.** Liberty opened its second location in St. Petersburg back in May, which is also home to a large retirement community and a local population of ~260,000. Liberty's location resides in a five-mile radius of ~90% of this population.
- **Tampa.** In May, Liberty opened its third location located in Tampa Bay that is strategically located across the street from a private hospital that sees ~15,000 patients a week, in addition to a local population of ~380,000.
- **Port St. Lucie.** Liberty opened its fourth location at the end of May in Port St. Lucie, located on the Atlantic coast of southern Florida. This represents the first CEC to open in Port St. Lucie, which houses a population of ~185,000.
- **State-wide delivery hub.** In addition to its current and planned brick-and-mortar retail, Liberty is also expanding its next-day home delivery platform, with hubs established in Fort Lauderdale, St. Petersburg, and Tallahassee.

Liberty plans to open two additional hubs (Orlando and Fort Myers) by February 2019 to more efficiently cater to Florida's growing medical patient base in all major boroughs of the state.

In addition to the above locations, Liberty has secured leases in Miami, Fort Lauderdale, Jacksonville, Palm Harbor, Boca Raton and Sarasota. A map of Liberty's current and planned Florida footprint is shown below.

Figure 7: Map of LHS dispensaries and delivery hubs



Source: Company Reports

Further, as pictured below, we note that the company plans to place its CECs near or adjacent to where patients apply for and receive medical ID cards. This makes it easier for patients to transition from speaking with their doctor (who prescribes) to a specialist at Liberty who can consult on product selection. We believe this strategy represents an effective means to acquire new patients as they register with the state.

Figure 8: Outside Liberty's Villages CEC location



Source: Canaccord Genuity

Figure 9: Inside one of Liberty's CEC locations



Source: Canaccord Genuity

Product offerings and brand partnerships

Although dried flower is not currently permitted in Florida, the company manufactures and sells a wide breadth of product classifications including capsules, disposable vaporizers, tinctures and oral solutions, muscle freezes and a variety of oil concentrates.

Figure 10: Sample of Liberty's product offering



Source: Company Reports

Brands

Although each licensee in Florida is required to operate under a vertically integrated seed-to-sale model, we believe Liberty has secured a number of potentially valuable brand partnerships that provide it with the ability to sell exclusive product offerings through its retail channels. These brands include the following:



- **Aphria.** Along with its “know-how” agreement, Liberty also has a trademark license agreement with Aphria. Under this arrangement, Liberty is able to utilize the Aphria name and brand in exchange for a 3% royalty owing on all related sales. We note from our site visits to a number of Liberty's retail locations that Aphria-branded products make up a majority of its product offerings to date. With the Canadian market set to implement its recreational market next month, we believe the value of the Aphria brand could see a lift in the coming year should it become a household name in Canada.
- **Solei** – As part of its agreement with Aphria (above), Liberty will also launch Solei branded products (developed by Aphria) into the Florida market. Products forms will include vaporizer pens and oral sprays.



- **Mary's Medicinals** – In October 2017, Liberty announced an exclusive 3-year partnership with Mary's Medicinals to manufacture, produce and distribute Mary's products using its Florida license. Mary's is an award-winning Colorado-based brand known for its transdermal patches, gels, topicals, capsules, tinctures, muscle freezes, vape pens and distillates. During our site visits to other US states in the past, we have encountered this brand a number of times and note that some of Liberty's multi-state peers have also licensed Mary's products in other states. More recently, Liberty announced an expansion of its agreement with Mary's to include the exclusive production and distribution rights in the Massachusetts market, subject to regulatory approval.
- **Incredibles edibles** – Earlier this year, Liberty signed an exclusive licensing agreement with MC Brands LLC to manufacture and distribute incredibles-branded cannabis products to patients in Florida. Although edible products are still not officially allowed for sale in Florida, regulators plan on introducing this product classification in 2019 and Liberty will have the exclusive rights to the incredibles consistently dosed formula.
- **Isodiol** – Isodiol International Inc. is a manufacturer and developer of CBD consumer products and has commercialized a 99%+ pure, naturally isolated CBD. The company signed a licensing agreement with Liberty in May, providing the company with the rights to manufacture distribute Isodiol's medical cannabis products to patients in Florida and Massachusetts. Product types specified under the agreement include topical creams, patches, and Isodiol's cannabis-infused single-served coffee.

Other partnerships/agreements

Other notable partnerships/agreements secured by Liberty to date include:

- **PAX Era** – Liberty recently announced a partnership with PAX Labs where it will become the first brand partner in Florida for the PAX Era, a temperature-controlled cannabis oil vaporizer that can be controlled via smart-phone integration. We note that PAX vaporizers are very well known throughout the cannabis industry and that the device is only compatible with certain pods. As a result, we believe customers who purchase an Era vape are more likely to return to Liberty's stores when additional refill pods are required as the company's competitors are not currently able to carry this product line.

Figure 11: PAX Era Vaporizer



Source: Company Reports

Figure 12: Era Pods



Source: Company Reports

- **Resolve Digital Health Inc.** – In October of last year, Liberty entered into an exclusive partnership with Resolve Digital Health to distribute Resolve's

“smart-inhalation” products in Florida (should regulations allow). Resolve’s Breeze Smart inhalers use a metered-dose based vaporizer, which works in conjunction with a Breeze App to provide consistent dosing (based on indication) in addition to recording/analyzing patient activity patterns.

- **FlorPass** – Last month, Liberty received approval from the Florida Department of Health to implement FlorPass, the state’s first online patient management system. FlorPass is a software platform that manages transactions between medical cannabis providers, allowing end-to-end access by patients, doctors and dispensaries in an integrated interface.
- **AdaViv.** More recently, Liberty entered into an exclusive partnership with AdaViv Inc, a hardware company that specializes in predictive agriculture technology to increase production efficiencies. The technology will be implemented at Liberty 360 going forward and will be tailored to focus on a data-driven solution to improve the current production workflow in all of Liberty’s greenhouses.

Liberty to secure a controlling interest in a Massachusetts license

In addition to its existing Florida operations, last March, Liberty announced its intention to enter the Massachusetts cannabis market through the acquisition of 75% of the William Noyes Webster Foundation (WNWF) for proceeds of US\$16M (~C\$21M). After approving recreational cannabis through a November 2016 ballot initiative, Massachusetts is currently in the midst of implementing its rec program with sales expected to kick off later this year. With a population of ~7 million and an existing medical market already in place, we believe the Massachusetts cannabis opportunity could reach a revenue potential of **>US\$1.5 billion** at maturity, currently one of the only (and largest) East Coast states to legalize an adult use market.

Subject to the completion of Liberty’s due diligence and the closing of this transaction, Liberty’s investment in WNWF will provide the company with exposure to one of only ~17 licenses currently issued by the state (allowing for cultivation, processing and dispensing) and to the following assets:

- **Cultivation/production.** WNWF is currently constructing a 36,000 square foot indoor cultivation and processing facility in Plymouth, Massachusetts. The operations will be able to provide product for sale into WNWF’s vertically integrated stores that are set to open over the next year.
- **Distribution.** In addition to cultivation/production, WNWF’s license allows for three vertically integrated dispensaries. The first dispensary is nearing completion (located in Cape Cod), with two more locations expected to be announced in the near term. Although WNWF’s footprint is quite modest, we still believe Liberty could achieve a first-mover advantage in Massachusetts, which is still in a relatively nascent stage even with the impending rec legalization. We believe the expected slow implementation process provides Liberty the opportunity to secure prime real estate locations, as we expect the state will require hundreds of dispensaries at peak vs. the ~25 that have been opened to date.

Although we believe Massachusetts represents a US state with the most near-term recreational upside, details on Liberty’s specific plans/timing in the state remain thin. Upon the closing of the WNWF transaction, we look forward to updates from management with respect to this opportunity.

Dipping its toe into Ohio

Ohio's medical program is set to begin this fall, after missing its original target this September. Although we expect a full ramp-up of the medical sales to take some time, we believe that adoption will be quick and demand for medicinal cannabis will be strong given its large population base (~12 million). The state is currently limiting the number of licensed businesses to 60 dispensaries (licenses being awarded this year) and 24 growers. We believe the medical segment alone could have an annual potential of >US\$580M at peak, ignoring the potential for recreational upside if regulations were to allow.

Last June, Liberty was awarded a dispensary license (via a JV where the company holds a 50.1% interest) in the southwest portion of Ohio (Cincinnati/Columbus) with a processing license application still in the review phase. Liberty is currently developing an operational plan with its joint venture to open a dispensary in the coming months. Although this represents very modest exposure to Ohio at this time, with only ~60 licenses issued to date, we believe Ohio could eventually become a more meaningful asset for Liberty should it expand further into the state.

Potential targets for expansion could result in near-term catalysts

In addition to its existing portfolio of assets and geographic footprint, Liberty Health has submitted applications for licenses in the following regions:

- **New Jersey.** New Jersey signed medical cannabis into law in 2010, but the program remained relatively stagnant with limited qualifying conditions allowed under Governor Chris Christie. However, the current Governor, Phil Murphy, has promised to support the existing medical program as well as implement recreational cannabis in the near term via state legislation. If the recreational market is legalized in New Jersey, we estimate a peak revenue potential in excess of US\$2.0 billion at maturity that could kick off as early as next year.
- **Michigan.** Michigan legalized medical cannabis back in 2008 but only allowed access to cannabis for patients with serious and/or terminal illnesses. A clear regulatory framework was not formed until recently, with license applications opening in December 2017. We believe once a robust medical platform is implemented in the state, demand for medical cannabis could represent a revenue opportunity of >US\$500 million per year (excluding recreational upside).

Liberty Health: Estimates and valuation

We value Liberty using a sum-of-the-parts methodology. Our valuation takes into consideration the markets where the company currently operates or has assets/exposure. The components of our SOTP estimates and valuation include the following markets:

- **Florida.** The company currently has existing penetration in Florida's medical cannabis market. Ignoring potential recreational upside down the road, we estimate sales in the state to reach ~US\$1.5B at maturity as Florida continues to ramp up its medical cannabis infrastructure. With an estimated market share of ~12% at maturity, we forecast peak revenues of ~C\$228M for Liberty in the Florida medical market.
- **Massachusetts.** Liberty has a 75% stake in a Massachusetts license that could benefit from its recreational market set to kick off later this fall. We estimate the Massachusetts medical + rec opportunity could reach peak sales >US\$1.5B at maturity. At an assumed market share of 5%, we forecast Liberty to reach peak sales in of ~C\$98M in the state over the long term.
- **Ohio optionality.** The company has a 50.1% interest in a JV that has secured one Ohio dispensary to date. Although modest, we forecast a modest C\$19M revenue contribution from this asset over the long term.
- **Forward value cash and strategic investments.** We include the value of Liberty's forward cash at book value and its strategic investments at fair value using market rates.

Valuation of Florida medical opportunity drives our value for Liberty

As previously outlined, Liberty holds one of 14 licenses currently issued by the state of Florida. Each license is required to be vertically integrated with each producer responsible for its own cultivation, production, manufacturing and retailing. We believe Florida represents one of the more attractive newly regulated states with a medical patient base that could grow fourfold in the coming years, coupled with a regulatory framework that has formed a relatively conservative approach to issuing new licenses (pegged to the overall number of patients registered in the state's medical program). As a result, we believe the capitalized players among the first 14 licenses already issued will likely achieve a significant first-mover advantage in the Florida medical opportunity (with potentially valuable recreational optionality over the medium to long term).

We estimate that Florida's medical cannabis market has trailing revenues of >US\$100M; however, with >170,000 registered patients to date, we estimate the state is currently operating a run rate of >US\$300M and could reach a peak market potential of ~US\$1.5B at maturity (excluding any potential recreational upside). Using these overall macro estimates, while considering Liberty's positioning in the market, our revenue estimates for the company's penetration into the Florida medical market are as follows:

We have estimated Liberty's Florida medical revenues in the near term based on the timing of its planned retail expansion and its longer-term forecasts using a market share percentage of our above macro forecast. Based on our review of Florida's competitive landscape and our site visits, we believe Liberty currently has one of the

more impressive facilities we have seen in the US to date and estimate that its existing retail exposure, expansion plans, and strategic initiatives place it among the top five of the 14 producers currently licensed in Florida. Further, we estimate that the four dispensaries already opened by the company represent ~8% of the total locations in the state. However, as the company plans to triple its retail exposure over the next six months (with leases already secured), we forecast that Liberty will be able to achieve a normalized market share of 12% in Florida at maturity.

As a result, we estimate that Liberty will achieve revenues of ~**C\$20M** in FY2019, increasing to **C\$228M** at peak (Note: As Liberty reports in \$CAD, we have converted its US sales to C\$ using the current f/x rate of CAD/USD 1.30).

Figure 13: Liberty: Forecasted Florida revenues (C\$MMs) FYE Feb 28

\$MMs (Feb 28)	2019E	2020E	2021E	2022E...	2028E	TV
Est. FL State Retail Revenue (\$USD)	\$ 300	\$ 675	\$ 834	\$ 990	\$ 1,479	\$ 1,494
Est. FL State Retail Revenue (\$CAD)	\$ 390	\$ 877	\$ 1,084	\$ 1,286	\$ 1,922	\$ 1,942
Assumed market share		9.0%	10.5%	12.0%	12.0%	12.0%
Est. LHS FL Revenues (\$CAD)	\$ 20.5	\$ 79.0	\$ 113.8	\$ 154.4	\$ 230.7	\$ 233.0
Less: Royalty to Aphria	\$ 0.4	\$ 1.6	\$ 2.3	\$ 3.1	\$ 4.6	\$ 4.7
Net LHS FL Revenue (\$CAD)	\$ 20.1	\$ 77.4	\$ 111.5	\$ 151.3	\$ 226.1	\$ 228.3

Source: Company Reports, Canaccord Genuity estimates

Using our above revenue estimates for Liberty's penetration into the Florida medical market, our valuation is modeled as follows:

- i. We assume that Liberty will eventually be able to achieve a normalized **adjusted EBITDA margin of ~40%** as the market does not currently allow for the sale of lower margin flower and we expect a majority of Liberty's sales to be sold through its vertically integrated dispensaries. Further, we note that Trulieve (which is about a year ahead of Liberty in its roll-out) is already achieving margins in excess of 40% at this time.
- ii. Due to the continued uncertainty surrounding IRC Section 280E, we have assumed an elevated **tax rate of ~40%**, gradually decreasing over time as we expect long-term resolution of this issue at the federal level.
- iii. We have modeled **capex of ~C\$35M** for Liberty over the next two years to complete its build-out of Liberty 360 and open up an additional 12 to 15 dispensaries. We assume the company will spend an additional C\$20M on Liberty 360 and C\$0.5M for each incremental retail location it opens.
- iv. We have discounted the resulting cash flows using a **WACC of 10.0%** and terminal growth of 2.0%. This represents our base case discount rate for medical-only markets where operators already have an existing footprint and presence.
- v. As a result, we value Liberty's Florida operations at **C\$603M**, which equates to **C\$1.58** per share (as illustrated below).

Figure 14: Valuation Liberty's Florida operations

C\$MMs (Feb 28)	2019E	2020E	2021E	2022E...	2027E	2028E	TV
Net LHS FL Revenue (\$CAD)	\$ 20.1	\$ 77.4	\$ 111.5	\$ 151.3	\$ 218.9	\$ 226.1	\$ 228.3
Est. LHS Florida EBITDA	\$ 2.0	\$ 23.2	\$ 39.0	\$ 57.5	\$ 87.5	\$ 90.4	\$ 91.3
EBITDA Margin	10%	30%	35%	38%	40%	40%	40%
Taxes	0.8	9.3	13.7	18.4	21.0	20.8	20.1
Working Capital	2.0	5.8	3.5	4.1	1.2	0.7	0.2
Capex	20	15	10	10.0	5.0	5.0	5.0
Free Cash Flow	\$ (20.8)	\$ (6.9)	\$ 11.9	\$ 25.0	\$ 60.3	\$ 63.9	\$ 66.0
Terminal Value							\$ 904.3
PV of Cash Flow	\$ (20.84)	\$ (6.6)	\$ 10.4	\$ 20.0	\$ 30.5	\$ 29.5	\$ 418.1
Discount Rate	10%						
Terminal Growth	2%						
Present Value of FCF (CAD\$)	\$ 603						
Ownership %	100%						
Value of LHS Florida	\$ 603						
Shares outstanding	381						
Value per share (C\$)	\$ 1.58						

Source: Company Reports, Canaccord Genuity estimates

Note: The above valuation only considers the existing *medical* opportunity in Florida.

Value of Massachusetts opportunity

After legalizing recreational cannabis via a 2016 ballot initiative, Massachusetts is currently in the midst of implementing its rec program with sales expected to kick off later this fall. With a population of ~7 million and an existing medical market already in place, we believe the Massachusetts cannabis opportunity could reach a revenue potential of **>US\$1.5 billion** at maturity, currently one of the only (and largest) East Coast states to legalize an adult use market.

Although Liberty is still in the process of closing its acquisition of its Massachusetts licence, WNWF is close to completing its facility located in Plymouth and its first dispensary in the Cap Cod area. Although the company will likely not be able to leverage the same degree of a first-mover advantage as some of the incumbents in this market, with only ~25 dispensaries open in the state to date, we believe there is still tremendous growth potential for all license holders as Massachusetts is soon set to become the largest rec cannabis market on the US East Coast. Our valuation of Liberty's exposure to the Massachusetts market is modeled as follows:

- i. An estimated Massachusetts total annual revenue potential of **~US\$1.5B** at peak.
- ii. Liberty securing a more modest **5% market share**.
- iii. **Adjusted EBITDA margins of >30%** at peak.
- iv. An elevated **tax rate of ~40%**, (due to continued uncertainty surrounding IRC Section 280E), gradually decreasing over time as we expect long-term resolution of this issue at the federal level.
- v. An elevated **discount rate of 13.0%**, terminal growth of 2.0%.
- vi. By applying Liberty's **75% ownership** interest and utilizing a CAD/USD f/x rate of 1.30, our resulting valuation for Liberty's exposure to the Massachusetts market is **C\$98M or is C\$0.26 per share** (as illustrated below).

Figure 15: Valuation of LHS optionality in Massachusetts

\$MMs (Feb 28)	2019E	2020E	2021E	2022E...	2027E	2028E	TV
Est. Mass State Retail Revenues (\$USD)	\$ 136	\$ 624	\$ 851	\$ 1,110	\$ 1,522	\$ 1,537	\$ 1,537
Est. Mass State Retail Revenues (\$CAD)	\$ 177	\$ 811	\$ 1,106	\$ 1,443	\$ 1,978	\$ 1,998	\$ 1,998
Assumed market share	2.0%	3.0%	4.0%	5.0%	5.0%	5.0%	5.0%
Est. Retail Revenues	\$ 3.5	\$ 24.3	\$ 44.2	\$ 72.1	\$ 98.9	\$ 99.9	\$ 99.9
Less: Royalty to Aphria	3%	\$ 0.1	\$ 0.5	\$ 0.9	\$ 1.4	\$ 2.0	\$ 2.0
Net LHS Mass Revenue	\$ 3.5	\$ 23.8	\$ 43.4	\$ 70.7	\$ 96.9	\$ 97.9	\$ 97.9
LHS Massachusetts EBITDA	\$ 0.2	\$ 2.4	\$ 10.8	\$ 21.2	\$ 33.9	\$ 34.3	\$ 34.3
EBITDA Margin	5%	10%	25%	30%	35%	35%	35%
Taxes	0.1	1.0	3.8	6.8	8.1	7.9	7.5
Working Capital	0.4	2.1	2.0	2.8	0.1	0.1	-
Capex	10.0	8.0	7.5	5.0	3.0	3.0	3.0
Free Cash Flow	\$ (10.2)	\$ (8.6)	\$ (2.4)	\$ 6.6	\$ 22.7	\$ 23.3	\$ 23.7
Terminal Value							\$ 230.3
PV of Cash Flow	\$ (10.2)	\$ (8.2)	\$ (2.0)	\$ 4.9	\$ 9.4	\$ 8.6	\$ 84.6
Discount Rate	13%						
Terminal Growth	2%						
Present Value of FCF (US\$)	\$ 130.9						
% Ownership	75%						
Value of Massachusetts Market (C\$)	\$ 98.2						
# of shares outstanding (FD)	381						
Value per share (C\$)	\$ 0.26						

Source: Company Reports, Canaccord Genuity estimates

Cash and other strategic investments

Liberty currently has ~C\$39M of cash on its balance sheet. With another ~C\$54M of in-the-money options and warrants, net of the company's one-year cash burn and ~C\$9M of convertible debt, we estimate that Liberty will have access to ~C\$47M of liquidity by the time it becomes cash flow positive in FY2020 (which we value at book value).

In addition, the company has investments in strategic partner Isodiol and Green Tank Holdings Corp. Combined (as of Liberty's most recent financial reporting period of Q1/F19), these assets have a fair value of ~C9.1M.

Lastly, we valued Liberty's 50.1% ownership in its Ohio dispensary assuming peak sales of ~C\$15M over the next three years. Using a DCF analysis, this adds a modest C\$9.3M to our overall valuation of LHS.

As a net result, we value Liberty's forward cash, strategic investments and initial Ohio license at **C\$65M** or **C\$0.17 per share** (as illustrated below).

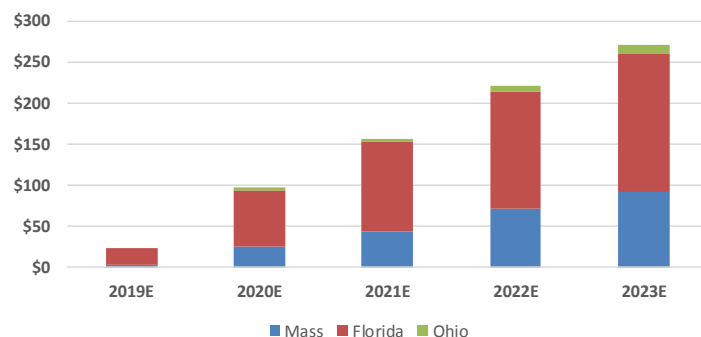
Figure 16: Value of Liberty's forward cash and other strategic investment

Asset	Book Value	Multiple of Book Value	Value (C\$ MMs)
Net-Cash available (1 yr fwd)	\$ 47.0	1.0x	\$ 47.0
Book value of strategic investments	\$ 9.1	n/a	\$ 9.1
Ohio license	\$ 9.3	n/a	\$ 9.3
			\$ 65.4
# of shares outstanding			381
Value per Share			\$ 0.17

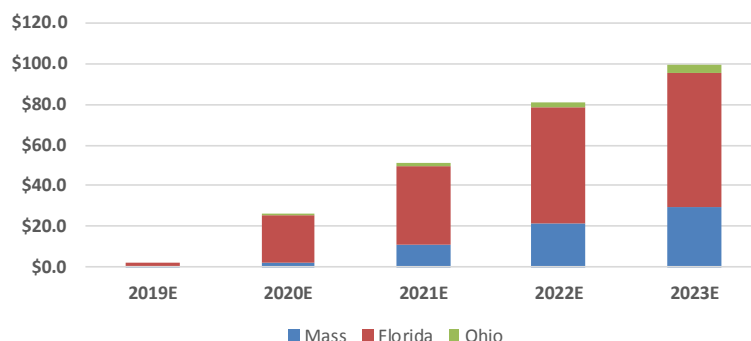
Source: Company Reports, Canaccord Genuity estimates

Consolidated estimates

The revenue and adjusted Adj. EBITDA we forecast that LHS could derive from its current exposure in Florida, Massachusetts and Ohio are illustrated below.

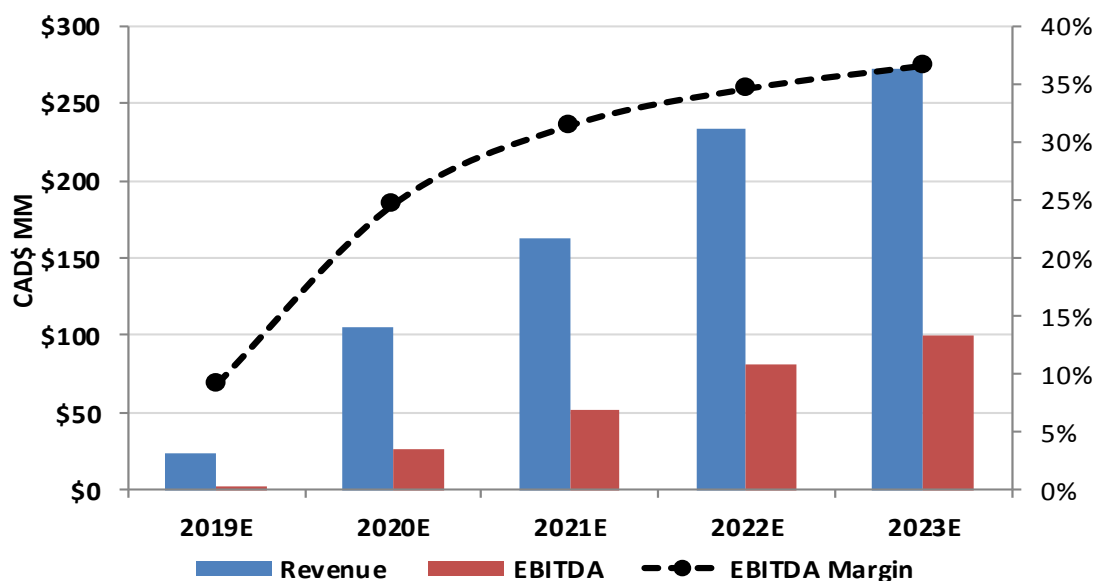
Figure 17: Estimated LHS revenue by state (FYE Feb 28 CAD\$MM)

Source: Company Reports, Canaccord Genuity estimates

Figure 18: Estimated LHS adjusted EBITDA by state (FYE Feb 28 CAD\$MM)

Source: Company Reports, Canaccord Genuity estimates

We estimate that LHS will realize consolidated revenue of **C\$20M** in FY2019, increasing by a CAGR of ~90% to **C\$267M** by FY2023; and, we estimate the company will realize adjusted EBITDA of **C\$60M** in FY2020, increasing to **C\$100M** by FY2023.

Figure 19: LHS: Consolidated revenue and adjusted EBITDA estimates: FY2018 to FY2022 (CAD\$MMs) – FYE Feb 28

Source: Company Reports, Canaccord Genuity estimates

Sum-of-the-parts valuation

Initiating coverage of Liberty Health Sciences with a SPEC BUY rating and C\$2.00 target

Based on our individual valuations for the markets where LHS has exposure (Florida, Massachusetts, and Ohio), our resulting sum-of-the-parts valuation for the company is C\$2.01 per share, as illustrated below.

Figure 20: LHS: Sum-of-the-parts valuation

SOTP Valuation	C\$ per share	Value (Millions)	CY2020 EV/EBITDA
Florida	\$ 1.58	\$ 603	16.6x
Massachusetts	\$ 0.26	\$ 98	13.9x
Fwd Cash and Strategic Inv.	\$ 0.17	\$ 65	n/a
SOTP Valuation	\$ 2.01	\$ 767	16.1x

Source: Canaccord Genuity estimates

As a result, we are initiating coverage of LHS with a SPEC BUY rating and a **C\$2.00** target price. Our target represents a forecasted annualized return of 44.9%.

Further, below is a sensitivity table of our valuation if we increased/decreased the Florida market discount rate of 10% and the steady state market share of 12% utilized in our DCF valuation. We note that for every 2% additional assumed market share and 100bps decrease in our discount rate, our value for LHS increases between ~C\$0.50 to ~C\$1.00.

Figure 21: LHS SOTP sensitivity table

		Market Share				
		8%	10%	12%	14%	16%
Discount Rate	8%	1.92	2.33	2.74	3.15	3.57
	9%	1.65	1.98	2.32	2.65	2.99
	10%	1.45	1.73	2.01	2.29	2.58
	11%	1.30	1.54	1.78	2.02	2.26
	12%	1.18	1.39	1.60	1.81	2.02

Source: Company Reports, Canaccord Genuity estimates

Further upside to our base valuation with FLA rec legalization

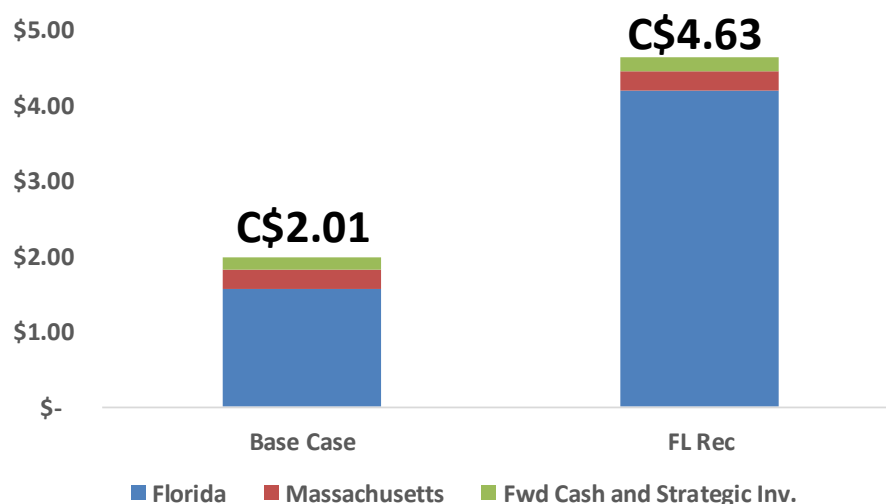
Our base case valuation conservatively only includes value for cannabis markets that are already legal and operating or in the process of implementation. We believe the current Florida medical market is attractive given its ~21 million residents; however, we believe there will be blockbuster recreational upside should these states regulate adult-use cannabis down the road. Given the significant optionality that LHS has in this state, we have prepared a scenario analysis to our base case valuation that supports our target price by adjusting for the impact of a legalized Florida recreational market.

The figure below provides a scenario assuming Florida allows recreational use. In our assumptions, we have increased the market size for Florida by roughly three times over the long term to reflect increased sales that would come along with recreational use. Additionally, we have increased the discount rate by 200 bps to reflect the

uncertainty around regulations associated with a recreational market and added incremental capex for more retail/cultivation.

As a result, we note that without having to secure additional assets or expand geographically, should Florida legalize adult-use cannabis, our valuation would have ~236% upside from current levels (inclusive of incremental financing required to expand its existing medical operations). Therefore, we believe favourable developments in this state towards recreational use could serve as a medium-term valuation catalyst and would provide substantial upside to our existing estimates/valuation.

Figure 22: Scenario valuations: Florida going rec



Source: Company Reports, Canaccord Genuity estimates

Comparable company analysis

LHS currently trades at ~10.6x our CY2020 EV/adjusted EBITDA compared to average US peers at ~9.5x. Given LHS's exposure to the third largest state in the US by population, we believe a premium multiple is warranted. Our target price of C\$2.00 would equate to a CY2020 EV/adjusted EBITDA multiple of ~16.1x.

Figure 23: LHS Comp Table

Company	Ticker	Share Price (\$)	Market Cap (M)	EV/EBITDA		EV/Revenue	
				Calendar 2019	Calendar 2020	Calendar 2019	Calendar 2020
Canopy Growth	WEED	61.49	\$31,038	70.5x	37.1x	23.5x	14.7x
Aphria Inc.	APH	16.31	\$ 4,139	23.2x	12.5x	8.8x	5.0x
OrganiGram Holdings	OGI	7.45	\$ 1,047	15.2x	12.1x	5.7x	4.8x
Supreme Cannabis Company	FIRE	2.14	\$ 786	14.6x	9.0x	4.8x	3.4x
Wayland Group Inc.	WAYL	1.80	\$ 247	5.8x	3.6x	1.9x	1.4x
Aurora Cannabis	ACB	12.81	\$13,393	57.3x	30.0x	21.7x	13.0x
CannTrust	TRST	12.02	\$ 1,287	38.0x	18.4x	5.6x	3.8x
HEXO Corp.	HEXO	8.47	\$ 1,940	30.0x	19.8x	9.3x	7.3x
Cronos Group Inc.	CRON	12.57	\$ 2,595	54.1x	27.5x	16.8x	10.9x
Average				29.6x	16.2x	9.3x	6.1x
CannaRoyalty	CRZ	7.09	\$ 539	13.7x	6.9x	3.1x	1.8x
MPX	MPX	0.91	\$ 436	7.1x	5.3x	2.0x	1.7x
Trulieve	TRUL	18.05	\$ 1,992	14.8x	12.7x	6.4x	5.5x
MedMen	MMEN	5.51	\$ 2,545	30.4x	14.5x	6.5x	3.9x
Average of U.S. companies				19.8x	9.5x	4.1x	3.1x
Liberty Health Sciences	LHS	1.38	\$ 526	21.9x	10.6x	5.4x	3.3x

Source: Company Reports, Canaccord Genuity estimates

Selected management and director bios

Vic Neufeld | Chairman

Vic Neufeld is the President and Chief Executive Officer of Aphria. Prior to joining the company, Mr. Neufeld was the CEO of Jamieson Laboratories where for over 20 years he expanded the company's top line ten-fold while increasing its distribution network to over 40 countries, building Jamieson to a globally recognized brand name. Mr. Neufeld is also a CPA and spent 15 years as a partner with Ernst & Young. Mr. Neufeld earned a bachelor's degree in Economics from Western University and an Honours degree in business and MBA from the University of Windsor.

George Scorsis | Chief Executive Officer, Director

George Scorsis was the former President of Red Bull Canada for four years, growing the business to \$150 million in revenue. Most recently, he served as the President of Mettrum Health Corporation, building it into a \$430 million business. Mr. Scorsis began his role as CEO and Director of Liberty Health in July 2017 and brings over 20 years of experience working with regulated products in the CPG industry.

Rene Gulliver | Chief Financial Officer

Prior to joining LHS, Rene Gulliver served as Chief Financial Officer for Dream Global Real Estate Investment Trust for over 3 years. He was also the CFO for Cushman and Wakefield Americas for 3 years and held CEO and CFO positions at Intercon Security and Royal LePage respectively. Mr. Gulliver began his career at PriceWaterhouseCoopers where he obtained his Chartered Accountant designation.

John Cervini | Director

John Cervini is a co-founder of Aphria and is a fourth-generation grower in southwestern Ontario with hydroponic agricultural experience. Previously, Mr. Cervini helped establish Lakeside Produce, a company that sold fresh produce from Canada to multinational retailers throughout North America. Mr. Cervini has significant experience in greenhouse growing technology and has overseen greenhouse expansions in California and Mexico. Mr. Cervini is the founding chair of the Ontario Greenhouse Marketing Association and remains involved in the industry as part of the Ontario Greenhouse Vegetable Growers Association.

Aaron Serruya | Director

Aaron Serruya is the co-founder and CEO of Yogen Früz and has over three decades of experience in the retail franchising sector. He is currently the President of International Franchise Inc., which has over 4,500 frozen yogurt and ice cream franchises in over 50 countries. Mr. Serruya will lead the dispensary expansion initiative in Florida and other states.

Figure 24: Summary sheet

Company Description					Consolidated Balance Sheet				
Liberty Health Sciences Inc. is a Florida-based vertically-integrated cannabis operator. The company launched in 2017 after acquiring the assets of Chestnut Hill Tree Farm LLC (one of a limited number of medical licences in the state). Liberty's primary operations are headquartered in Gainesville, Florida where it is currently one of the leading players in the rapidly growing Florida medical cannabis market. In addition to Florida, the company is in the process of branching out its exposure to Massachusetts and Ohio and is closely monitoring licensing and expansion opportunities in other regions.					Year end Feb 28 CAD\$000s	2019E	2020E	2021E	2022E
					Cash	21,301	32,680	31,434	41,118
					Current Assets	30,584	61,653	73,998	101,003
					Non Current Assets	66,971	73,931	86,458	84,551
					Total Assets	118,856	168,264	191,890	226,672
					Current Liabilities	12,298	20,756	31,868	38,925
					Debt	9,000	9,000	9,000	9,000
					Shareholders Equity	97,558	138,508	151,022	178,747
					Total Liabilities & S/E	118,856	168,264	191,890	226,672
P&L Forecasts					Revenue				
Year end Feb 28 CAD\$000s	2019E	2020E	2021E	2022E					
Revenue	20,496	103,780	159,338	228,970					
Cost of Goods Sold	8,595	46,601	64,877	88,780					
Operating Expenses	23,163	43,801	60,752	81,910					
Adj. EBITDA	(4,237)	26,111	51,209	81,003					
Depreciation/Amortization	3,179	4,661	6,220	7,223					
Interest Expense/Other	1,814	1,814	1,814	1,814					
Income Before Taxes	(13,980)	10,942	29,969	52,906					
Taxes	873	10,241	17,455	25,181					
Net Income	(14,853)	702	12,514	27,725					
Shares o/s (basic)	309,192	381,034	381,034	381,034					
Shares o/s (FD)	309,192	381,034	381,034	381,034					
EPS - FD	(0.05)	0.00	0.03	0.07					
Cash Flow Forecasts					Breakdown of NAV by Region				
Year end Feb 28 CAD\$000s	2019E	2020E	2021E	2022E					
Net Income	(14,853)	702	12,514	27,725					
Adj. EBITDA	(4,237)	26,111	51,209	81,003					
Investment in Working Capital	(3,402)	7,067	(298)	6,782					
Cash Taxes	873	10,241	17,455	25,181					
Capex	13,000	23,000	17,500	15,000					
Free Cash Flow	(14,708)	(14,197)	16,552	34,040					
Growth Analysis									
Year end Feb 28 CAD\$000s	2019E	2020E	2021E	2022E					
Revenue	3286%	406%	54%	44%					
EBITDA	nmf	nmf	96%	58%					
Net Income	nmf	nmf	1683%	122%					
Margin Analysis					Valuation Ratios				
Year end Feb 28 CAD\$000s	2019E	2020E	2021E	2022E	Year end Feb 28 CAD\$000s	2019E	2020E	2021E	2022E
Gross Margin	58%	55%	59%	61%	Enterprise Value / Revenue	24.3x	4.8x	3.1x	2.2x
EBITDA	nmf	25%	32%	35%	Enterprise Value / EBITDA	nmf	19.1x	9.7x	6.1x
Net Income	nmf	1%	8%	12%					

Source: Company Reports, Canaccord Genuity estimates

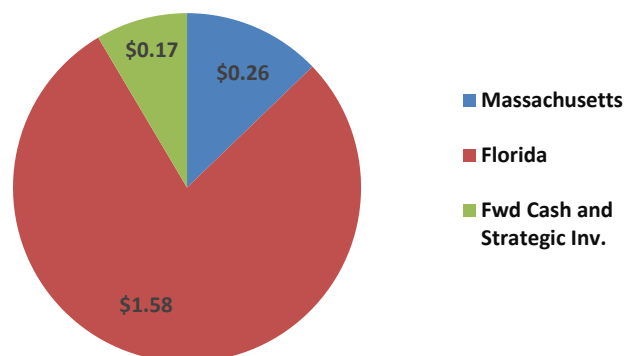
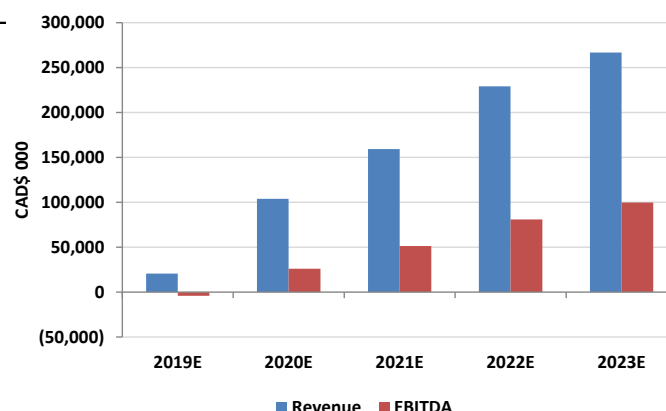


Figure 25: LHS: Forecast P&L

FYE Feb 28 (CAD\$'000s)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Revenue	20,891	105,898	162,590	233,643	272,177	314,036	316,213	326,049	340,103	349,101	351,733
Less: Royalty to Aphria	395	2,118	3,252	4,673	5,444	6,281	6,324	6,521	6,802	6,982	7,035
Net Revenue	\$ 20,496	\$ 103,780	\$ 159,338	\$ 228,970	\$ 266,733	\$ 307,755	\$ 309,889	\$ 319,528	\$ 333,301	\$ 342,119	\$ 344,699
Revenue growth %	3286%	406%	54%	44%	16%	15%	1%	3%	4%	3%	1%
Cost of goods sold	8,595	46,601	64,877	88,780	100,138	115,265	115,434	118,411	123,421	126,644	127,582
Loss (Gain) on FV Changes	-	-	-	-	-	-	-	-	-	-	-
Adj. Gross Margin	\$ 11,901	\$ 57,179	\$ 94,461	\$ 140,190	\$ 166,595	\$ 192,490	\$ 194,455	\$ 201,117	\$ 209,879	\$ 215,475	\$ 217,116
General & Administrative	\$ 9,872	\$ 19,417	\$ 27,032	\$ 36,992	\$ 41,724	\$ 48,027	\$ 48,098	\$ 49,338	\$ 51,426	\$ 52,768	\$ 53,159
Share-based payments	4,138	8,073	11,281	15,501	17,777	20,531	20,714	21,365	22,278	22,877	23,065
Sales & Marketing & Promotion	5,975	11,650	16,219	22,195	25,034	28,816	28,859	29,603	30,855	31,661	31,896
Amortization and Depreciation	3,179	4,661	6,220	7,223	7,900	8,285	8,382	8,344	8,309	8,278	8,251
Interest Expense	2,264	2,436	3,740	5,374	6,260	7,223	7,273	7,499	7,822	8,029	8,090
Other Operating Costs	-	-	-	-	-	-	-	-	-	-	-
Income (loss) from operations	\$ (13,526)	\$ 10,942	\$ 29,969	\$ 52,906	\$ 67,900	\$ 79,608	\$ 81,130	\$ 84,969	\$ 89,189	\$ 91,860	\$ 92,656
Adjusted EBITDA	\$ (4,237)	\$ 26,111	\$ 51,209	\$ 81,003	\$ 99,837	\$ 115,647	\$ 117,499	\$ 122,177	\$ 127,598	\$ 131,046	\$ 132,061
Adj. EBITDA %	-21%	25%	32%	35%	37%	38%	38%	38%	38%	38%	38%
Interest expense & other	\$ 1,814	\$ 1,814	\$ 1,814	\$ 1,814	\$ 1,814	\$ 1,814	\$ 1,814	\$ 1,814	\$ 1,814	\$ 1,814	\$ 1,814
Income (Loss) before taxes	\$ (13,980)	\$ 10,942	\$ 29,969	\$ 52,906	\$ 67,900	\$ 79,608	\$ 81,130	\$ 84,969	\$ 89,189	\$ 91,860	\$ 92,656
Tax Expense	\$ 873	\$ 10,241	\$ 17,455	\$ 25,181	\$ 28,781	\$ 27,727	\$ 28,051	\$ 29,081	\$ 29,152	\$ 28,679	\$ 27,631
Net Income	\$ (14,853)	\$ 702	\$ 12,514	\$ 27,725	\$ 39,119	\$ 51,881	\$ 53,079	\$ 55,888	\$ 60,036	\$ 63,181	\$ 65,025
# of Shares (FD)	309,192	381,034	381,034	381,034	381,034	381,034	381,034	381,034	381,034	381,034	381,034
Earnings per Share	\$ (0.05)	\$ 0.00	\$ 0.03	\$ 0.07	\$ 0.10	\$ 0.14	\$ 0.14	\$ 0.15	\$ 0.16	\$ 0.17	\$ 0.17

Source: Company Reports, Canaccord Genuity estimates

Figure 26: LHS: Forecast balance sheet

FYE Feb 28 (CAD\$'000s)	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Assets												
Cash & equivalents	26,145	21,301	32,680	31,434	41,118	67,839	113,237	166,650	222,041	280,973	343,523	408,534
Accounts receivable	-	2,050	10,378	15,934	22,897	26,673	30,775	30,989	31,953	33,330	34,212	34,470
Inventory	2,297	6,087	12,767	17,775	24,323	27,435	31,579	31,626	32,441	33,814	34,697	34,954
Prepaid expenses	622	122	638	889	1,216	823	947	949	973	1,014	1,041	1,049
Biological Assets	744	1,025	5,189	7,967	11,449	13,337	15,388	15,494	15,976	16,665	17,106	17,235
Current Assets	29,809	30,584	61,653	73,998	101,003	136,107	191,927	245,708	303,385	365,796	430,579	496,241
Property, Plant and Equipment	25,286	35,107	53,447	64,727	72,504	77,604	79,818	79,437	79,093	78,784	78,505	78,255
Investments and Deposits	2,525	1,991	1,991	1,991	1,991	1,991	1,991	1,991	1,991	1,991	1,991	1,991
Intangible Assets	48,165	48,225	48,225	48,225	48,225	48,225	48,225	48,225	48,225	48,225	48,225	48,225
Promissory Note	-	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949
Total Assets	105,784	118,856	168,264	191,890	226,672	266,876	324,910	378,309	435,642	497,745	562,249	627,661
Liabilities												
Accounts payable & accruals	3,556	12,298	20,756	31,868	38,925	40,010	46,163	46,483	47,929	49,995	51,318	51,705
Other current liabilities	62	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities	3,618	12,298	20,756	31,868	38,925	40,010	46,163	46,483	47,929	49,995	51,318	51,705
Convertible notes payable	8,838	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Embedded derivative	2,931	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	434	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	15,821	21,298	29,756	40,868	47,925	49,010	55,163	55,483	56,929	58,995	60,318	60,705
Shareholder's Equity												
Share capital	113,322	129,060	129,060	129,060	129,060	129,060	129,060	129,060	129,060	129,060	129,060	129,060
Warrants	5,002	10,574	50,822	50,822	50,822	50,822	50,822	50,822	50,822	50,822	50,822	50,822
Contributed Surplus	2,457	3,595	3,595	3,595	3,595	3,595	3,595	3,595	3,595	3,595	3,595	3,595
AOCI	(2,450)	(2,450)	(2,450)	(2,450)	(2,450)	(2,450)	(2,450)	(2,450)	(2,450)	(2,450)	(2,450)	(2,450)
Deficit	(28,367)	(43,220)	(42,519)	(30,005)	(2,280)	36,839	88,720	141,799	197,686	257,723	320,904	385,929
Total Shareholder's Equity	89,963	97,558	138,508	151,022	178,747	217,866	269,747	322,825	378,713	438,750	501,931	566,956
Total Liabilities and Shareholder's Equity	105,784	118,856	168,264	191,890	226,672	266,876	324,910	378,309	435,642	497,745	562,249	627,661

Source: Company Reports, Canaccord Genuity estimates

Figure 27: LHS: Forecast cash flow statement

FYE Feb 28 (CAD\$'000s)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
OPERATING ACTIVITIES											
Net profit (loss) for the period	(14,853)	702	12,514	27,725	39,119	51,881	53,079	55,888	60,036	63,181	65,025
Adjustments for non-cash items											
Depreciation and Amortization	3,179	4,661	6,220	7,223	7,900	8,285	8,382	8,344	8,309	8,278	8,251
Share based payments											
Other	(281)	(4,164)	(2,778)	(3,482)	(1,888)	(2,051)	(107)	(482)	(689)	(441)	(129)
Prepaid rent - related party											
Due from related party											
Other assets	(281)	(4,164)	(2,778)	(3,482)	(1,888)	(2,051)	(107)	(482)	(689)	(441)	(129)
Due to related party											
Changes in working capital	3,402	(7,067)	298	(6,782)	(5,410)	(2,218)	59	(358)	(725)	(469)	(136)
Prepaid expenses and other current assets	(1,549)	(8,845)	(5,806)	(7,291)	(3,383)	(4,227)	(215)	(988)	(1,418)	(908)	(266)
Inventory	(3,790)	(6,681)	(5,007)	(6,549)	(3,112)	(4,144)	(46)	(815)	(1,373)	(883)	(257)
Accounts payable and accrued liabilities	8,741	8,458	11,112	7,057	1,085	6,153	320	1,446	2,066	1,323	387
Cash from Operations	\$ (8,553)	\$ (5,869)	\$ 16,254	\$ 24,684	\$ 39,722	\$ 55,897	\$ 61,413	\$ 63,392	\$ 66,932	\$ 70,550	\$ 73,011
FINANCING ACTIVITIES											
Shares issued for cash	15,738	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of warrants & options	5,572	40,249	-	-	-	-	-	-	-	-	-
Proceeds from issuance of notes payable	(2,787)	-	-	-	-	-	-	-	-	-	-
Debt Issuance Costs	-	-	-	-	-	-	-	-	-	-	-
Loans from Related Parties	-	-	-	-	-	-	-	-	-	-	-
Other	(2,227)	-	-	-	-	-	-	-	-	-	-
Cash from Financing	16,296	40,249	-	-	-	-	-	-	-	-	-
INVESTING ACTIVITIES											
Purchase of PP&E	(13,000)	(23,000)	(17,500)	(15,000)	(13,000)	(10,500)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
Purchase of Intangible assets [licenses]	-	-	-	-	-	-	-	-	-	-	-
Business Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Cash from Investing	(13,000)	(23,000)	(17,500)	(15,000)	(13,000)	(10,500)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
Increase in cash and cash equivalents	(5,257)	11,379	(1,246)	9,684	26,722	45,397	53,413	55,392	58,932	62,550	65,011
Cash and cash equivalents, beginning of year	26,145	21,301	32,680	31,434	41,118	67,839	113,237	166,650	222,041	280,973	343,523
Cash and cash equivalents, end of year	20,889	32,680	31,434	41,118	67,839	113,237	166,650	222,041	280,973	343,523	408,534
Cash and cash equivalents, Balance Sheet	21,301	32,680	31,434	41,118	67,839	113,237	166,650	222,041	280,973	343,523	408,534

Source: Company Reports, Canaccord Genuity estimates

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: October 09, 2018, 02:13 ET

Date and time of production: October 09, 2018, 02:13 ET

Target Price / Valuation Methodology:

Liberty Health Sciences Inc. - LHS

We utilize a DCF methodology, with discount rates ranging from 10% to 13% and a terminal growth rate of 2%.

Trulieve Cannabis Corp. - TRUL

We value Trulieve utilizing a DCF methodology with an 8% discount rate and 2% terminal growth rate.

Risks to achieving Target Price / Valuation:

Liberty Health Sciences Inc. - LHS

US Federal Government Schedule I classification

We believe the largest overhang facing the US cannabis industry today is marijuana's continued classification as a Schedule I controlled substance (the most restrictive labeling for any narcotic) by the US Federal Government. Although this risk should remain top of mind for investors, we believe there are a number of competing factors, including a large degree of bipartisan support for cannabis, a lack of federal funding for cannabis enforcement, and laws that protect existing medical markets throughout the US, that help mitigate this risk.

Sessions rescission of the Cole Memo

In early January, US Attorney General Jeff Sessions rescinded the Cole Memo. This Obama-era memo, dating back to 2013, provided guidance on allowing state-sanctioned cannabis companies to operate without federal interference. With these guidelines now removed, it is unclear what standard the Federal Government might use in deciding whether to prosecute under federal cannabis laws within states with legalized platforms. Although clearly a headwind for the industry, we believe this represents more of a 'headline risk' (albeit a significant one), for the following reasons:

- Medical markets are still protected by existing legislation prohibiting federal interference.
- Significant practical/logistical hurdles that the US government would have to overcome to implement federal enforcement (including insufficient funding).
- Over 60% of Americans support the legalization of cannabis, including bipartisan support in many US states.
- Sales from legalized markets bring in hundreds of millions of dollars in taxes annually.
- There are several bills currently in Congress that call for the protection of legalized rec markets in the US, in order to eliminate crime and protect youth.
- Although a drag on industry valuations today, we also believe the continued lack of US federal support could serve as a catalyst for a valuation re-rating over the medium-term as the Federal Government will eventually have to play catch-up (in our view) with the wide acceptance of cannabis use in the US.

US cannabis operators are subject to unfavourable federal tax rules

Legal cannabis operators are still subject to unfavourable tax treatments on federal filings. Specifically, Revenue Code Section 280E outright disallows the deduction of expenses related to the trafficking of illegal drugs. As such, normal course operating expenses that are directly linked to the sales of cannabis are not deductible for federal tax purposes, in many cases. As a result, effective tax rates for US cannabis operators can range from 40% (if fully integrated) to as high as 70%, and tax returns could more likely be subject to increased scrutiny and risk of reassessment by the IRS.

Financing risk

As Canada appears to be the only market where US cannabis operators can raise public funds, this limits the opportunity set for financing should LHS or Trulieve require additional capital to execute its growth strategy. Should sentiment or regulations regarding US cannabis operations materially change, this could make it difficult (or impractical) for the company to secure additional public market capital for expansion initiatives.

Repatriation of profits

We believe a potential issue that will require resolution in the medium to long term will be the mechanics of how legal cannabis operators in the US can distribute profits to out-of-state and international shareholders (due to the illicit nature of cannabis at the federal level). We believe this is not a near-term issue, as essentially all profits in the US market are being re-deployed to fund growth and keep pace with industry demand. However, we believe increased clarity on this issue will be critical (with many states already seeking federal commentary) as the market reaches a more normalized state.

FX risk

As LHS and Trulieve both operate in US markets (but is listed on a CAD exchange), their stock price is subject to USD/CAD FX fluctuations. Should the USD depreciate materially against the CAD, the stock price of both companies could experience headwinds independent of their underlying operational performance.

Regulatory/licensing risk

LHS and Trulieve operate in several US states with different regulatory, licensing and compliance requirements. Changes to or noncompliance with regulations in any of the states where the company currently has a presence could have a material adverse impact on their operating and financial performance going forward.

Trulieve Cannabis Corp. - TRUL

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Distribution of Ratings:

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Rating	Coverage Universe		IB Clients
	#	%	%
Buy	549	63.10%	46.45%
Hold	207	23.79%	30.43%
Sell	12	1.38%	25.00%
Speculative Buy	102	11.72%	65.69%
	870*	100.0%	

*Total includes stocks that are Under Review

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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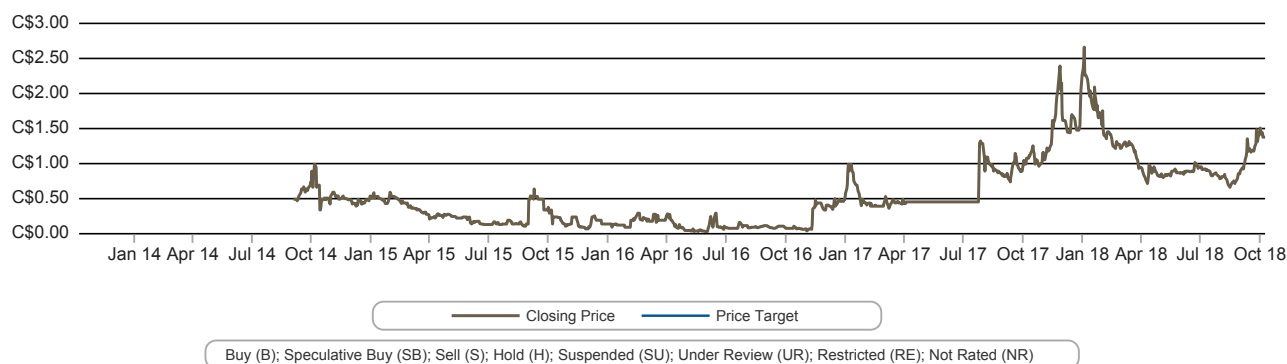
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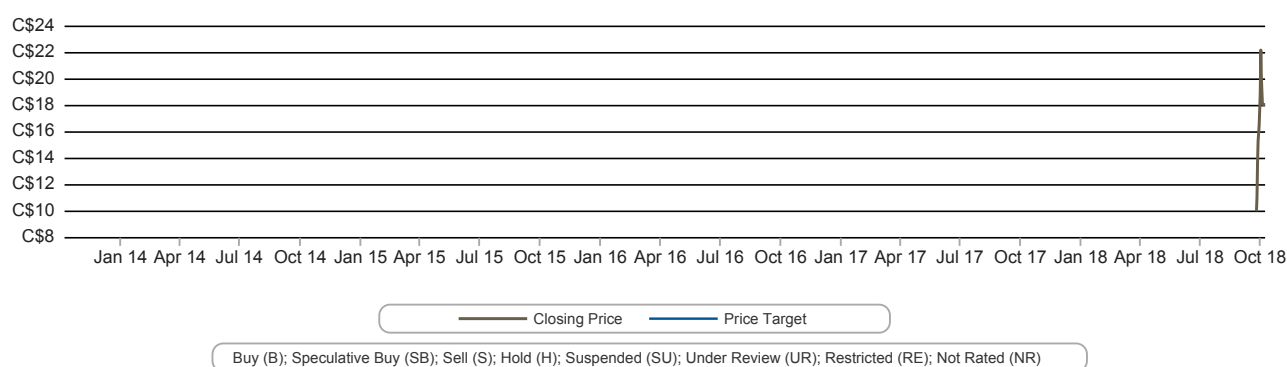
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Liberty Health Sciences Inc. Rating History as of 10/08/2018



Trulieve Cannabis Corp. Rating History as of 10/08/2018

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