

# Verano Holdings, LLC

## Cannabis

Rating  
**SPECULATIVE BUY**

Price Target  
**C\$35.00**

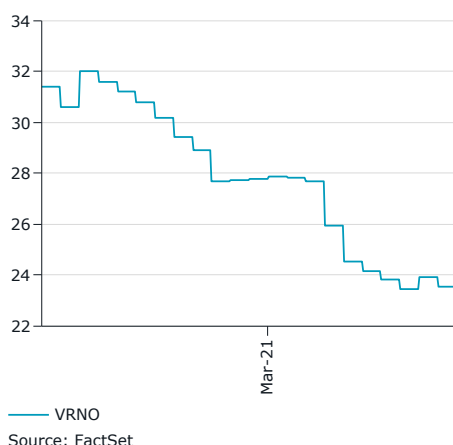
VRNO-CSE

Price  
**C\$23.51**

### Market Data

52-Week Range (C\$) :	23.20 - 33.00
Avg Daily Vol (000s) :	428
Market Cap (C\$M) :	7,130.7
Shares Out., FD (M) :	303.3
Total Return to Target (%) :	48.9
Net Debt (Cash) (C\$M) :	(52.5)
Enterprise Value (C\$M) :	7,078

FYE Dec	2020E	2021E	2022E
Consolidated Revenue (US\$)	355	830	1,147
Revenue (US\$M)	233.1	791.7	1,146.9
SG&A (US\$M)	72.2	182.6	257.0
EBITDA Adj (US\$M)	89.4	335.2	504.3
EPS Adj&Dil (US\$)	0.20	0.67	1.07
EV/EBITDA (x)	61.9	16.5	11.1



Priced intraday 11 March 2021

Fn 2014 and headquartered in Chicago, Verano is currently the leading cannabis brand by market share in its home state of Illinois. It has amassed a national footprint that now has more than 60 active dispensaries (pro forma) spanning 11 markets and wholesale penetration into a further ~350 locations throughout the US.

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## Competing for leading exposure throughout the US

### Investment Recommendation

We are initiating coverage of Verano Holdings, LLC (Verano) with a **SPECULATIVE BUY** rating and a price target of **C\$35.00**. Founded in 2014 and headquartered in Chicago, Verano is currently the leading cannabis brand by market share in its home state of Illinois. It has amassed a national footprint that now has more than 60 active dispensaries (pro forma) spanning 11 markets and wholesale penetration into a further ~350 locations throughout the US.

### Investment Highlights:

- **Diversified MSO with leading exposure in IL, FL and NJ.** Although the company currently has exposure and optionality into 14 different US markets, we note that Verano is currently the #1 player in Illinois' recreational market by branded sales, a top-three player in Florida's burgeoning medical cannabis program, and one of a limited number of licensees in New Jersey, which recently approved the sale of recreational cannabis (anticipated to kick off in the back half of the year).
- **Brand-focused philosophy.** From a branded product perspective, Verano has positioned itself in many of the 'premium' product categories, with four core brands that include **Verano** (its legacy brand that includes SKUs in virtually all product categories); **Avexia** (the company's medical/pain relief-focused product line); **encore edibles** (confectionary focused); and **MÜV** (a leading brand in Florida's medical market as part of its acquisition of AltMed – discussed further herein).
- **Compelling valuation vs. MSO peers.** VRNO currently trades at ~**11.1x** our CY2022E EV/EBITDA estimate, a discount to the overall MSO peer average of ~11.8x and the leading MSOs at ~14.2x. With a portfolio of assets that we believe can compete with the leaders in the space, we believe VRNO could see notable upside by re-rating closer to the leading MSO peer average in addition to overall value appreciation for the sector as a whole as sentiment, regulatory tailwinds and fundamentals all continue to trend in the right direction.
- **Financial forecasts.** As of its most recent disclosed quarter (Q3/20), Verano was operating at pro-rated annual revenues >US\$200M, or **>US\$320M** inclusive of contribution from AltMed (which subsequently closed in February 2021). With the leading brand in Illinois' growing recreational market, a further 12 locations in Florida slated to open in 2021 and a total of nine additional stores in IL, NJ, OH and NV scheduled to open in the coming weeks/months, we expect Verano will realize significant YoY growth in 2021. We forecast that Verano will achieve 2021 pro forma revenue and adj. EBITDA of **US\$830M** (with an expected 5-year CAGR of ~19%) and **US\$335M**, respectively.
- **Balance sheet.** With existing cash on hand, its concurrent financing when coming to market and its subsequent equity raise, VRNO is well capitalized, with close to **US \$200M** of cash on hand.

### Valuation



We value VRNO using a SOTP analysis, with DCF valuations utilizing discount rates ranging from 8% to 12% and a terminal growth rate of 2%. Our SOTP analysis results in a valuation of ~C\$35.00 per share, representing **16.3x** our CY2022E EV/EBITDA.

As a result, we are initiating coverage of VRNO with a **C\$35.00** price target and a **SPECULATIVE BUY** rating. Given the risks and uncertainties surrounding execution, regulatory changes, licensing and other market factors, we believe a SPECULATIVE BUY rating is appropriate at this time.

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Figure 1: Verano Asset Map

State/Region	Market Size	Verano Exposure
 <b>Illinois</b>	<ul style="list-style-type: none"> <li>Population: ~12.7M</li> <li>Market Type: Adult &amp; Medical</li> <li>Market opportunity: ~US\$3.5B</li> </ul>	Verano launched its cannabis operations as part of Illinois' medical cannabis program in 2015 and currently operates a total of eight active dispensaries with licenses in hand to meet the current state cap of ten dispensaries. The company is already the leading wholesalers in Illinois (#1 by branded sales) with an overall top 3 market share in the state (by retail \$'s).
 <b>Florida</b>	<ul style="list-style-type: none"> <li>Population: ~21.3M</li> <li>Market Type: Medical</li> <li>Market opportunity: ~US\$1.8B</li> </ul>	Verano recently entered into a merger with AltMed, gaining exposure to the limited license state of Florida. The company currently has a total of 31 stores open throughout the state and has captured a top 3 position on sales volume for both oil and smokable flower product. The company has a ~220,000 sq. ft. facility, which will be expanded another 65k sq. ft..
 <b>New Jersey</b>	<ul style="list-style-type: none"> <li>Population: ~8.9M</li> <li>Market Type: Adult (2021) &amp; Medical</li> <li>Market opportunity: &gt;US\$2.5B</li> </ul>	In early 2020, Verano won (via tender) a vertically integrated license from the NJ Department of Health, which currently makes the company 1 of only 12 operators in the state. Verano currently operates a dispensary in Elizabeth and plans to open another two locations in Lawrence and Neptune in anticipation of the recreational market later this year. Furthermore, the company owns a 120,000 sq. ft production facility, which we believe is one of the largest facilities in the state.
 <b>Maryland</b>	<ul style="list-style-type: none"> <li>Population: ~6.1M</li> <li>Market Type: Medical</li> <li>Market opportunity: ~US\$700M</li> </ul>	Maryland remains one of Verano's core legacy markets as it holds licenses across both the cultivation and retail verticals, allowing the company to solidify a top three wholesale presence since the medical cannabis program began. Verano currently runs the state maximum number of dispensaries allowed (4) and is currently undergoing an expansion plan at its sole cultivation facility in Jessup, expected to be completed in June 2021.
 <b>Ohio</b>	<ul style="list-style-type: none"> <li>Population: ~11.7M</li> <li>Market Type: Medical</li> <li>Market opportunity: ~US\$850M</li> </ul>	Verano created a retail presence the state of Ohio via acquisition of three dispensaries and has recently signed a definitive agreement to acquire a fourth location. VRNO is now eyeing a fifth location to complete its retail footprint in the state. Furthermore, the company operates a facility in Canton, OH which is a Level 2 grow operation. In addition, we note that AltMed Arizona had previously secured distribution of its products into the OH market (via a relationship with NuTrae) that offers differentiated distribution for Verano products upon transaction close.
 <b>Pennsylvania</b>	<ul style="list-style-type: none"> <li>Population: ~12.8M</li> <li>Market Type: Medical</li> <li>Market opportunity: ~US\$1.4B</li> </ul>	Verano currently has somewhat modest exposure to the Pennsylvania market, however, management has been vocal about its desire to widen/deepen its presence in the state. The company acquired a medical dispensary license in July 2020, affording the company with three ZenLeaf locations, and subsequently added to this exposure with two license acquisitions (one operating its maximum three locations already) in Feb 2021. In addition AltMed has secured a license agreement with NuTrae that would place MuV branded product into the state.
 <b>Arizona</b>	<ul style="list-style-type: none"> <li>Population of ~7.0 million</li> <li>Market Type: Adult &amp; Medical</li> <li>Market opportunity of ~US\$2.3B</li> </ul>	Verano recently entered the AZ market via merger with AltMed. The company is vertically integrated in the state and operates a high-traffic dispensary in Phoenix and a 30,000 sq. ft. indoor cultivation facility in Coolidge, and is undergoing an expansion project for another 60k sq. ft. In February 2021, VRNO added to its AZ platform through the acquisition of Murff & Company LLC that gave them rights to three dispensaries (Mesa, Gilbert, Chandler) and ~20,000 sq. ft. of cultivation space in addition to a further dispensary acquisition in Phoenix.
 <b>California</b>	<ul style="list-style-type: none"> <li>Population: ~40M</li> <li>Market Type: Adult &amp; Medical</li> <li>Market opportunity: ~US\$12B</li> </ul>	Verano gained exposure to the California market in February 2019, when the company signed a definitive agreement for a three-way joint venture with D9 Manufacturing Inc and G2 Bio, Inc to form DGV Group (DGV). DGV was created to gain entry into the California manufacturing/distribution vertical and has accumulated licenses across the industry (including cultivation, manufacturing, etc.).
 <b>Massachusetts</b>	<ul style="list-style-type: none"> <li>Population: ~7.0M</li> <li>Market Type: Adult &amp; Medical</li> <li>Market opportunity: ~US\$1.8B</li> </ul>	Verano entered the state in 2018 by acquiring an operator, Four Daughters Compassionate Care, Inc. which held provisional licenses for the medical marijuana program. The company since opened two adult-use dispensaries and is in the process of constructing an indoor cultivation facility, with the first grow room expected to come online Jan 2021.
 <b>West Virginia</b>	<ul style="list-style-type: none"> <li>Population: ~1.8M</li> <li>Market Type: Medical</li> <li>Market opportunity: ~\$500M</li> </ul>	On January 29, 2021, the West Virginia Office of Medical Cannabis (OMC) announced winners of the medical dispensary permits, which included 7 dispensary permits that were awarded to Verano in the following cities: Oak Hill, Clarksburg, Dunbar, Morgantown, Westover, Wheeling and Buckhannon. The company has been previously approved for cultivation and processing, making them vertically integrated in the state.
 <b>Michigan</b>	<ul style="list-style-type: none"> <li>Population: ~10M</li> <li>Market Type: Adult &amp; Medical</li> <li>Market opportunity: ~US\$3B</li> </ul>	With a population of 10 million residents and a medical market of ~245k registered medical patients, we estimate the Michigan market represents an annual revenue opportunity of ~US\$3B at peak and is currently operating at a run-rate of ~US\$1.2B. Verano currently operates a hybrid medical and adult-use dispensary in Buchanan, MI.
 <b>Nevada</b>	<ul style="list-style-type: none"> <li>Population: ~3M</li> <li>Market Type: Adult &amp; Medical</li> <li>Market opportunity: ~US\$1.3B</li> </ul>	Verano entered the state last year after acquiring the membership of two entities in Nevada. The company currently operates a store in Las Vegas and has plans to open an additional two locations by the end of Q1/21. Verano also holds licenses to cultivate and manufacture cannabis in the state.
 <b>Missouri</b>	<ul style="list-style-type: none"> <li>Population: ~6.2M</li> <li>Market Type: Medical</li> <li>Market opportunity: ~US\$350M</li> </ul>	Verano entered the Missouri market through a competitive licensing round in 2019. To date, Verano holds one manufacturing and one dispensary license in St. Louis and Kansas City, respectively.
 <b>Arkansas</b>	<ul style="list-style-type: none"> <li>Population: ~3M</li> <li>Market Type: Medical</li> <li>Market opportunity: ~US\$200M</li> </ul>	The company currently holds a sole dispensary license in El Dorado that it received in an application round that ended September 2017, while management has voiced desire to identifying expansion opportunities in the market.

Source: Company Reports, Canaccord Genuity estimates

## Executive Summary

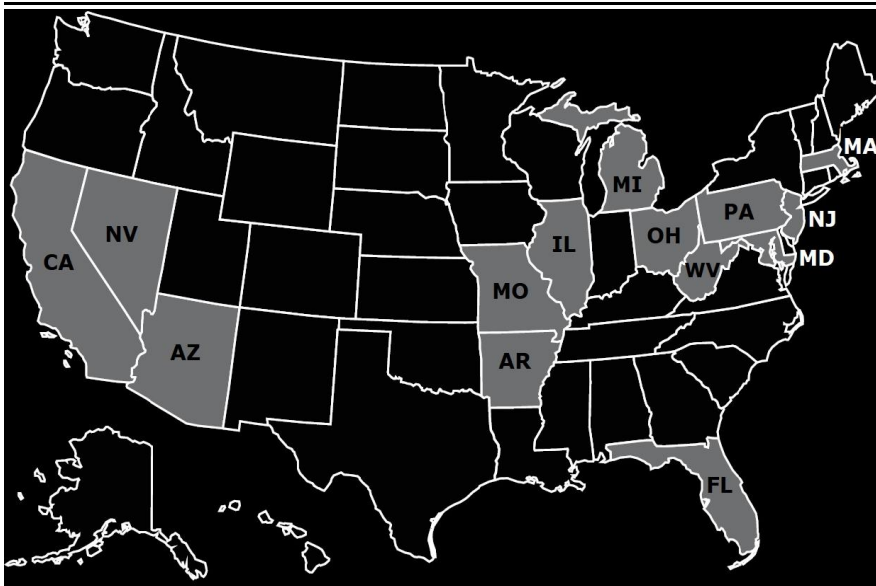


We are initiating coverage of Verano Holdings, LLC (Verano) with a **SPECULATIVE BUY** rating and a price target of **C\$35.00**.

Founded in 2014 and headquartered in Chicago, Verano is currently the leading cannabis brand by market share in its home state of Illinois. It has amassed a national footprint that now has more than 60 active dispensaries (pro forma) spanning 11 markets and wholesale penetration into a further ~350 locations throughout the US. In addition, we believe Verano's infrastructure has begun to reach critical mass, with eight cultivation/production centers that house ~**690,000 sq. ft.** of cultivation space with plans to increase this by an additional ~60,000 sq. ft. this year (2021) and additional capacity set to come into play upon the closing of recent M&A initiatives .

From a branded product perspective, Verano has positioned itself in many of the 'premium' product categories with four core brands that include: **Verano** (its legacy brand that includes SKUs in virtually all product categories); **Avexia** (the company's medical/pain relief focus product line); **encore edibles** (confectionary focused); and **MÜV** (a leading brand in Florida's medical market as part of its acquisition of AltMed – discussed further herein).

Figure 2: Verano: US exposure by state



Source: Company Reports, Canaccord Genuity

Figure 3: Verano: Dispensary count by state

State	Total Active Stores	Total Licensed & Planned Stores
Florida	31	43
Illinois	8	10
Maryland	4	4
Ohio	4	5
Pennsylvania	6	9
Massachusetts	2	2
New Jersey	1	3
Nevada	1	3
Arizona	5	5
Michigan	1	1
Arkansas	1	1
West Virginia	0	7
Missouri	0	1
California	0	0
<b>Total</b>	<b>64</b>	<b>94</b>

Source: Company Reports, Canaccord Genuity

As of its most recent reported quarter (Q3/20), the company was operating at pro-rated annual revenues >US\$200M, or **>US\$320M** inclusive of contribution from AltMed (which subsequently closed in Feb/2021). In 2020, total legal sales in the US were **>US\$17B**, and we believe Verano's assets are attractively positioned to compete for market share in a legalized market that the company believes could reach **~US\$30B** in national sales by next year (2022).

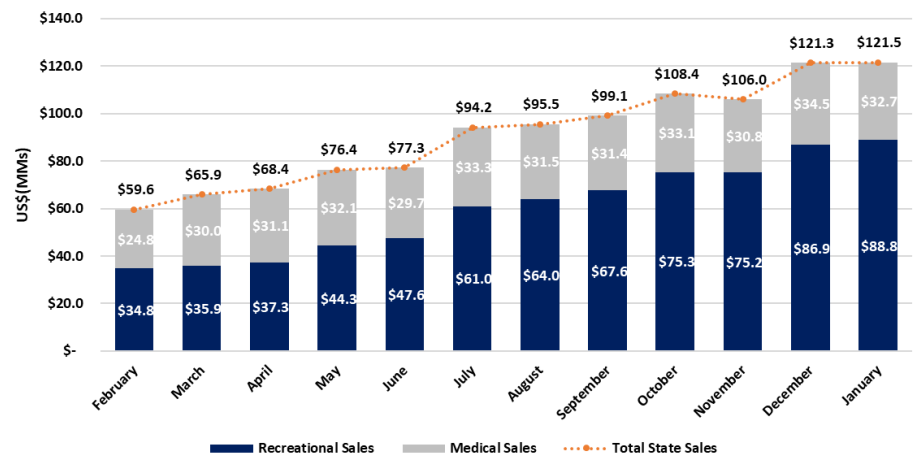
### A leader in Illinois

Verano launched its cannabis operations as part of Illinois' medical cannabis program back in 2015 and currently operates a total of eight dispensaries in the state with licenses in hand to meet the current cap of 10 dispensaries over the short term. The company is already the leading wholesaler in Illinois (#1 by branded

sales) with products in virtually all of the state's dispensaries and an overall top-3 market share by retail dollars.

We note that during the first year of adult-use sales, that market reached a peak 62 licensed dispensaries and generated ~**US\$669M** in adult-use revenues (impressive, in our view, given challenged supply channels throughout a majority of H1/20). Inclusive of medical sales, the state generated **>US\$1.0B** in revenues in 2020; however, we believe that there remains significant room for expansion as operators build out their cultivation facilities to combat supply imbalances prevalent today. We estimate that IL can support annual recreational and medical sales of ~**US\$3.5B** over the long-term with VRNO likely holding a market share of >15% in this growing market.

**Figure 4: Illinois State Cannabis Sales (TTM)**



Source: Illinois Department of Public Health, Canaccord Genuity

### Preparing for growth in New Jersey's soon-to-be adult use market

In January 2010, New Jersey signed into law the Compassionate Use Medical Marijuana Act, legalizing the sale of medical cannabis for certain medical indications. However, more notably, as part of the November 2020 President election, the state passed a ballot initiative to legalize recreational cannabis.

Verano currently holds 1 of only 12 vertically integrated license in New Jersey via the Department of Health. Each licensee is permitted to open a total of three dispensaries and a cultivation/production facility. We believe license holders with operations up and running, such as Verano (with one retail location already open and a ~120,000 sq. ft. production facility), are positioned to generate substantial top-line contributions upon the commencement of recreational sales in New Jersey (expected in H2/2021). At peak, we forecast NJ to be able to support ~**US\$2.5B** in annual sales.

### Acquisition of Florida's AltMed shores up national exposure

As part of its reverse takeover go-public process, Verano concurrently closed its acquisition of Alternative Medical Enterprises LLC (and affiliated companies combined as "AltMed"). AltMed is the #4 operator in Florida's medical cannabis market (by store count) and is currently competing for the #2 market share in the state along with Curaleaf and Surterra Wellness (with Trulieve as the incumbent market share leader). In addition, AltMed operates a retail dispensary in Arizona, a state that legalized and implemented adult-use sales earlier this year. As consideration, AltMed shareholders now own ~23% of the combined public entity (~64M VRNO shares) and will receive a total cash payment of ~US\$35M.



We believe Florida represents the most attractive medical cannabis market in the US today. We estimate that as of the end of 2020, the state was operating at a total sales run rate of close to **~US\$1.3B**, with a mandated 100% vertically integrated license structure that has resulted in some of the highest margin profiles in the sector. We believe the above TAM still has the potential to eclipse US\$1.75B from medical sales alone, with a longer-term upside of **>US\$5B** should recreational cannabis become legalized in the state.

AltMed has **31** Florida retail locations up and running under the “MÜV” brand banner (supported by ~220,000 sq. ft. of cultivation capacity) with plans to open 12 more locations by the end of this year. We note that AltMed has made substantial progress in Florida after bypassing many of the state’s second-tier operators (by market share) with 14 new store openings over the past 12 months.

Inclusive of an additional retail store in AZ, the company reported **~US\$105.7M** of net revenues for the fiscal year ended December 2020 with a market share in FL in excess of **~9.0%** (and growing). As of January 2021, the company indicated that AltMed’s combined gross revenues are currently running at close to a **~US\$160M** run rate. As a result, we believe AltMed is now competing for a top spot in the Florida medical cannabis market (after Trulieve) as evidenced below by market share data derived from the state’s Office of Medical Marijuana Use (OMMU).

**Figure 5: Florida medical cannabis trailing market share data**

Licensee	Trailing 12M		Trailing 3M	
	THC/CBD	Flower	THC/CBD	Flower
Trulieve	50.6%	53.5%	48.7%	51.3%
Surterra Wellness	11.3%	9.9%	12.1%	10.2%
<b>AltMed Florida</b>	<b>10.3%</b>	<b>7.2%</b>	<b>10.5%</b>	<b>7.4%</b>
Curaleaf	9.1%	6.9%	8.3%	7.4%
Liberty Health Sciences	5.2%	5.2%	5.8%	4.0%
Grow Healthy	3.9%	5.8%	4.5%	6.6%
Fluent	4.4%	2.7%	3.6%	2.3%

Source: Derived from OMMU volume data, Canaccord Genuity

### A brand-focused philosophy

As noted above, Verano has employed a multi-brand architecture in its product offerings that currently encompass four core product brands, including: **Verano** (core legacy); **MÜV** (acquired via AltMed); **Avexia** (medicinal) and **encore edibles** (confectionary); and two retail store monikers (ZenLeaf and MÜV). Starting in its home state of Illinois, the company has focused on targeting “premium artisanal” cannabis consumers with an aim to drive value through the quality and consistency of their product offerings. We believe the success of Verano’s branding initiatives is evidenced by its #1 market share in Illinois by branded product sales even though its overall market position in the state by retail dollars is likely #3. We believe this suggests strong demand for the company’s products outside of its own vertically integrated retail locations.

To date, the company offers a wide variety of SKUs (from dried bud, pre-rolls, vapes, concentrates, edibles, etc.) that can be found in nearly 350 retail locations throughout the US.

Figure 6: Zen Leaf retail store



Source: Company Reports

Figure 7: MÜV retail store



Source: Company Reports

Figure 8: Verano's core brands



Source: Company Reports

### Balance sheet & Capital Structure

Refer below for a summary of Verano's current balance sheet/cash balance and capital structure resulting from its RTO, concurrent and subsequent equity financings, the closing of its acquisition of AltMed and its more recently announced acquisitions in AZ, PA and IL.

We estimate that the company currently has a pro forma net cash balance of **C\$52.5M** with a FD share count of **~303M**. In addition, based on the existing share lockup schedule, barring any amendments, all of VRNO's shares are set to become freely traded by the 400<sup>th</sup> day subsequent to its RTO closing (as summarized below).

Figure 9: Est. Verano net cash

Net Cash	US\$000s
Cash (Verano)	\$ 35,215
Cash (AltMed)	\$ 10,169
Equity Raise	\$ 100,000
Feb 24 financing	\$ 89,875
Other Pro Forma Adj.	\$ (9,835)
AltMed Cash Purchase Price	\$ (35,000)
AZ Purchase	\$ (20,125)
IL purchase	\$ (17,500)
PA Purchase	\$ (69,850)
<b>Est. Pro Forma Cash (US\$)</b>	<b>\$ 82,949</b>
<b>Long-Term Debt (US\$)</b>	<b>\$ 41,954</b>
<b>Est. Net Cash (US\$)</b>	<b>\$ 40,995</b>
<b>Est. Net Cash (C\$)</b>	<b>\$ 52,474</b>

Source: Company Reports, Canaccord Genuity estimates

Figure 10: Verano share structure

Share Class	000s
Proportionate Voting Shares	162,377
Sub. Voting Shares	117,523
SVS Issued in Placement	10,000
SVS Issued to Sell	100
Feb 24 financing	4,037
Shares issued for AZ	4,018
Shares issued for IL	905
Shares issued for PA	4,347
<b>Total Consol. Share Count</b>	<b>303,306</b>
<b>Share Lock-Up Schedule</b>	
Shares unlocked (Feb 17)	20%
Shares unlocked +90 days	15%
Shares unlocked +180 days	15%
Shares unlocked +240 days	15%
Shares unlocked +310 days	15%
Shares unlocked +400 days	20%

Source: Company Reports, Canaccord Genuity estimates




### MSO positioning in key medical/recreational markets


As illustrated in the following table, we believe Verano is currently operating with one of the more attractive portfolios of assets in the US cannabis industry today.


We note that the top four US operators by exposure/valuation (CURA, GTII, CL and TRUL) currently trade at an average 2022E EV/EBITDA multiple of **~14.2x**.


Although an argument can be made that VRNO should trade at a slight discount to these names, with a 2022E EV/EBITDA multiple of **~11.1x** and exposure to many of the highest growth markets in the US, we believe VRNO is set to see sizable upside on continued execution.


Figure 11: MSO position in key US medical and recreational markets

MSO	Top medical markets				Top recreational markets				CY2022E EBITDA multiple		Mkt. Cap (C\$MMs)
	Florida	Pennsylvania	Ohio	Maryland	Illinois	Massachusetts	New Jersey	Arizona			
Mkt Size Current (US\$MMs)	~US\$1.3B	~US\$500M	~US\$325M	>US\$500M	~US\$1.5B	~US\$1.1B	n/a	>US\$1B			
Mkt Size Peak (US\$MMs)	>US\$1.75B	>US\$1.3B	>US\$850M	~US\$700M	>US\$3.5B	>US\$1.8B	>US\$2.5B	>US\$2.3B			
	Retail Count: Operational/Licensed				Retail Count: Operational/Licensed						
 verano	31/ unlimited	6/9	4/5	4/4	8/10	2/2	1/3	5/5	11.1x		C\$7,131
 curaleaf	36/ unlimited	10/18	2/2	4/4	9/10	4/7	1/3	8/9	17.0x		C\$14,143
 GTI	7/ unlimited	13/18	5/5	3/4	8/10	1/3	1/3		15.4x		C\$8,494
 CRESCO LABS	7/ unlimited	3/6	5/5	0/4	10/10	1/3		1/1	12.5x		C\$6,586
 Trulieve	78/ unlimited	3/3				0/3			12.1x		C\$6,970
 TERRASCEND		3/3		Cultivation			1/3		11.7x		C\$2,775
 COLUMBIA CARE	14/ unlimited	3/3	5/5	3/4	2/2	3/3	1/3	2/2	8.0x		C\$2,946
 ayr	31/ unlimited	2/6	Cultivation			2/4	3/3	3/3	9.2x		C\$2,801
 Jushi		11/18	Cultivation		4/4				15.3x		C\$2,069
 HARVEST	6/ unlimited	8/15	0/3	3/4				15/19	8.6x		C\$1,644
 vireo				1/1		0/3		1/1	12.0x		C\$595
 Acreage HOLDINGS		Cultivation	5/5		2/2	2/12	2/3		6.1x		C\$610
 MedMen	4/ unlimited				1/2	0/2		HFS	16.9x		C\$400

 No retail licenses held

 Modest exposure

 Notable exposure

 Competing for top position in the state

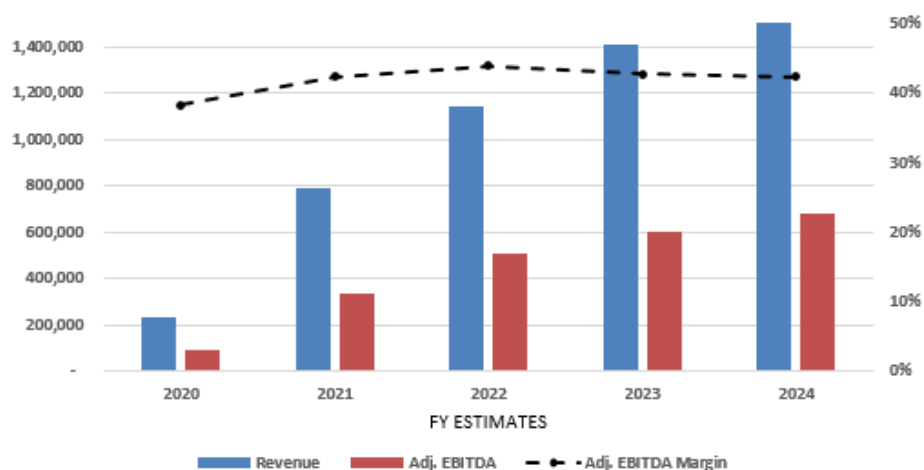
Source: Company Reports, Canaccord Genuity estimates

## Estimates and valuation

As of its most recent reported quarter (Q3/20), Verano was operating at pro-rated annual revenues >US\$200M, or **>US\$320M** inclusive of contribution from AltMed (which subsequently closed in Feb/2021). With the leading brand in Illinois' growing recreational market, a further 12 locations in Florida slated to open in 2021 and a total of nine additional stores in IL, NJ, OH and NV scheduled to open in the coming weeks/months, we expect Verano will realize significant YoY growth in 2021.

Refer below for our near-to-medium-term forecasts, which call for pro forma 2021 revenue and adj. EBITDA of **US\$830M** and **US\$335M**, respectively.

**Figure 12: Verano: 2020 to 2024 CG estimates (US\$000s)**



Source: Company Reports, Canaccord Genuity estimates

**Figure 13: Verano: 2020 to 2022 CG estimates (US\$MM)**

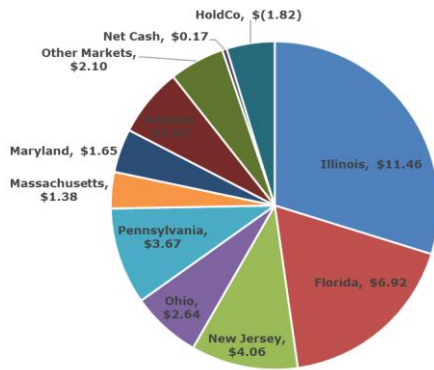
US\$MM	2020E	2021E	2022E
Pro Forma Revenue	\$ 354.7	\$ 830.5	\$ 1,146.9
Revenue	\$ 233.1	\$ 791.7	\$ 1,146.9
Adj. EBITDA	\$ 89.4	\$ 335.2	\$ 504.3
Adj. EBITDA %	38.3%	42.3%	44.0%

Source: Company Reports, Canaccord Genuity estimates

We have performed a sum-of-the-parts valuation of VRNO for each market where it currently has exposure. In our valuation we utilize a DCF methodology, with discount rates ranging from 8% to 12% and a terminal growth rate of 2%. Our SOTP analysis results in a *forward* valuation of C\$34.84 per share, representing **16.3x** our CY2022E EV/EBITDA, compared to the *current* valuations of other leadings MSOs that already average ~14.2x.

As a result, we are initiating coverage of VRNO with a **C\$35.00** price target and a **SPECULATIVE BUY** rating. Due to the risks and uncertainties surrounding execution, regulatory changes, licensing and other market factors, we believe a SPECULATIVE BUY rating is appropriate at this time.

Figure 14: Verano SOTP Pie Chart



Source: Canaccord Genuity estimates

Figure 15: Verano: SOTP Valuation

SOTP Valuation	C\$ per share	Value (C\$ MM)	CY2022 EV/EBITDA	CY2022 EBITDA (C\$)
Illinois	\$ 11.46	\$ 3,477	16.4x	\$ 212.7
Florida	\$ 6.92	\$ 2,098	18.0x	\$ 116.4
New Jersey	\$ 4.06	\$ 1,231	18.4x	\$ 66.9
Ohio	\$ 2.64	\$ 801	26.3x	\$ 30.5
Pennsylvania	\$ 3.67	\$ 1,115	20.6x	\$ 54.1
Massachusetts	\$ 1.38	\$ 419	11.5x	\$ 36.4
Maryland	\$ 1.65	\$ 502	17.5x	\$ 28.7
Arizona	\$ 2.61	\$ 791	14.4x	\$ 54.8
Other Markets	\$ 2.10	\$ 636	14.1x	\$ 45.0
Net Cash	\$ 0.17	\$ 52	n/a	n/a
HoldCo	\$ (1.82)	\$ (553)	n/a	\$ -
<b>SOTP Valuation</b>	<b>\$ 34.84</b>	<b>\$ 10,568</b>	<b>16.3x</b>	<b>\$ 645.5</b>

Source: Canaccord Genuity estimates

### VRNO trades at a significant discount to MSO peers

VRNO currently trades at ~11.1x our CY2022E EV/EBITDA estimate, a discount to the overall MSO peer average of ~11.8x and the leadings MSOs at ~14.2x.

Although we believe that a discount to the leading MSOs in the space by size and scale (CURA, GTII, TRUL) is likely warranted as the company continues to execute its national rollout, we believe that the implied ~22% discount to the leaders in the space is slightly overdone and leaves further upside for VRNO given its existing exposure in many of the US's most attractive cannabis markets to date.

Figure 16: US MSO Comp Table

Cannabis Company	Coverage	Ticker	Share Price (\$)	Rating	Market Cap (M)	EV/EBITDA		EV/Revenue	
						CY2021E	CY2022E	CY2021E	CY2022E
IAN + MPX	Bottomley	IAN	0.35			Restricted			
Trulieve	Dley	TRUL	58.19	SPEC BUY	\$ 6,970	14.7x	12.1x	7.0x	5.6x
Green Thumb Industries	Bottomley	GTII	38.80	SPEC BUY	\$ 8,494	22.1x	15.4x	7.7x	5.7x
MedMen	Bottomley	MMEN	0.49	SELL	\$ 400	N/A	16.9x	3.7x	2.8x
Curaleaf	Bottomley	CURA	19.75	SPEC BUY	\$ 14,143	28.0x	17.0x	8.2x	5.5x
Harvest Health and Recreation	Bottomley	HARV	4.04	SPEC BUY	\$ 1,644	14.2x	8.6x	4.1x	3.2x
Columbia Care Health & Wellness	Bottomley	CCHW	7.75	SPEC BUY	\$ 2,946	20.0x	8.0x	4.2x	2.7x
Cresco	Dley	CL	16.24	SPEC BUY	\$ 6,586	18.0x	12.5x	6.0x	4.3x
Acreage	Bottomley	ACRG.B.USD	4.13	SPEC BUY	\$ 610	15.3x	6.1x	2.3x	1.4x
Vireo	Bottomley	VREO	3.52	SPEC BUY	\$ 595	28.2x	12.0x	6.1x	4.1x
Jushi Holdings Inc	Burleson	JUSH	8.38	SPEC BUY	\$ 2,069	34.6x	15.3x	6.7x	4.4x
Ayr Strategies Inc.	Bottomley	AYR.A	41.00	SPEC BUY	\$ 2,801	14.0x	9.2x	5.4x	3.3x
Average of U.S. companies						19.3x	11.8x	5.1x	3.6x
Average (CL/CURA/GTI/TRUL)						20.7x	14.2x	7.2x	5.3x
Average of Cdn companies						246.7x	75.8x	25.5x	16.5x
Verano Holdings	Bottomley	VRNO	23.51	SPEC BUY	\$ 7,131	16.7x	11.1x	6.7x	4.9x

Source: Company Reports, Canaccord Genuity estimates

Canaccord Genuity Corp. acted as financial advisor and provided a fairness opinion to Acreage Holdings Inc. in its proposed transaction with Canopy Growth Corp. Canaccord Genuity is acting as a Financial Advisor to Columbia Care Health and Wellness in connection with its proposed acquisition of Green Leaf Medical. Canaccord Genuity is acting as a Financial Advisor to Ayr Strategies in connection with its proposed acquisition of Liberty Health Sciences.

### **Well-aligned and experienced management team**

With operations that date back to 2014/2015, Verano has built a senior management team that has a wide breadth of experience in finance, consumer packaged goods, real estate, hospitality/service and various other entrepreneurial endeavors. We believe management is well aligned with company objectives, as insiders collectively hold **>20%** of the outstanding shares of VRNO.

## Overview of Verano's assets, operations and geographic exposure

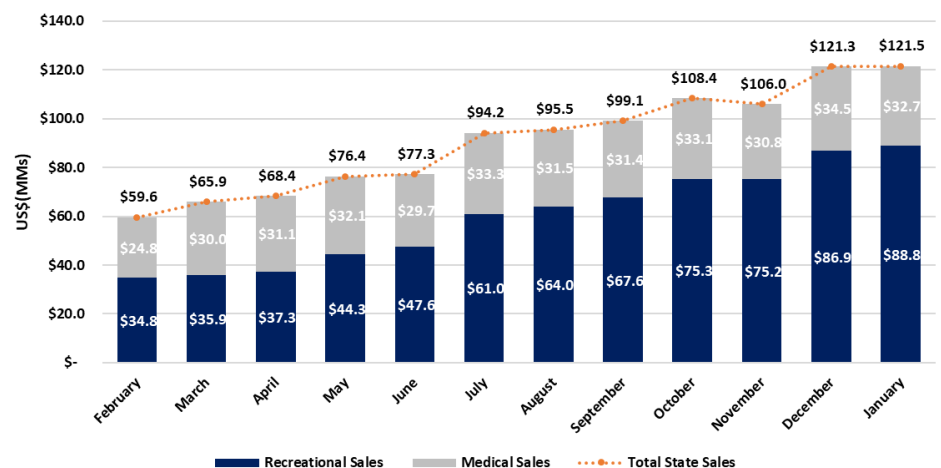
### Illinois: Competing for a top spot in the United States' fastest growing recreational market

Verano launched its cannabis operations as part of Illinois' medical cannabis program back in 2015 and currently operates a total of eight dispensaries (including its most recently announced acquisition of the Herbal Care Center) in the state with licenses in hand to reach the current state cap of 10 dispensaries (one of only four IL operators with this ability). The company is already the leading wholesaler in Illinois (#1 by branded sales) with products in virtually all of the state's dispensaries and an overall top-3 market share by retail dollars (along with Cresco Labs and Green Thumb Industries).

Under current regulations, the state allows access to medical cannabis for patients suffering from any one of 40+ approved indications. The program, which is now serviced by ~55 licensed medical dispensaries statewide (all of which are wholesale customers for Verano), has resulted in a fairly healthy registered patient base that currently sits at ~146,000 patients (~1.1% penetration).

On the adult-use front, after running for office and winning on a pro-cannabis platform, Governor J.B. Pritzker ultimately pushed through the first state-legislated recreational marijuana regulations in the country, which officially kicked off in January 2020 (with Verano among the first 43 operators to open its doors for recreational sales). Under the enacted law, incumbent medical operators were allowed to open a second (adult-use only) retail location, with a further 75 store licenses that were slated for assignment in 2020. However, these licenses are currently tied up in legal proceedings.

**Figure 17: Illinois State recreational sales**



Source: Illinois Department of Public Health, Canaccord Genuity

As illustrated above, during the first year of adult-use sales, the IL market reached a peak 62 licensed dispensaries and generated ~US\$669M in adult-use revenues (impressive, in our view, given challenged supply channels throughout a majority of H1/20). Inclusive of medical sales, the state generated >US\$1.0B in revenues in 2020; however, we believe that there remains significant room for expansion as operators build out their cultivation facilities to combat supply imbalances prevalent today.

We estimate that IL can support annual recreational and medical sales of ~**US\$3.5B** over the long-term with VRNO likely holding a market share of >15% in this growing market.

Verano operates the full vertical sweep of licenses in the state. It runs a sole large-scale cultivation and processing facility in Albion and has secured eight dispensaries that are currently generating sales. In addition, Verano is only one of four operators able to open the state maximum 10 dispensary licenses and has plans to operationalize these assets over the short term.

#### Cultivation/production

As one of the leading wholesalers in the state, Verano operates a large-scale cultivation (indoor and greenhouse) operation in Albion, IL (one of 22 licenses issued in the state). The company just came off an expansion cycle (in Q4/20), resulting in an existing cultivation/production footprint of ~**192,000 sq. ft.** We believe this should help contribute to the company's leading wholesale position in Illinois along with sufficient capacity to supply the state's growing adult-use market, which we believe still has **>3x** upside from current levels.

#### Retail dispensaries

Although Verano has historically targeted branded sales via the wholesale market, the company has also made a concerted effort to scale up its retail footprint as of late. Originally entering the recreational market with two locations, Verano has increased its footprint to now sit at eight active dispensaries (seven of which sell into the adult-use market), with licenses in hand to open a further two locations as they see fit (both equipped for recreational sales). As a result, we expect Verano to be operating at the current state maximum of 10 retail locations in the relatively near term. We further examine these locations below:

**Figure 18: ZenLeaf Prospect Heights**

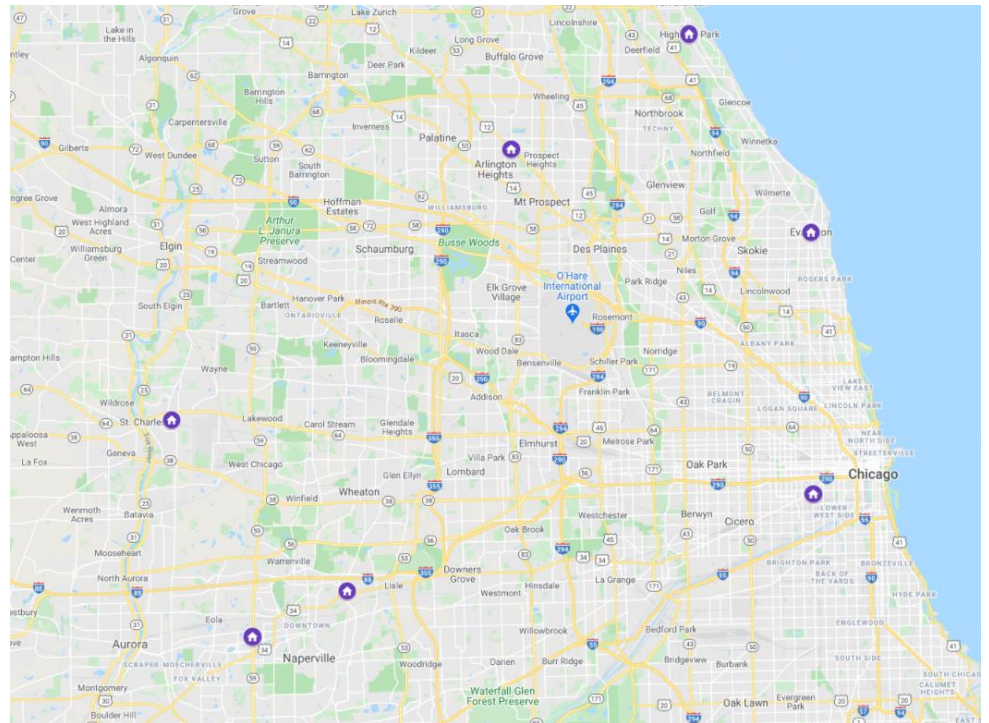


Source: Company reports; Canaccord Genuity

- **Charleston.** Verano operates an adult-use only location in Charleston, a city with a population of ~20,000 residents.
- **Naperville.** The company operates a second adult-use only location in Naperville, a city located within the Western Suburbs of Chicago and houses a population of ~150,000 residents.
- **St. Charles.** St. Charles is part of the greater Chicago Area, located ~40 miles west of the city core. This location operates on a rotational structure where operating hours are cycled between medical patients and adult-use customers. The city holds a population of ~30,000 individuals, and Verano operates its only dispensary.
- **Aurora.** Aurora is an adult-use only dispensary and located just outside of the greater Chicago area. The city houses a population of ~200,000 residents and is party to only one other dispensary.
- **Prospect Heights.** The company's Prospect Heights location (adult use only) operates in a city with ~16,000 immediate residents and the only dispensary competing in the area.
- **Evanston.** One of Verano's newer stores has been constructed in Evanston, an area only 12 miles North of Downtown Chicago, with an immediate population of ~75,000 residents. The location is set to service both medical and adult-use demand.
- **Highland Park.** This location, much like the Evanston site, is just 25 miles north of Downtown Chicago and holds a population of ~30,000 people.
- **Chicago.** More recently, Verano announced the acquisition of an additional Chicago-based dispensary. The transaction includes rights to a dual purpose (med/rec) dispensary currently conducting business under the "The Herbal Care Center" banner. The store is located in Chicago's Medical District, an area which commands >50,000 visitors daily. In addition, the agreement

gives rights to operate another adult-use location in the city's West Loop/Greektown neighbourhood that we believe will be top priority for opening as Chicago is the third largest city in the US with >2.7M residents. Consideration for both sites includes US\$17.5M of cash and ~904,642 Class A shares.

**Figure 19: Verano's dispensary locations in Greater Chicago Area**



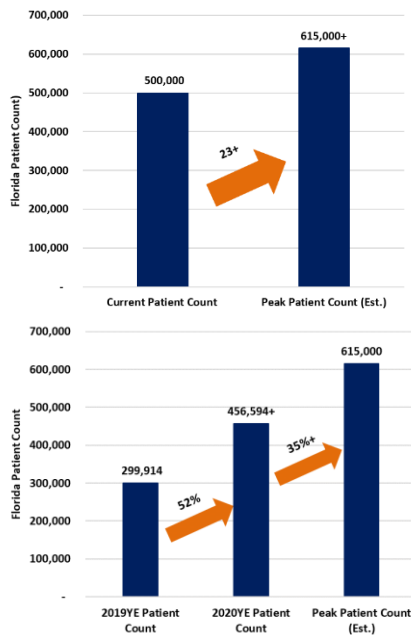
Source: Google Maps, Canaccord Genuity estimates

### **Florida: Acquisition of AltMed provides significant exposure to Florida's growing medical market**

As part of its reverse takeover go-public process, Verano concurrently closed its acquisition of Alternative Medical Enterprises LLC. AltMed is the #4 operator in Florida's medical cannabis market (by store count) and is currently competing for the #2 market share in the state along with Curaleaf and Surterra Wellness (with Trulieve as the incumbent market share leader). As consideration, AltMed shareholders now own ~23% of the combined public entity (~64M VRNO shares) and received a cash payment of ~US\$35M.

The medical cannabis program in Florida began in 2014, with the passing of the Compassionate Medical Cannabis Act that allowed CBD, or cannabis with <0.8% THC, to be sold to patients with epilepsy and cancer. At the time, the licensing was very restrictive and reflected stringent examination criteria for applicants. It was not until a November 2016 ballot initiative that a broader Florida Medical Marijuana Legalization Initiative was passed, with an overwhelming 71.3% of voter support.

Figure 20: FL patient count growth



Source: OMMU, Canaccord Genuity

After a number of refinements to the regulations over the past few years (the addition of smokable flower, edibles and overall retail expansion), Florida's medical cannabis markets has grown to ~500,000 patients, with ~2,600 participating physicians, and >300 retail locations currently servicing the state. Ignoring the potential for recreational legalization (discussed further below), we still believe the FL medical market could see another 30%+ upside in its current registered patient base as the state continue to mature.

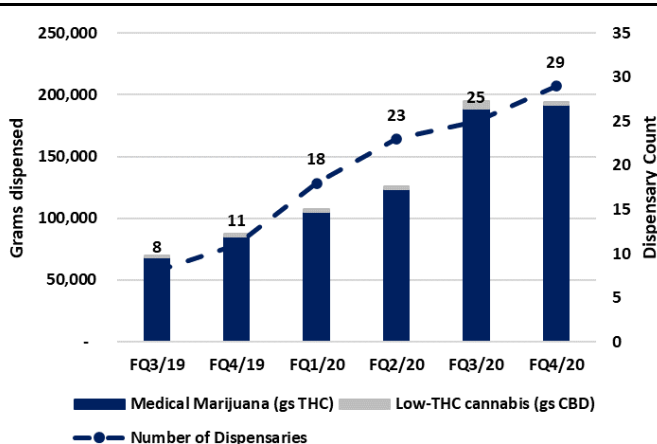
In June 2017, the Florida legislature passed legislation to implement the expanded medical program and allowed license holders in Florida to open 30 store locations (25 initially, and for every 100,000 patients added, the license holder could open an additional five). Regulators have since shifted their stance and adopted a more free-market approach for state operator growth, eliminating dispensary caps altogether for each of the 22 medical marijuana treatment centers (14 have active retail operations today). We believe many of the top players in the state have executed on their first-mover advantage by building strong relationships with physicians and medical networks, allowing for a high interception rate on the number of new patients entering the program and growing their platform.

We believe Florida represents the most attractive medical cannabis market in the US today. We estimate that as of the end of 2020, the state was operating at a total sales run rate of ~**US\$1.3B**, with a mandated 100% vertically integrated license structure that has resulted in some of the highest margin profiles in the sector. We believe the above TAM still has the potential to eclipse US\$1.75B from medical sales alone, with a longer-term upside of >**US\$5B** should recreational cannabis become legalized in the state.

AltMed has **31** FL retail locations up and running under the "MÜV" brand banner (supported by ~220,000 sq. ft. of cultivation capacity) with plans to open 12 more locations by the end of this year. We note that AltMed has made substantial progress in Florida after bypassing many of the state's second-tier operators (by market share) with 13 new store openings over the past 12 months.

Inclusive of an additional retail store in AZ, the company reported ~**US\$87.3M** of net revenues for the nine months ended Sept/2020 (and expected to be ~US\$105M for the full year) with a market share in FL of ~**9.0%** (and growing). As of January 2021, the company indicated that AltMed's combined gross revenues are currently running at close to a US\$160M run rate. As a result, we believe AltMed is now competing for a top spot in the Florida medical cannabis market (after Trulieve).

Figure 21: AltMed retail growth vs. mg's dispensed



Source: OMMU, Canaccord Genuity

Figure 22: AltMed Market share by volume in Florida

Licensee	Trailing 12M		Trailing 3M	
	THC/CBD	Flower	THC/CBD	Flower
Trulieve	50.6%	53.5%	48.7%	51.3%
Surterra Wellness	11.3%	9.9%	12.1%	10.2%
<b>AltMed Florida</b>	<b>10.3%</b>	<b>7.2%</b>	<b>10.5%</b>	<b>7.4%</b>
Curaleaf	9.1%	6.9%	8.3%	7.4%
Liberty Health Sciences	5.2%	5.2%	5.8%	4.0%
Grow Healthy	3.9%	5.8%	4.5%	6.6%
Fluent	4.4%	2.7%	3.6%	2.3%

Source: OMMU, Canaccord Genuity

From a recreational standpoint, Florida has not been as liberal as other markets after failing to garner sufficient support to include adult-use legalization on the 2020 ballot. Two prominent lobbying groups (Make it Legal Florida and Regulate Florida) are driving to secure placement on the ballot, but both groups are still shy of the 891,589 required signatures for placement on the 2022 ballot (with Make it Legal at 555,280 signatures and Regulate Florida at 65,778). Legalization through legislative channels also faces challenges, given that Governor Ron DeSantis (a stark opponent of recreational cannabis) has committed to disallowing regulation of the plant while under his leadership. However, as the sentiment towards full cannabis legalization continues to steadily improve (particularly on a state-by-state level), we believe Florida eventually going recreationally legal is likely more of a question of 'when' as opposed to 'if' it will occur.

#### Cultivation

AltMed currently operates a large-scale facility located in Apollo Beach, Florida, that has a cultivation/production footprint of ~**220,000 sq. ft** and includes a 6,000 sq. ft. edibles kitchen after the state opened regulations to allow for the format. We believe AltMed's existing infrastructure is sufficient for the company to continue competing for a top spot in FL's medical market with plans to increase its existing retail store count by >40% by the end of 2021.

**Figure 23: Inside's AltMed cultivation facility**



Source: MJBizDaily

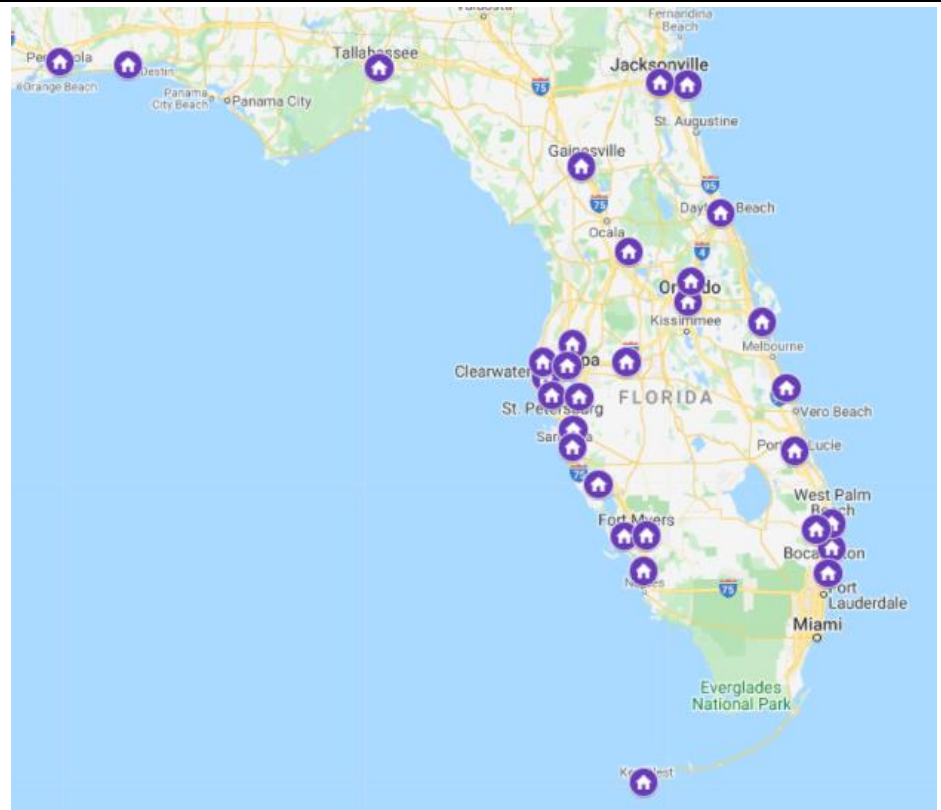
#### Retail dispensaries

AltMed currently operates **31** retail locations (all under the MÜV banner) in Florida (the fourth largest operator by store count) that have already serviced >150,000 unique patients. Operators in Florida are typically focused on widening their retail footprint – given that expanded access has been the largest growth driver in the state – and we note that AltMed has 12 additional stores in various stages of development throughout the state.

Below, we illustrate AltMed's existing retail footprint in Florida.

müv™

Figure 24: Florida retail footprint



Source: Google Maps, Canaccord Genuity

Figure 25: Inside Sarasota dispensary



Source: Company Reports

Figure 26: Outside MÜV Lakeland



Source: Lakeland Ledger

Figure 27: Inside MÜV Wellington



Source: Leafly

### New Jersey: The next big US recreational market to go rec legal

In January 2010, New Jersey signed into law the Compassionate Use Medical Marijuana Act, legalizing the sale of medical cannabis for certain medical indications. Initially, regulations allowed only for certain debilitating diseases to be included in the program. However, in 2018, Governor Phil Murphy signed an executive order significantly expanding the state's medical cannabis program (with 20+ new indications added). As a result, we have seen a large uptick in patient enrollment, which currently sits at >~100,000 patients. With only 13 dispensaries (of a possible 36) opened in the state medical program, we see significant room for growth in the

medical market independent of adult-use sales, which are likely to commence in the back half of 2021.

On the recreational front, during the November 2020 ballot initiatives, residents of New Jersey voted in favour of adult-use cannabis. The ballot measure, referred to as "New Jersey Public Question 1, the Marijuana Legalization Amendment" is set to bring about the following conditions: (1) legalization of adult-use of marijuana for adults 21 years old and older; (2) legalizing the cultivation, processing and sale of retail marijuana and; (3) applying a 6.625% sales tax. Although details on the ultimate number of licenses to be granted remain undecided, we believe incumbent operators are set to benefit from a significant first-mover advantage when this market kicks off later this year.

Verano currently holds 1 of only 12 vertically integrated license in New Jersey via the Department of Health. Each licensee is permitted to open a total of three dispensaries and a cultivation/production facility. We believe license holders with operations up and running, such as Verano (with one retail location already open and a ~120,000 sq. ft. production facility), are positioned to generate substantial top-line contributions upon the commencement of recreational sales in New Jersey (expected in H2/2021). At peak, we forecast NJ to be able to support >**US\$2.5B** in annual sales.

### **Cultivation/Production**

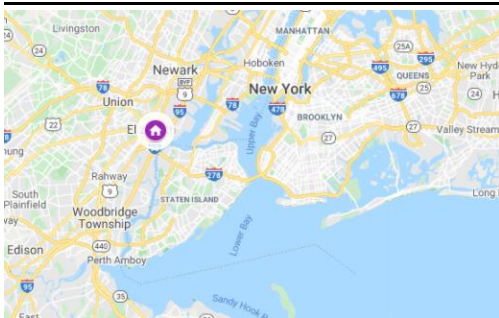
Verano owns a 120,000 sq. ft. production facility that previously served as a Walmart shopping center. The facility is currently undergoing a staggered construction process that is expected to be fully built out by February 2022. The company believes its facility is one of the largest amongst its peers, which positions the company favourably ahead of the recreational market coming online (as supply constraints usually act as a modest headwind against growth in newly implemented markets).

### **Retail dispensaries**

Per NJ medical marijuana licensing rules, the company is permitted to open three alternative treatment centers (dispensaries). In May 2020, the company opened its first retail location (in Elizabeth) and is expected to open an additional two stores in the townships of Lawrence and Neptune by the end of this quarter.

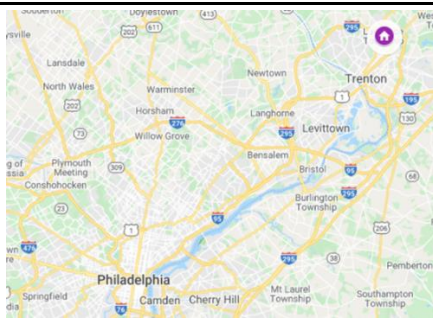
- **Elizabeth.** Located in southeastern NJ, the dispensary is on the border of New York and a short drive from Staten Island. The dispensary was opened in May 2020 and will operate as a hybrid medical/adult-use store upon recreational markets coming online. To date, this dispensary has helped Verano introduce its brand portfolio of medical cannabis products to the New Jersey market.
- **Lawrence.** Located on the border of Philadelphia, this dispensary location will be opening later this year (expected end of Q1/21).
- **Neptune.** Verano expects to open this store location by the end of Q1/21.

Figure 28: VRNO Elizabeth location



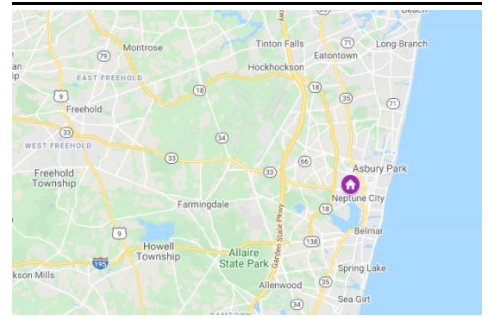
Source: Google Maps, Canaccord Genuity

Figure 29: VRNO Lawrence Township (Opening 2021)



Source: Google Maps, Canaccord Genuity

Figure 30: VRNO Neptune Township (Opening 2021)



Source: Google Maps, Canaccord Genuity

### Pennsylvania: Increasing its retail exposure in one of the fastest growing medical markets in the US

Pennsylvania legalized and established its medical cannabis regulations in mid-2016 (allowing for over a dozen qualifying conditions, including chronic pain). The state is currently in the midst of implementing its regulated market. Pennsylvania is planning to issue a total of 25 cultivation/producer licenses and 50 dispensary permits (that will allow for up to three locations), or ~150 dispensaries in total. The state has so far issued 13 cultivation/production licenses and 106 retail licenses (excluding four clinical registrant licenses allowing for cultivation/processing and six dispensaries).

Pennsylvania's medical program remained fairly muted until mid-2018, when the state amended its regulations to include dry flower while adding three additional qualifying conditions. As a result, Pennsylvania has seen its enrolled patient base reach >460,000 registrants (up >100% in H2/20). With the fifth-largest population in the US at just under 13M, we believe Pennsylvania represents one of the more attractive East Coast medical markets and could eventually grow from a roughly US\$500M market today to a peak annual medical revenue opportunity of **>US\$1B** at maturity (and **~US\$3.5B** should the state legalize recreational cannabis)

Although Verano has historically maintained somewhat of a modest exposure to the PA market, management recognized the merits of meaningful entry in that region and has quickly begun increasing its PA footprint once the company tapped public markets. Verano initially held one medical license, which allowed it to open three locations (all already operating under the ZenLeaf brand); however, it acquired two additional licenses (one naked and one operating what management believes to be three of the state's top-performing dispensaries) for total consideration of US\$69.9M and ~4,346,673 Class A shares. As a result, VRNO currently operates six locations in PA with the ability to open an additional three locations. We examine the existing locations below:

- **Harrisburg.** Harrisburg is the fourth most populous city in the state, with an immediate population of ~575k. The location operates under the ZenLeaf banner.
- **York.** The company's York dispensary is housed in a community with >100,000 residents and is only ~20 miles from the Maryland border. The location operates under the ZenLeaf banner.
- **Altoona.** The company expects to open its Altoona location in January 2021 to a population of ~45,000 residents. The location operates under the ZenLeaf banner.

- **Sellersville.** A suburb of Philadelphia, Sellersville is located only ~35 miles from the city of Brotherly Love and houses an immediate population of less than 5,000 residents.
- **Abington.** Abington is the second most populous township in Montgomery County with an immediate population of >55,000 residents.
- **Malvern.** Located in the suburbs of Philadelphia, the borough houses ~3,500 residents.

Although the company does not yet have its own cultivation/production site in the state, AltMed Arizona has already secured a license agreement with NuTræ that will see its MÜV-branded cannabis products enter the Pennsylvania market.

**Figure 31: Outside Harrisburg dispensary**



Source: Company Reports

**Figure 32: Inside Harrisburg dispensary**



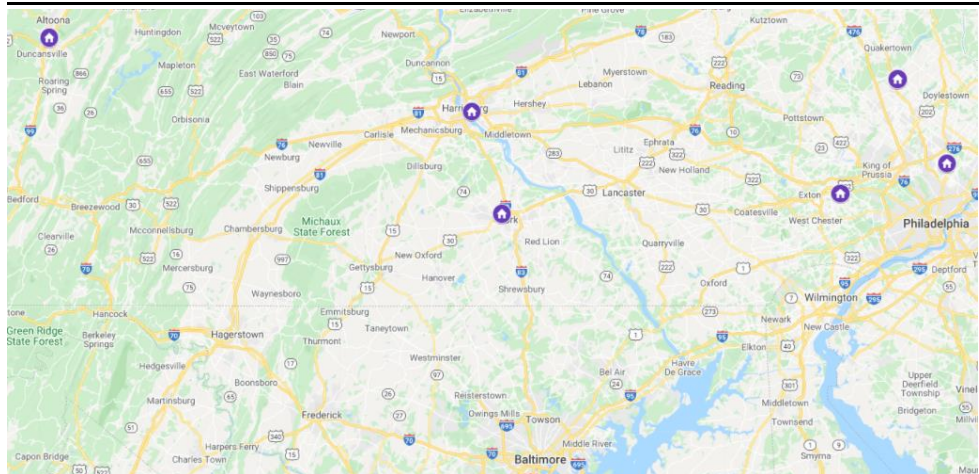
Source: Company Reports

**Figure 33: Outside York dispensary**



Source: Company Reports

**Figure 34: PA retail map**



Source: Google Maps, Canaccord Genuity estimates

On the recreational front, the prospect for adult-use cannabis has gathered a lot of attention from Pennsylvania Governor Tom Wolf. Notwithstanding the obvious financial benefits a legalized recreational program could have on depleted state coffers (as many states ran budget shortfalls to combat the impact of COVID-19), New Jersey's decision to legalize recreational cannabis as part of the 2020 ballot initiative is expected to be the catalyst for further adult-use reform across states in the Mid-Atlantic region. To this end, Pennsylvania Lt. Governor John Fetterman met virtually with his counterparts in Illinois and Michigan to seek advice on instituting a legal cannabis market with a focus on the actual passage of a recreational law through legislation, taxation and social equity.

Given increased support from senior officials within the PA legislature and general voter support for an adult-use framework, we believe Pennsylvania could represent one of the next major markets to transition to adult use (potentially within the next 12 months).

### **Arizona: Vertically integrated and rec legal**

Arizona's medical cannabis market was introduced in November 2010 through the passing of the Arizona Medical Marijuana Act (AMMA). Currently, there are 130 dispensary licences issued (>120 dispensaries in operation), which permit each licence holder to operate one cultivation facility, one processing facility and one retail dispensary – i.e., a fully vertically integrated model. Arizona has ~300,000 qualifying patients as at December 2020 and growing at a rate of ~4,000 patients/month. Perhaps most importantly, the state has pegged the number of cannabis dispensary locations at 10% of the total number of pharmacies in Arizona. As a result, we believe this provides moderate-to-high barriers to entry, due to the finite number of permitted retail locations.

On November 3, Arizona passed Proposition 207 (Marijuana Legalization Initiative), effectively legalizing adult-use cannabis in the state. On January 22, 2021, select operators began realizing recreational sales as the program officially kicked off. We believe the AZ medical and rec market has the potential to reach an annual revenue opportunity of ~US\$2.2B in the coming years.

Verano gained exposure to the Arizona market after acquiring AltMed (as previously discussed). The company is vertically integrated and operates a high-traffic MÜV dispensary in Phoenix and a 30,000 sq. ft. indoor cultivation facility in Coolridge, AZ which is currently in the process of being expanded by another 60,000 sq. ft. Subsequently, the company acquired Murff & Company LLC (another AZ-based operator), which added exposure to a further three dispensaries and ~20,000 sq. ft. of licensed capacity in addition to acquiring a sole dispensary operating under the "Emerald" banner from Nabis Holdings Inc.

### **Cultivation**

After closing all pending M&A, Verano will operate two separate cultivation/production sites in the state. The first, which was acquired as part of the AltMed merger, is a 30,000 sq. ft. indoor cultivation facility located in Coolridge, AZ. Recognizing the potential inherent in the AZ market (with adult-use sales kicking off in January 2021), the company previously embarked on a plan to increase the facility space approximately two-fold.

More recently, in a series of transactions, Verano acquired four more operating retail locations and ~20,000 sq. ft. of additional cultivation capacity for total proceeds of ~US\$20M in cash and ~4.5M shares of VRNO.

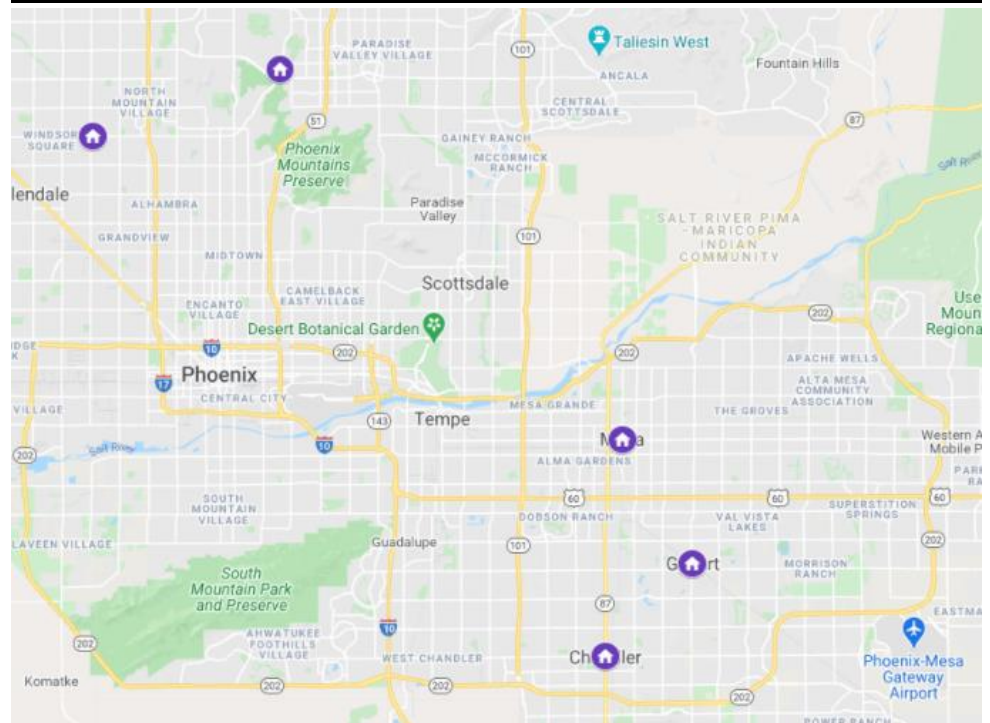
### **Retail**

Verano currently operates four dispensaries in the state; however, given that the locations result from recent M&A activity, none of the four dispensaries operate under the ZenLeaf banner. We highlight the four locations below:

- **Phoenix (two stores).** Phoenix is the largest city in the state (and the fifth largest in the US) with an immediate population of 1.7M+ residents. Management has indicated its desire to re-locate the store, which was acquired in the AltMed transaction, to a flagship location operating under the ZenLeaf moniker. In addition, the recently acquired Emerald dispensary (February 2021) is located in the city.
- **Mesa.** As one of three locations acquired from Murff & Company, the Mesa location is new to the Verano portfolio. The city is the third most populous region in the state, with >500,000 residents in its immediate confines.

- **Chandler.** Chandler is located in the outer skirts of the Phoenix metropolitan area. The city is home to >250,000 residents.
- **Gilbert.** Gilbert is located adjacent to both Chandler and Mesa. The city has a population >250,000 residents.

**Figure 35: AZ retail map**



Source: Google Maps, Canaccord Genuity estimates

### **Maryland: Vertically integrated with maximum number of allowable retail licenses**

Although not the largest by population, Maryland is one of Verano's core operational markets given that it has already reached critical mass in the state. The company holds licenses across the cultivation and retail verticals, allowing it to solidify a top-three wholesale presence since the program's inception. Further, the company operates the state maximum number of licenses (four retail stores), positioning it as one of the leading players within the state.

To date, Maryland has licensed 16 cultivation facilities, 17 processing sites, five testing labs and 88 retail dispensaries (with a current cap of 102 potential locations). The program has seen large increases in its patient count due to a fairly accepting patient indications list (which includes chronic pain and nausea), resulting in a ~125,000 patient count at the end of FY20 (~41% higher than the previous year). The program ended FY20 at a >US\$500M revenue run rate; we estimate that it can reach peak annual contributions of ~US\$700M (ignoring any potential recreational upside).

Although state-level commentary on adult-use sales has been largely muted to date, we note that legislators plan to introduce a recreational cannabis bill in the upcoming session. The outcome is currently uncertain; however, we believe that continued widespread adoption of recreational cannabis programs in the northeastern corridor of the US should help to propel legislation within Maryland in the coming years.

### Cultivation/production

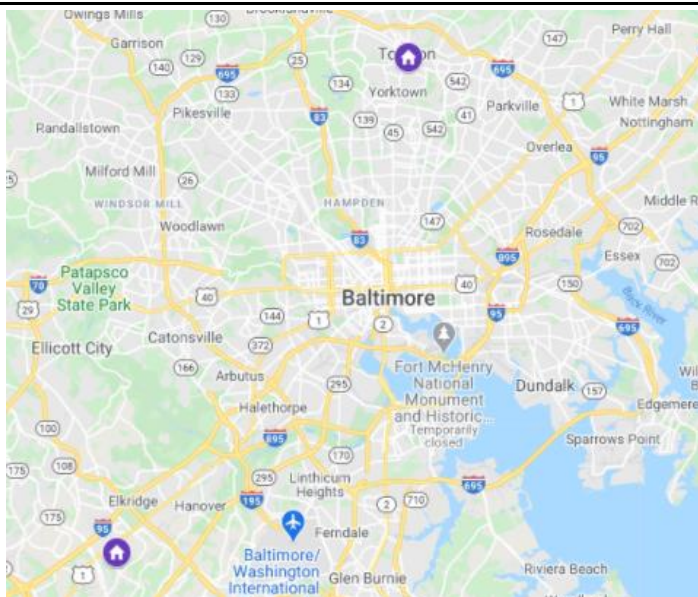
Verano operates one of 16 licensed cultivation facilities in the state, located in Jessup. The site is approved to acquire, possess, cultivate, deliver, transfer, test or supply cannabis to other intermediaries or dispensaries. The company is currently in the midst of an expansion plan at this site that will double its canopy production and is expected to be completed by June 2021 (~38,000 sq. ft.).

### Retail dispensaries

The company holds the state maximum four licenses to operate dispensaries in Maryland. All four locations listed below are operating under the ZenLeaf banner.

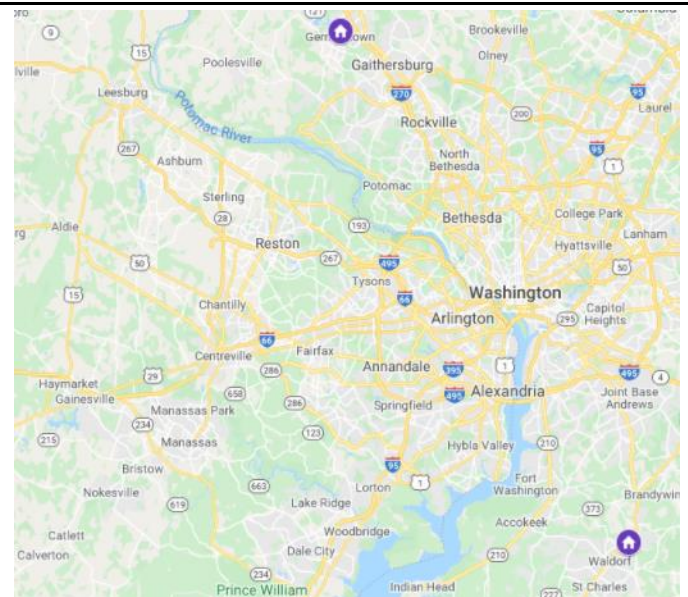
- **Jessup.** This ZenLeaf location shares its home with the company's cultivation site. The city is home to ~10,000 residents but is located less than 10 miles from Baltimore's International Thurgood Marshall airport.
- **Waldorf.** The company's second MD dispensary is located in Waldorf, a city with ~75,000 inhabitants.
- **Towson.** Verano's Towson store is located in Baltimore's surrounding area. The region is home to roughly 58,000 residents within its immediate confines.
- **Germantown.** Verano acquired the Germantown location in July 2019. The city houses just under 100,000 residents, the third-largest population within the state, and serves as the main entertainment hub in Montgomery County.
- **Pasadena (purchase option).** Verano holds a purchase option to acquire a further dispensary that is currently operating under the Oceanside Cannabis banner. Given the four-dispensary license cap in the state, Verano would need to divest one of its existing locations should it choose to exercise on the purchase option.

Figure 36: Baltimore region retail network



Source: Google Maps, Canaccord Genuity

Figure 37: Washington area retail network



Source: Google Maps, Canaccord Genuity

Figure 38: Inside ZenLeaf Waldorf



Source: Company Reports

Figure 39: Outside ZenLeaf Towson



Source: Company Reports

Figure 40: Inside ZenLeaf Jessup



Source: Company Reports

### Ohio: One of only a handful of players with full vertical integration

In September 2016, Ohio legalized the use of medical cannabis for a specified list of indications. Currently, market entrants need to secure licenses for individual activities across the entire supply chain vertical: cultivation, processing, testing, and dispensary. As a result, it is rare for operators to be 100% vertically integrated in this market (unlike most other states). As of September 2018, the program has elected to employ a soft-cap on licenses (wherein it examines market factors such as patient count/product stock-outs, etc. to determine medical demand and the need for additional cultivation/processing/ retail license grants). However, we note that regulators have yet to increase license caps as they continue to transition existing operators from provisional to final licenses.

To date, the state has issued 48 processor licenses (27 of which are operational), 15 of 19 level 1 cultivation licenses (max 24 licenses under current regulation), 12 of 14 Level 2 cultivation licenses (max 24 licenses under current regulations), and 52 of 57 dispensary licenses (max 60 licenses under current regulations).

Given the relatively nascent stage of the market, we believe that Verano is well positioned to compete for a leading position in Ohio as one of only a handful of operators that has secured all licence types (cultivation, production and retail), including the four retail dispensaries (with plans to reach a state maximum five via M&A). Although the market is just now beginning to pick up steam (with a respectable ~US\$300M run rate as of January 2021), we believe Verano's positioning in OH represents yet another state where it will likely be competing for a top spot with a peak medical-only revenue opportunity of **>US\$850M** (CG estimate).

### Cultivation/production

Verano operates in OH under the Mother Grows Best title. The company originally carved out space in Canton to locate its Level 2 grow operation but has since expanded to include manufacturing capabilities after receiving a processing license in Jan 2019. Its site currently sits at a footprint of ~22,000 sq. ft.

In addition, we note that AltMed Arizona had previously secured distribution of its products into the OH market (via a relationship with NuTrae) that offers differentiated distribution for Verano products upon transaction close.

### Retail dispensaries

Verano currently has exposure to four retail dispensaries in Ohio and is eyeing opportunities to add a fifth location – effectively bringing it to the state’s existing cap per licensee. A summary of the four existing locations is provided below.

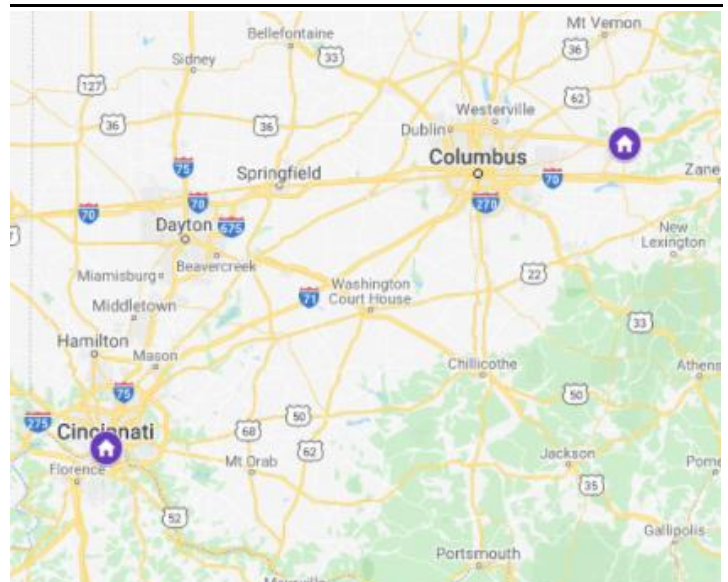
- **Canton.** Operating under the ZenLeaf brand, the location was originally licensed to Mother Knows Best and operated in tandem with the company’s grow site. Although the immediate city houses only ~70k residents, we note that the surrounding area is home to a much larger >400k population and is underrepresented relative to other regions in the state.
- **Newark.** Verano acquired the location in January 2019 from Ohio Green Therapies, LLC. The area houses a population of <50,000 residents, however, is one of only three operators within the country (Licking County holds ~175k residents).
- **Cincinnati.** Verano acquired an ~51% interest in Green RX, LLC, a company which operated the Have a Heart Cincy dispensary. Cincinnati is the fourth-largest city in the state and has a greater area that supports >2M residents.
- **Bowling Green.** Verano has signed a definitive agreement to purchase Glass City Alternatives, LLC, the operator of the Soothe dispensary in Bowling Green, OH. The dispensary is the only location within Wood County, which has a population of ~130k residents.

Figure 41: North Eastern Ohio exposure



Source: Google Maps, Canaccord Genuity estimates

Figure 42: Central Ohio Exposure



Source: Google Maps, Canaccord Genuity estimates

Figure 43: ZenLeaf Canton



Source: Company Reports

### Other markets where VRNO has exposure

In addition to the assets and geographic exposure outlined above, Verano has exposure to other markets that currently sit at a more modest base but could have longer-term upside/optionality. These markets are further discussed below.

- Massachusetts.** With a medical market that has been in place since 2013, Massachusetts approved a ballot initiative in November 2016 that put in motion the legalization of recreational cannabis, which officially kicked off near the end of 2018 (albeit at a relatively slow pace due to significant hurdles at the municipal level to getting approval for retail openings). With retail infrastructure still limited (with locations in Boston only recently starting to get approved), we note that operators that have been able to open their doors for adult-use sales have experienced some of the highest revenue run rates in the country. As the market continues to evolve, we estimate the state can support an annual revenue potential of **>US\$1.8B** at maturity.

Each licensee in the state is permitted to operate a cultivation/production site (up to ~100,000 sq. ft) and three retail dispensaries. To date, the state has issued all 50 of 50 vertically integrated licenses.

Verano entered the state in 2018 by acquiring an operator, Four Daughters Compassionate Care, Inc., which held provisional licenses for the medical marijuana program. The company has since opened two adult-use dispensaries (in the towns of Plymouth and Sharon) and is in the process of constructing an indoor cultivation facility, with the first grow room expected to come online in early 2021 (at ~26,000 sq. ft.) The company also holds a provisional license for a medical dispensary in Massachusetts.

- Nevada.** In late 2016, Nevada legalized cannabis for recreational use via ballot initiative. Recreational sales began in July 2017. Although the state houses only ~3 million residents, Las Vegas is one of the US's tourist epicenters, attracting up to 45 million tourists each year (pre-pandemic). Las Vegas therefore has a tourism industry capable of significantly increasing the total addressable market for the incumbent dispensaries.

Inclusive of tourism, we believe NV can support annual revenues of well in excess of **US\$1B** once the state reaccelerates its retail openings.

Verano entered the state last year after fully acquiring the membership of two entities in Nevada. The company currently operates a store in Las Vegas and has plans to open an additional two locations by the end of Q1/21. Verano also holds licenses to cultivate and manufacture cannabis (out of an ~42,000 sq. ft. facility) and licenses in hand to open one medical and six adult-use dispensaries.

- **Michigan.** Michigan established its medical cannabis program approximately 10 years ago in December 2008 and regulations were restrictive, allowing access to medical cannabis predominantly for seriously or terminally ill patients. However, the state passed adult-use legislation and has since grown to run-rate revenues of ~US\$1.3B (med/rec). With a population of 10 million residents and a medical market with ~245k registered medical patients, we estimate the MI adult use market to represent an annual revenue opportunity of **~US\$3B** at peak. Given regulatory hiccups which restrained the growth of the Michigan market in the past, we believe there is still considerable room for operators to solidify operations in the fragmented state and gain a first-mover advantage.

Verano currently operates a hybrid medical and adult-use dispensary in Buchanan, MI.

- **Arkansas.** After failing to legalize medical marijuana in 2012 (a vote narrowly lost, with 51% opposition), Arkansas legalized the medical use of marijuana in 2016. In its initial roll-out, the state has implemented stringent qualifying rules for the program, limiting its use to more severe conditions. Although this generally handicaps medical marijuana programs, we note that the state saw a drastic increase in patient counts through FY/20 (ended June 30), resulting in ~66,000 registered patients (~2.2% penetration) to date. The program ended FY/20 with 29 of 33 licensed dispensaries and five of eight licensed cultivators in operation. We believe there is still ample room for the Arkansas medical program to alter its regulations and become more accommodative of hopeful patients.

Verano maintains a modest exposure to the Arkansas market. The company holds a sole dispensary license in El Dorado that it received in an application round that ended September 2017.

- **West Virginia.** West Virginia is another Eastern state that legalized a formal medical marijuana program in 2017 and recently accelerated its pace of roll-out. The state's regulations have expanded its list of qualifying conditions to include chronic pain and common diseases/cancer, which has expanded the addressable market.

On January 29, 2021, the West Virginia Office of Medical Cannabis (OMC) announced winners of the medical dispensary permits, which included seven dispensary permits that were awarded to Verano in the following cities: Oak Hill, Clarksburg, Dunbar, Morgantown, Westover, Wheeling and Buckhannon. The company has been previously approved for cultivation and processing, making it vertically integrated in the state.

- **California.** California was the earliest adopter of medical cannabis (dating back to 1996); however, the state recently became the largest legalized cannabis market in the world, with an adult-use market that kicked off in January 2018. Although the state represents the largest individual market opportunity in the US (>US\$12B at peak, in our view), we note that its

regulations are incredibly complex (at both state and municipal levels) and include thousands of players competing for licenses and market share in virtually all areas of the value chain.

Verano gained exposure to the California market in February 2019, when the company signed a definitive agreement for a three-way joint venture with D9 Manufacturing Inc and G2 Bio, Inc to form DGV Group (DGV). DGV was created to gain entry to the California manufacturing/distribution vertical and has accumulated licenses across the industry (including cultivation, manufacturing, distribution, etc.). In addition, the company has found a home for its operation in Coachella. Verano holds ~73.53% of the outstanding equity in DGV.

- **Missouri.** Although Missouri legalized medical cannabis when it approved Amendment 2 in November 2018, the program only recently began sales (October 2020) when the state's first two dispensaries opened for business. Medical marijuana has already gathered ~65,000 patients but has generated more modest cumulative sales of US\$32.1M since inception - but ending its most recent month at a >US\$170M run rate. Further, although the state does not employ hard license caps, program representatives have stated that they have already issued all licenses expected at this time. As it stands, 15 of 60 licensed cultivation facilities, four of 86 licensed manufacturing facilities, and 33 of 192 licensed dispensaries are approved

Verano holds one manufacturing and one dispensary license in St. Louis and Kansas City, respectively.

## Overview of Verano's in-house brands

As noted above, Verano has employed a multi-brand architecture in its product offerings that currently encompass four core product brands, including **Verano** (core legacy); **MÜV** (acquired via AltMed); **Avexia** (medicinal) and **encore edibles** (confectionary); and two retail store monikers (ZenLeaf and MÜV). Starting in its home state of Illinois, the company has focused on targeting "premium artisanal" cannabis consumers with an aim to drive value through the quality and consistency of their product offerings. We believe the success of Verano's branding initiatives is evidenced by its #1 market share in Illinois by branded product sales even though its overall market position in the state by retail dollars is likely #3. We believe this suggests strong demand for the company's products outside of its own vertically integrated retail locations. To date, the company offers a wide variety of SKUs (from dried bud, pre-rolls, vapes, concentrates, edibles, etc.) that can be found in nearly 350 retail locations throughout the US. A summary of Verano's core brands follows below.



- **Verano** is the company's namesake brand and is mainly distributed, for both adult-use and medical purposes, in IL and MD (along with smaller scale entry into other operational markets). Verano offers a full line of products including premium, hand trimmed flower, vapes, waves, shatters, butters, and other dabble formats.
- **Avexia** is the company's predominant offering into various US medical channels. Avexia's line of products includes high-end medically focused formats such as micro-dosed tablets, balms, bath salts, and other topical/ingestible offerings geared to more low-dosage SKU varieties. The brand is currently available for purchase in Illinois, Maryland and Nevada.
- **Encore** serves as the company's focused edibles line of products. Verano markets the product as handcrafted culinary offerings geared to attract adult-use clientele. The company offers a wide variety of edible formats, including granola bars, into the Nevada market.
- **MÜV** brand was acquired in the transaction for AltMed. The brand is currently distributed by AltMed into Arizona (in >90 dispensaries) and Florida, as well Ohio, Pennsylvania and Canada through licensing agreements. The brand markets under a full line of flower, vapes, concentrates, edibles, capsules, topicals, etc., and more recently began selling its MÜV Health line of over-the-counter CBD products via e-commerce channels.

Figure 44: Selected Verano product offerings



Source: Company Reports

## Overview of Verano's retail branding

As Verano scales across the country, the company is looking to unify the majority of its dispensary network under the "ZenLeaf" banner. The company aims to create a brand that signals superior customer service while being nimble enough to service both medical and adult-use customer needs. Although Verano currently operates ~64 locations (inclusive of ~31 stores in Florida) across 11 states, ZenLeaf-branded dispensaries can be found in nine of Verano's operational markets: AR, IL, MA, MD, MI, PA, NV, NJ, OH. The company plans to expand the ZenLeaf brand reach as it develops into Verano's premier retail offering, currently expecting the following additions in the next twelve month period: IL - four branded store openings; NV/PA/NJ - two branded store openings each; OH/MA - one branded store acquisition each.

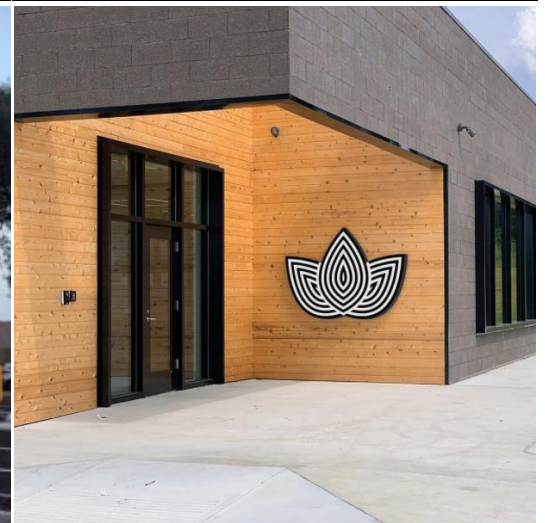
In addition, Verano gained access to the MÜV branded dispensaries as part of its AltMed transaction. MÜV currently operates 32 dispensaries across the US, with 31 of those in Florida (and the final in Arizona). Although Verano plans to have a national coordinated retail infrastructure under the ZenLeaf brand, the company recognizes inroads already developed for the MÜV moniker within the Florida market, and therefore does not plan to re-brand those locations. The Arizona MÜV dispensary is currently being subjected to relocation, with the re-opening occurring under the ZenLeaf label.

**Figure 45: MÜV storefront (Florida)**



Source: Company Reports

**Figure 46: ZenLeaf storefront (Arkansas)**

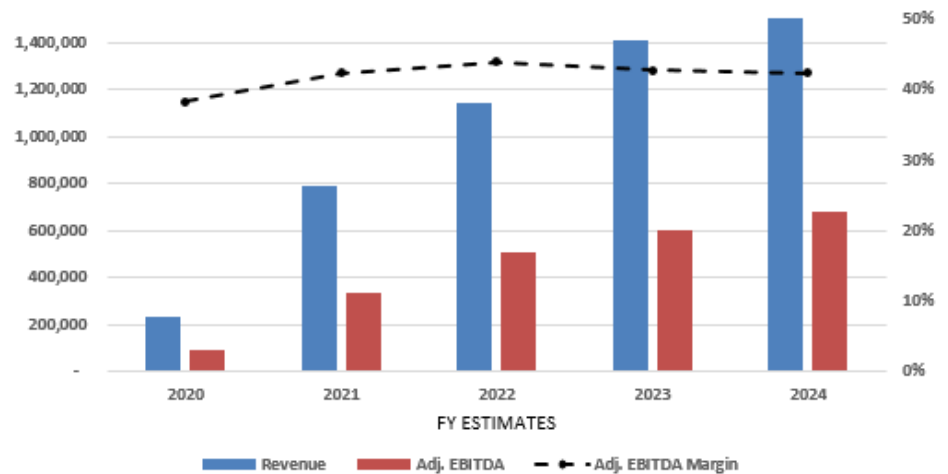


Source: Company Reports

## Estimates and valuation

We value Verano using a sum-of-the-parts methodology, individually valuing the markets where the company currently operates or has assets/exposure. This section provides a detailed summary of our assumptions on a market-by-market basis. Our resulting consolidated forecasts for FY2020 to FY2024 are summarized below.

**Figure 47: Consolidated revenue and Adj. EBITDA projections (FY2020-FY2024)**



Source: Company Reports, Canaccord Genuity estimates

### Illinois

In January 1, 2020, Illinois kick-started its adult-use platform, marking the first official program in the US that was enacted via legislative assembly. In its first year, the Illinois market generated ~US\$670M in adult-use sales; however, with a sizeable portion of the market's growth indexed to the second half of the year, we believe 2021 could see sales levels >2x previous levels. The program ended in January 2021 with ~US\$89M in revenue, or an ~US\$1.07B run rate. Regardless, we believe the market will continue to see growth over the medium-to-long term as industry operators reach optimal production scale, along with the opening of new retail outlets. We forecast that a fully legalized environment operating at scale can eventually support annual revenues of US\$3.5B, representing one of the largest legal opportunities in the US today.

Verano's operations are deeply rooted in the Illinois market, as it was the first licensed grower in the state. Since then the company has grown to become one of the premier wholesalers in IL, with product placement into 100% of medical dispensaries and a majority of recreational stores that we believe achieved a 15%+ market share throughout FY20. Currently the company is operating eight dispensaries (with a further two expected to be online over the short term) along with one of the state's largest production sites, and has effectively leveraged its medical platform into one of the leading adult-use players in that space today.

Given the above, we forecast Verano to maintain a long-term market share of ~20% as new store openings and expanded capacity should solidify its exposure at the upper end of this range. As a result, we forecast that Verano will achieve US\$274M of IL revenue in FY2021, increasing to ~**US\$714M** at peak.

Figure 48: Estimated IL Revenues (medical and rec)

US\$MMs	2021E	2022E...	2028E	2029E	2030E
Est. IL State Rev	\$ 1,461	\$ 1,846	\$ 3,451	\$ 3,486	\$ 3,571
Est. Verano market share	18.8%	20.0%	20.0%	20.0%	20.0%
Est. Verano Retail Rev	\$ 274.0	\$ 369.2	\$ 690.3	\$ 697.2	\$ 714.1

Source: Company Reports, Canaccord Genuity estimates

Using the above estimates, we have applied an elevated EBITDA margin of 43% at peak (given the company's existing scale along all avenues of the supply chain (particularly on production) and its first-mover advantage in the state, and incremental capex spend to facilitate growth initiatives that complement increased demand in the adult-use segment.

We believe Verano will be able to generate peak **EBITDA** of **US\$310M**. Utilizing a discount rate of 10% (our base rate), we value the company's Illinois operation at **~C\$3.5B** or **C\$11.46/sh**.

Figure 49: Valuation of Illinois opportunity (medical and rec)

US\$MMs	2021E	2022	2023E...	2028E	2029E	2030E
Est. Verano Retail Rev	\$ 274.0	\$ 369.2	\$ 457.9	\$ 690.3	\$ 697.2	\$ 714.1
Est. Verano EBITDA	\$ 126.0	\$ 166.2	\$ 196.9	\$ 296.8	\$ 299.8	\$ 309.9
Est. EBITDA Margin	46%	45%	43%	43%	43%	43%
Taxes	44.1	54.8	59.1	65.3	63.0	65.1
Working Capital	12.3	9.5	8.9	0.7	0.7	1.7
Capex	12.0	10.0	8.0	5.0	5.0	5.0
Free Cash Flow	\$ 57.6	\$ 91.8	\$ 121.0	\$ 225.8	\$ 231.1	\$ 238.2
Terminal Value						\$ 3,354
PV of Cash Flow	\$ 57.6	\$ 87.7	\$ 105.6	\$ 125.2	\$ 117.0	\$ 1,698.2
Discount Rate	10%					
Terminal Growth	2%					
Value of Illinois (US\$)	\$ 2,705.9					
CAD/US FX	1.28					
Value of Illinois (C\$)	\$ 3,474.3					
# of shares outstanding	303					
Value per share (C\$)	\$ 11.46					

Source: Company Reports, Canaccord Genuity estimates

## Florida

Under Florida's medical regulatory structure, which launched in 2017, each license is required to be vertically integrated and each producer is responsible for its own cultivation, production, manufacturing and retailing. We believe Florida represents one of the US's more attractive regulated medical markets with a framework that has taken a relatively conservative approach to issuing new licenses (with only 14 of 22 licensed operators conducting active sales today).

As Florida's medical cannabis market continues to grow (with ~500,000 patients registered), we estimate the state can support peak annual revenues of >US\$1.75B at maturity (excluding recreational upside). Although Trulieve remains the dominant #1 player in that market, we believe Verano (via AltMed) is vying for a potential top-three position based on volumes sold (see [OMMU](#) site for details) and licensed store count (currently the fourth largest at 31 locations).

We believe the company's existing infrastructure (inclusive of 31 dispensaries and a production site equipped for all product varieties) will generate **~16%** market share

over the long term. We estimate that Verano will realize ~US\$161M from Florida in 2021, increasing to ~**US\$284M** at peak (as illustrated below).

**Figure 50: Estimated Florida revenues (medical only)**

US\$MMs	2020E	2021E	2022E...	2028E	2029E	2030E
Est. Florida State Rev	\$ 1,134	\$ 1,340	\$ 1,433	\$ 1,744	\$ 1,759	\$ 1,774
Est. Verano market share	0.0%	12.0%	13.5%	16.0%	16.0%	16.0%
Est. Verano Retail Rev	\$ -	\$ 160.7	\$ 193.5	\$ 279.0	\$ 281.4	\$ 283.8

Source: Company Reports, Canaccord Genuity estimates

Using our above estimates, we have applied an elevated EBITDA margin of 45% at maturity due to the high barriers in the state (we also note that existing producers are able to achieve EBITDA margins in excess of these levels). As a result, we forecast Verano to achieve peak EBITDA of US\$129M in the Florida medical market. We further apply an 8% discount rate (a 200bps discount to our base rate as a majority of FL assets are already constructed) and 2% terminal growth rate to our valuation, which results in a valuation of **C\$6.92/sh** for Verano's FL opportunity.

**Figure 51: Valuation of Florida opportunity (Medical sales only)**

US\$MMs	2020E	2021E	2022E...	2028E	2029E	2030E
Est. Florida State Rev	\$ 1,134	\$ 1,340	\$ 1,433	\$ 1,744	\$ 1,759	\$ 1,774
Est. Verano market share	0.0%	12.0%	13.5%	16.0%	16.0%	16.0%
Est. Verano Retail Rev	\$ -	\$ 160.7	\$ 193.5	\$ 279.0	\$ 281.4	\$ 283.8
Est. EBITDA Margin	40%	49%	47%	45%	45%	45%
Est. Verano Total FL EBITDA	\$ -	\$ 78.8	\$ 90.9	\$ 125.5	\$ 126.6	\$ 128.8
Taxes	\$ -	\$ 22.1	\$ 22.7	\$ 27.6	\$ 26.6	\$ 27.1
Working Capital		\$ 16.1	\$ 3.3	\$ 0.2	\$ 0.2	\$ 0.2
Capex		15.0	10.0	3.0	3.0	3.0
Free Cash Flow	\$ -	\$ 25.6	\$ 54.9	\$ 94.7	\$ 96.8	\$ 98.5
Terminal Value						\$ 1,932.1
PV of Cash Flow	\$ -	\$ 25.6	\$ 53.0	\$ 59.2	\$ 56.3	\$ 1,123.2

Discount Rate	8%
Terminal Growth	2%

Present Value of FCF (US\$)	\$ 1,634.1
CAD/US FX	1.28
Value of Verano FL (C\$)	\$ 2,098.2
# of shares outstanding (FD)	303
Value per share (C\$)	\$ 6.92

Source: Company Reports, Canaccord Genuity estimates

## New Jersey

In a market with a growing medical patient base and recreational sales set to commence in the back half of this year, we believe New Jersey represents a state with a high growth trajectory that will be capitalized on by first movers with adequate infrastructure built out. Combined, we believe New Jersey's medical and recreational markets (with a population of ~9M and an important geography adjacent to NY and PA) can support annual revenues of ~US\$2.4B over the long term.

Verano Holdings was awarded an Alternative Treatment Center license in February 2020 and is one of 12 vertically integrated operators in the state. Each license

holder is able to open one cultivation/production site and one dispensary (with two additional retail locations also permitted).

We have assumed that VRNO will be able to secure a sustained **13.5%** market share at peak. Given its existing exposure of only one retail location and adult-use sales in the state not factored into our model until Q4/21, we forecast that VRNO will achieve relatively modest revenues of ~US\$53M in FY2021 but increase significantly to ~**US\$340M** at peak with the build out of two additional retail locations and using our assumed 13.5% market share.

**Figure 52: Estimated New Jersey revenues (Medical & Rec)**

US\$MMs	2021E	2022E	2023E...	2028E	2029E	2030E
Est. NJ State Rev	\$ 700	\$ 1,350	\$ 1,695	\$ 2,369	\$ 2,444	\$ 2,517
Est. Verano market share	7.5%	9.0%	10.0%	13.0%	13.0%	13.5%
Est. Verano Rev	\$ 52.5	\$ 121.5	\$ 169.5	\$ 308.0	\$ 317.7	\$ 339.8

Source: Company Reports, Canaccord Genuity estimates

Using our above revenue estimates for Verano's penetration into the New Jersey medical and recreational market and applying an EBITDA margin of 42% at peak, we estimate that Verano will achieve peak EBITDA of ~US\$144M and free cash flow of ~US\$106.6M at maturity. Using a 100bp premium to our base discount rate to account for execution risk in the state (as it transitions into a recreational market), we have utilized a 11% discount rate and a terminal growth rate of 2%. As a net result, we value Verano's New Jersey opportunity at **C\$1,231M** or **C\$4.06** per share (as illustrated below).

**Figure 53: Valuation of New Jersey opportunity (Medical + Rec)**

US\$MMs	2021E	2022E	2023E...	2028E	2029E	2030E
Est. Verano Rev	\$ 52.5	\$ 121.5	\$ 169.5	\$ 308.0	\$ 317.7	\$ 339.8
Est. EBITDA Margin	35%	43%	42%	42%	40%	42%
Est. Verano Total NJ EBITDA	\$ 18.4	\$ 52.2	\$ 71.2	\$ 129.4	\$ 128.0	\$ 144.1
Taxes	\$ 4.6	\$ 13.1	\$ 17.8	\$ 28.5	\$ 26.9	\$ 30.3
Working Capital	\$ 3.3	\$ 6.9	\$ 4.8	\$ 0.7	\$ 1.0	\$ 2.2
Capex	20.0	15.0	10.0	5.0	5.0	5.0
Free Cash Flow	\$ (9.5)	\$ 17.3	\$ 38.6	\$ 95.1	\$ 95.2	\$ 106.6
Terminal Value						\$ 1,316
PV of Cash Flow	\$ (9.5)	\$ 16.4	\$ 33.2	\$ 49.7	\$ 45.0	\$ 622.4

Discount Rate	11%
Terminal Growth	2%

Present Value of FCF (US\$)	\$ 959
US/CAD FX	1.28
Value of Verano New Jersey (C\$)	\$ 1,231
# of shares outstanding (FD)	303
Value per share (C\$)	\$ 4.06

Source: Company Reports, Canaccord Genuity estimates

## Pennsylvania

The Pennsylvania medical marijuana program has been one of the highest performing markets in the country with a patient base reaching >460,000 registrants (up >100% in H2/20). Furthermore, the state has the fifth-largest population in the US at just under 13M, and we believe Pennsylvania has one of the most attractive demographics amongst the markets on the East Coast. We continue

to see operators in the state actively expand their cultivation canopy as demand continues to exceed supply and prospect of recreational cannabis legalization around the corner. We believe Pennsylvania could eventually grow from a roughly US\$500M market today to a peak annual medical revenue opportunity of **>US\$1B at maturity**.

The company currently operates a total of six dispensaries in the state and has secured a license agreement with NuTrae that will see its MÜV-branded cannabis products enter Pennsylvania market. Considering the company's current footprint and prospects for growth in the future, we have assumed that VRNO will significantly grow its market share to 12.5% at peak, achieving revenues of US\$53.0M in FY2021 to **US\$169M** in FY2030.

**Figure 54: Estimated Pennsylvania revenues (Medical)**

US\$MMs	2021E	2022E	2023E...	2028E	2029E	2030E
Est. Pennsylvania State Rev	\$ 1,178	\$ 1,229	\$ 1,262	\$ 1,288	\$ 1,294	\$ 1,351
Est. market share	4.5%	8.0%	9.0%	12.0%	12.5%	12.5%
Est. Verano Pennsylvania Rev	\$ 53.0	\$ 98.3	\$ 113.6	\$ 154.6	\$ 161.8	\$ 168.9

Source: Company Reports, Canaccord Genuity estimates

Using our above revenue estimates for Verano's penetration into the Pennsylvania medical market and applying an EBITDA margin of 42% at peak, we estimate that Verano will achieve peak EBITDA of ~US\$72M and free cash flow of ~US\$54M at maturity. Using a 200bp haircut to our base discount rate to account for the favourable regulatory environment in the state, we have utilized an 8% discount rate and a terminal growth rate of 2%. As a net result, we value Verano's PA opportunity at C\$868M or **C\$3.67** per share (as illustrated below).

**Figure 55: Valuation of Pennsylvania Opportunity (Medical)**

US\$MMs	2021E	2022E	2023E...	2028E	2029E	2030E
Est. Verano Pennsylvania Rev	\$ 53.0	\$ 98.3	\$ 113.6	\$ 154.6	\$ 161.8	\$ 168.9
Est. Verano Pennsylvania EBITDA	\$ 23.3	\$ 42.3	\$ 48.8	\$ 66.5	\$ 69.6	\$ 71.6
EBITDA Margin	44%	43%	43%	43%	43%	42%
Taxes	6.5	10.6	12.2	14.6	14.6	15.0
Working Capital	3.2	4.5	1.5	0.1	0.7	0.7
Capex	8.0	5.0	4.0	2.0	2.0	2.0
Free Cash Flow	\$ 5.6	\$ 22.2	\$ 31.1	\$ 49.8	\$ 52.2	\$ 53.9
Terminal Value						\$ 1,056.0
PV of Cash Flow	\$ 5.6	\$ 21.4	\$ 27.9	\$ 31.1	\$ 30.4	\$ 613.9
Discount Rate	8%					
Terminal Growth	2%					
Value of Verano Pennsylvania (C\$)	\$ 868					
# of shares outstanding (FD)	303					
US/CAD FX	1.28					
Value per share (C\$)	\$ 3.67					

Source: Company Reports, Canaccord Genuity estimates

As of late, legislators in the state have been very vocal about their desires to install a recreational program. In particular, the prospect for adult-use cannabis has gathered a lot of attention from Pennsylvania Governor Tom Wolf and Lt. Governor John Fetterman. Given increased support from senior officials within the PA legislature and general voter support for an adult-use framework, we believe Pennsylvania could represent one of the next major markets to transition to adult-use (potentially within the next 12 months).

### Additional US markets

In addition to the state-by-state valuations above, we have also valued the following additional market opportunities for Verano as follows:

- **Maryland.** With a solid position already developed in Maryland, we estimate that Verano can sustain an **~12%** market share at peak. As such, we expect Maryland to contribute US\$45M to the top line in 2021, expanding to **US\$72M** at peak.
- **Ohio.** We expect Verano will generate revenues of \$41.4M for FY2021, growing to **US\$107M** in FY2030. Given the company's vertically integrated operations, we believe the company will be able to realize market share of ~15% in Ohio over the long term.
- **Arizona.** Following the acquisition of AltMed, the company obtained a dispensary location in Phoenix and an indoor cultivation facility that is currently being expanded to 60k sq. ft. in anticipation of the recreational market coming online. Subsequently, VRNO has acquired a further four locations and ~20,000 sq. ft. of additional capacity. We expect Verano will grow its retail and wholesale revenues from US\$64M in FY2021 to **US\$173M** at peak and realize a market share of ~7.5% in the state.
- **Massachusetts.** We estimate that Verano will grow its revenues from US\$40.4M in FY2021 to **US\$120M** at peak and realize a market share of 6.5% in the state.
- **West Virginia.** Although a nascent market, the medical marijuana program in the state of West Virginia is set to come online. Verano was recently awarded seven retail license application wins, making the company vertically integrated. We estimate Verano will generate **~US\$10.0M** in FY2021, increasing to **~US\$35.1M** at peak.
- **Michigan.** Michigan is currently one of the fastest growing markets and we believe Verano's hybrid medical and rec dispensary location in Buchanan, MI will realize revenues of **US\$7.5M** in FY2021, increasing to **US\$20.1M** at peak.
- **Missouri.** With a dispensary and manufacturing license on hand, we estimate that the Missouri operation will generate **~US\$8.9M** in annual revenues at peak.
- **Arkansas.** With one dispensary license and a stated desire to expand its presence in Arkansas, we estimate that in 2021, Verano will generate **~US\$6M** in revenues, increasing to **~US\$14.8M**.
- **Nevada.** Being vertically integrated with currently one dispensary open in Las Vegas and plans to open an additional two stores in Q1/21 (with a total of seven dispensary licenses on hand), we believe the company will print a top line in the state of **~US\$50M** at peak as the company expands its store count and capitalizes on high tourism numbers in a post-pandemic environment.

Our resulting FY2020 to FY2022 consolidated estimates based on the above analyses are summarised below.

Figure 56: VRNO: Consolidated estimates

US\$MM		2020		2021		2022
<b>Pro Forma Revenue</b>	\$	354.7	\$	830.5	\$	1,146.9
<b>Revenue</b>	\$	233.1	\$	791.7	\$	1,146.9
<b>Adj. EBITDA</b>	\$	89.4	\$	335.2	\$	504.3
<b>Adj. EBITDA %</b>		38.3%		42.3%		44.0%

Source: Company Reports, Canaccord Genuity estimates

### Balance sheet & capital structure

Refer below for a summary of Verano's current balance sheet/cash balance and capital structure resulting from its RTO, concurrent and subsequent equity financings, the closing of its acquisition of AltMed and its more recently announced acquisitions in AZ, PA and IL.

We estimate that the company currently has a pro forma net cash balance of **C\$52.5M** with a FD share count of **~303M**. In addition, based on the existing share lockup schedule, barring any amendments, all of VRNO's share are set to become freely traded by the 400<sup>th</sup> day subsequent to its RTO closing (as summarized below).

Figure 57: Est. Verano net cash

Net Cash	US\$000s
Cash (Verano)	\$ 35,215
Cash (AltMed)	\$ 10,169
Equity Raise	\$ 100,000
Feb 24 financing	\$ 89,875
Other Pro Forma Adj.	\$ (9,835)
AltMed Cash Purchase Price	\$ (35,000)
AZ Purchase	\$ (20,125)
IL purchase	\$ (17,500)
PA Purchase	\$ (69,850)
<b>Est. Pro Forma Cash (US\$)</b>	<b>\$ 82,949</b>
<b>Long-Term Debt (US\$)</b>	<b>\$ 41,954</b>
<b>Est. Net Cash (US\$)</b>	<b>\$ 40,995</b>
<b>Est. Net Cash (C\$)</b>	<b>\$ 52,474</b>

Source: Company Reports, Canaccord Genuity estimates

Figure 58: Verano share structure

Share Class	000s
Proportionate Voting Shares	162,377
Sub. Voting Shares	117,523
SVS Issued in Placement	10,000
SVS Issued to Sell	100
Feb 24 financing	4,037
Shares issued for AZ	4,018
Shares issued for IL	905
Shares issued for PA	4,347
<b>Total Consol. Share Count</b>	<b>303,306</b>
<b>Share Lock-Up Schedule</b>	
Shares unlocked (Feb 17)	20%
Shares unlocked +90 days	15%
Shares unlocked +180 days	15%
Shares unlocked +240 days	15%
Shares unlocked +310 days	15%
Shares unlocked +400 days	20%

Source: Company Reports, Canaccord Genuity estimates

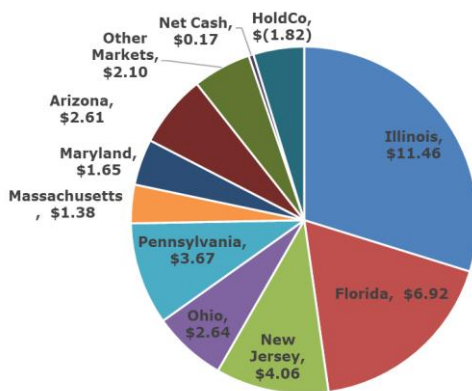
## Sum-of-the-parts valuation

### Initiating coverage of Verano Holdings, LLC with a **SPECULATIVE BUY** rating and target price of **C\$35.00**

We have performed a sum-of-the-parts valuation of VRNO for each market where it currently has exposure. In our valuation, we utilized a DCF methodology, with discount rates ranging from 8% to 12% and a terminal growth rate of 2%. Our SOTP analysis results in a forward valuation of C\$34.84 per share, representing **16.3x** our CY2022 EV/EBITDA compared to the current valuations of other leadings MSOs that average ~14.2x.

As a result, we are initiating coverage of VRNO with a **C\$35.00** price target and a **SPECULATIVE BUY** rating. Due to the risks and uncertainties surrounding execution, regulatory changes, licensing and other market factors, we believe a SPECULATIVE BUY rating is appropriate at this time.

Figure 59: Verano SOTP Pie chart



Source: Canaccord Genuity estimates

Figure 60: Verano: SOTP Valuation

SOTP Valuation	C\$ per share	Value (C\$ MM)	CY2022 EV/EBITDA	CY2022 EBITDA (C\$)
Illinois	\$ 11.46	\$ 3,477	16.4x	\$ 212.7
Florida	\$ 6.92	\$ 2,098	18.0x	\$ 116.4
New Jersey	\$ 4.06	\$ 1,231	18.4x	\$ 66.9
Ohio	\$ 2.64	\$ 801	26.3x	\$ 30.5
Pennsylvania	\$ 3.67	\$ 1,115	20.6x	\$ 54.1
Massachusetts	\$ 1.38	\$ 419	11.5x	\$ 36.4
Maryland	\$ 1.65	\$ 502	17.5x	\$ 28.7
Arizona	\$ 2.61	\$ 791	14.4x	\$ 54.8
Other Markets	\$ 2.10	\$ 636	14.1x	\$ 45.0
Net Cash	\$ 0.17	\$ 52	n/a	n/a
HoldCo	\$ (1.82)	\$ (553)	n/a	\$ -
<b>SOTP Valuation</b>	<b>\$ 34.84</b>	<b>\$ 10,568</b>	<b>16.3x</b>	<b>\$ 645.5</b>

Source: Canaccord Genuity estimates

## Comparable company analysis

VRNO currently trades at ~**11.1x** our CY2022E EV/EBITDA estimate, a significant discount to the overall MSO peer average of ~11.8x and the leadings MSOs at ~14.2x.

Although we believe that a discount to the leading MSOs in the space by size and scale (CURA, GTII, TRUL) is likely warranted as the company continues to execute its national rollout, we believe that the implied ~22% discount to the leaders in the space is slightly overdone and leaves further upside for VRNO given its existing exposure in many of the US's most attractive cannabis markets to date.

Figure 61: Verano Comp Table

Cannabis Company	Coverage	Ticker	Share Price (\$)	Rating	Market Cap (M)	EV/EBITDA		EV/Revenue	
						CY2021E	CY2022E	CY2021E	CY2022E
IAN + MPX	Bottomley	IAN	0.35			Restricted			
Trulieve	Dley	TRUL	58.19	SPEC BUY	\$ 6,970	14.7x	12.1x	7.0x	5.6x
Green Thumb Industries	Bottomley	GTII	38.80	SPEC BUY	\$ 8,494	22.1x	15.4x	7.7x	5.7x
MedMen	Bottomley	MMEN	0.49	SELL	\$ 400	N/A	16.9x	3.7x	2.8x
Curaleaf	Bottomley	CURA	19.75	SPEC BUY	\$ 14,143	28.0x	17.0x	8.2x	5.5x
Harvest Health and Recreation	Bottomley	HARV	4.04	SPEC BUY	\$ 1,644	14.2x	8.6x	4.1x	3.2x
Columbia Care Health & Wellness	Bottomley	CCHW	7.75	SPEC BUY	\$ 2,946	20.0x	8.0x	4.2x	2.7x
Cresco	Dley	CL	16.24	SPEC BUY	\$ 6,586	18.0x	12.5x	6.0x	4.3x
Acreage	Bottomley	ACRG.B.USD	4.13	SPEC BUY	\$ 610	15.3x	6.1x	2.3x	1.4x
Vireo	Bottomley	VREO	3.52	SPEC BUY	\$ 595	28.2x	12.0x	6.1x	4.1x
Jushi Holdings Inc	Burleson	JUSH	8.38	SPEC BUY	\$ 2,069	34.6x	15.3x	6.7x	4.4x
Ayr Strategies Inc.	Bottomley	AYR.A	41.00	SPEC BUY	\$ 2,801	14.0x	9.2x	5.4x	3.3x
Average of U.S. companies						19.3x	11.8x	5.1x	3.6x
Average (CL/CURA/GTI/TRUL)						20.7x	14.2x	7.2x	5.3x
Average of Cdn companies						246.7x	75.8x	25.5x	16.5x
Verano Holdings	Bottomley	VRNO	23.51	SPEC BUY	\$ 7,131	16.7x	11.1x	6.7x	4.9x

Source: Company Reports, Canaccord Genuity estimates

Canaccord Genuity Corp. acted as financial advisor and provided a fairness opinion to Acreage Holdings Inc. in its proposed transaction with Canopy Growth Corp.

Canaccord Genuity is acting as a Financial Advisor to Columbia Care Health and Wellness in connection with its proposed acquisition of Green Leaf Medical.

Canaccord Genuity is acting as a Financial Advisor to Ayr Strategies in connection with its proposed acquisition of Liberty Health Sciences.

## Cannabis legalization in the United States

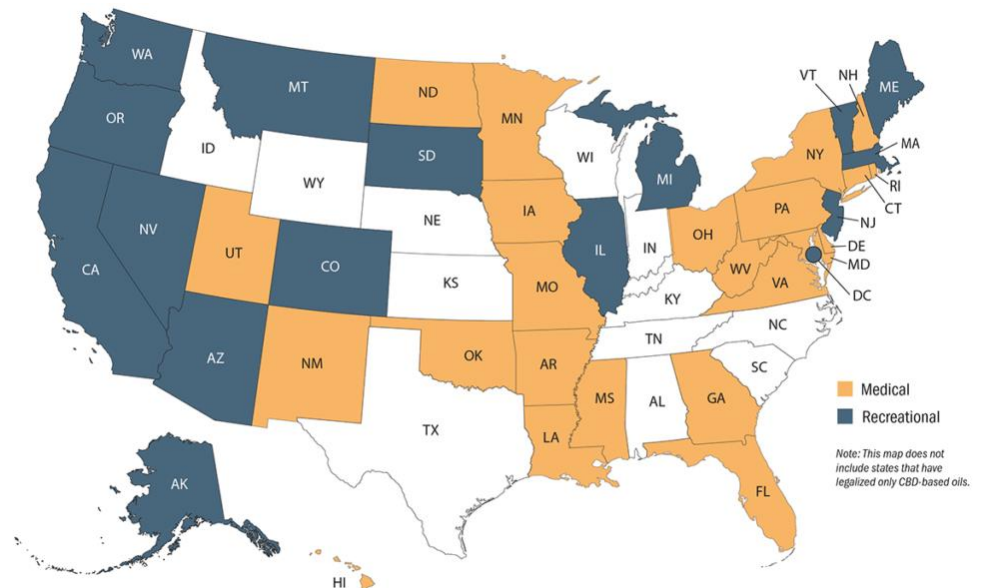
In 1970, President Nixon enacted the Comprehensive Drug Abuse and Prevention and Control Act (aka the Controlled Substances Act or CSA), which classified a select list of drugs into five schedules, depending on assessed medical value and the perceived potential for abuse. Under this legislation, marijuana was classified into the schedule I bucket, the most restrictive and punitive classification for any controlled substances, alongside heroin, LSD, ecstasy and others. To regulate and enforce the CSA, Congress employed the Drug Enforcement Agency (DEA), the Department of Justice (DOJ) and the Food and Drug Administration (FDA).

Cannabis laws remained largely unchanged until 1996, when California's state legislature enacted a regulatory framework for medicinal cannabis use. Due to the Federal Government's (historically) negative stance on marijuana, 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 (either through ballot initiatives or state legislature) 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. To date, there are 36 states/regions, 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 became the first two states to legalize recreational-use marijuana, passing ballot initiatives during the presidential election. Today, there are 15 states that have formulated a regulated framework for recreational sales, with many of the more attractive markets only recently (2018 or later) commercializing on the program - suggesting ample room to grow (particularly in the Massachusetts, Illinois and Michigan markets). More importantly, the most recent federal election saw cannabis ballot initiatives approved in all five states voting to enact advanced legislation (including South Dakota, which simultaneously approved medical and recreational programs).

The "Green Wave", as its been dubbed, exemplifies the growing, bi-partisan acceptance of cannabis use – both medicinally and for leisure – across the US. When combined with more favourable federal oversight (as Democrats now control all levels of congress and the White House), we believe the stars are aligning for a national reform program that should serve as a tailwind to sector valuations. Regardless, state-level acceptance has been widespread throughout the country, with a majority of US states now allowing for cannabis use, either for medical or for both medical/recreational purposes, as illustrated below.

**Figure 62: US: Map of legalized cannabis**



Source: MJBizDaily

### Recent Federal changes suggest fate has shifted for US cannabis

The most recent presidential election, which occurred in November 2020, saw Democrats take control of the White House and Senate – after January’s run-off elections – on a platform that included the decriminalization of cannabis (representing the most liberal stance taken publicly by an eventual United States President). Since Joe Biden has taken office, newly appointed Senate Majority Leader Chuck Schumer, along with Senators Cory Booker and Ron Wyden, issued a statement reiterating their intention to move comprehensive cannabis reform through the necessary legal channels in the current session. We highlight this, along with other federal initiatives below.

#### *Changing of the guard – Congress and White House aligned under Democratic power*

The previous Republican-led administration elected not to voice an explicit anti-cannabis stance (with the exception of his former Attorney General, Jeff Sessions), or utilize federal resources to interfere with state-legal cannabis markets. Despite this, both Attorney Generals under the Trump administration created headwinds towards overall cannabis reform, with AG Sessions rescinding the Cole Memorandum and AG Barr condemning M&A transactions in the US Cannabis space to increased scrutiny. Perhaps more detrimental, however, was the placement of Mitch McConnell as the Senate majority leader. Under his purview, Senator McConnell refused to table cannabis legislation in the Senate (as the decision to call up bills in that level of Congress fell within his scope). During this time, the Democratic-controlled House was able to pass two prominent cannabis legislations (MORE/SAFE Banking Acts), with the first of the two bills being raised to the Senate for more than a year.

We believe a turning point occurred in July when now President Joe Biden published his Unity Task Force Recommendations that, although stopping short of recommending legalized adult-use sales, did ascertain the following:

- "Substance use disorders are **diseases**, not crimes"
- "Democrats will **decriminalize marijuana** use and **reschedule it through executive action** on the federal level"
- "We will **support legalization of medical marijuana**"
- "(We) believe **states should be able to make their own decisions** about recreational use"
- "The Justice Department **should not launch federal prosecutions of conduct that is legal at the state level**"
- "All past criminal **convictions for cannabis use should be automatically expunged**... Democrats support increased use of drug courts, harm reduction interventions, and treatment diversion programs for those struggling with substance use disorders"
- "**Lift budget rider** blocking DC from taxing and regulating legal marijuana and remove marijuana use from the list of deportable offenses"
- "**Encourage states to invest tax revenue from legal marijuana** industries to repair damage to...communities hit hardest by incarceration"

Although the Task Force does not call for explicit legalization of cannabis, we believe a rescheduling of adult-use cannabis out of its current Schedule 1 classification at the federal level (the strictest classification for any narcotic) and the legalization of medical cannabis could result in very favourable changes to what is a very punitive rate of taxation as part of IRS tax code 280E.

The 280E Tax Code, introduced during the Ronald Reagan era (as part of the war on drugs), prohibits businesses involved in the selling of controlled substances (either Schedule 1 or Schedule 2 narcotics) from deducting normal course operating expenses (SG&A, etc.). Therefore, US cannabis operators are forced to incur taxes at the corporate federal rate applied against gross margin, resulting in an effective tax rate that can range from 50% to 70%, instead of the typical 21% against net income.

Under a Biden presidency, we believe this burden could end up being significantly reduced if medical sales are legalized (we note that the Task Force recommendations are aligned with the Democratic platform, including support for medical cannabis legalization). However, if recreational cannabis is also rescheduled to at least Schedule 3, this would effectively eliminate 280E altogether (as it relates to cannabis) and improve the profitability profiles of most players in the space (particularly those that are not vertically integrated or do not have cultivation/manufacturing operations).

#### *Senate leaders to join fight for reform*

However, arguably just as (and perhaps more) important to continued cannabis reform than who occupies the White House is which party controls the Senate. Following the Georgia run-off elections, the Senate will now be composed of 50 Democratic and 50 Republican Senators, with Vice President Kamala Harris representing the tie-breaking vote when needed. We believe this could pave the way for a number of pro-cannabis initiatives that have been bottlenecked in the House of Representatives to begin working their way through applicable political/legislative channels.

Although the ultimate timing remains uncertain, Senate Majority Leader Chuck Schumer recently stated that he intends to make federal marijuana reform a priority

as this year's legislative session begins. More specifically, Senator Schumer, along with US Democratic Senators Cory Booker and Ron Wyden, issued a joint statement in February 2020 that reiterated the party's intention to move comprehensive cannabis reform through the necessary political/legal channels as part of the current legislative session. We believe the decision to make this announcement within the first hundred days of Democrats taking office signals a high degree of importance within the party.

Although the crux of the messaging below is consistent with a number of previously drafted pieces of legislation that have already made their way through the House of Representatives, we believe the joint statement (quoted below in its entirety) represents another indicator that real legislative change on the federal front supporting progressive cannabis reforms could come to fruition under the current administration.

*"The War on Drugs has been a war on people—particularly people of color. Ending the federal marijuana prohibition is necessary to right the wrongs of this failed war and end decades of harm inflicted on communities of color across the country. But that alone is not enough. As states continue to legalize marijuana, we must also enact measures that will lift up people who were unfairly targeted in the War on Drugs."*

*"We are committed to working together to put forward and advance comprehensive cannabis reform legislation that will not only turn the page on this sad chapter in American history, but also undo the devastating consequences of these discriminatory policies. The Senate will make consideration of these reforms a priority."*

*"In the early part of this year, we will release a unified discussion draft on comprehensive reform to ensure restorative justice, protect public health and implement responsible taxes and regulations. Getting input from stakeholder groups will be an important part of developing this critical legislation."*

We believe the above statement (while not providing specific regulatory/legislative details) is consistent in tone with a number of pieces of draft legislation/public commentary already issued by a number of Democrats. However, contrary to reporting by a number of media outlets, we note that no existing draft legislation/public commentary has called for the full legalization of cannabis in the US (but more for decriminalizing and de-scheduling).

## Pro-Cannabis Bills in the Pipeline

With the purchase and sale of cannabis still illegal at the federal level in the US, operators in legal markets have faced no shortage of logistical issues, particularly with the ability to secure banking services in the sector. Although the Financial Crimes Enforcement Network (FinCEN) has issued general guidelines for those choosing to operate in the space, financial institutions that are subject to federal regulations/oversight continue to remain on the sidelines. As a result, many cannabis companies are forced to operate cash-intensive businesses. Although most markets have seen state-chartered banks step up to fill this void, these services are expensive alternatives that do not usually provide cannabis operators with a full suite of banking services, including:

- Payment functions (credit card processing, check processing and electronic funds transfers)
- Depository privileges
- Access to insurance coverage
- Access to loans

As a result, legal cannabis operators are subject to a largely inefficient banking system that includes significantly higher monthly fees and insurance premiums, in addition to safety concerns related to the transport of large sums of cash. Further, such limitations can extend to other facets of the business as other vendors may elect not to engage with state legal cannabis operators (particularly those who touch the plant) out of fear of intervention if funds are perceived to have been paid from what are considered to be illegal activities at the federal level.

In addition to the above, the lack of traditional banking has also impeded overall sector growth by making it much more challenging for many operators to manage working capital and secure growth capital in an industry that is extremely disaggregated and capital-intensive to get a company off the ground. As a result, we believe that MSOs as a whole have all earned a significant first-mover advantage with access to Canadian public equity as they continue to build out their national footprints.

Although many of these issues still linger today, we note a number of bills/initiatives (including the SAFE Banking Act, STATES Act and MORE Act) that have been long outstanding are starting to generate more traction in recent months, as Democrats have taken control of congress and the white house. An overview of these Acts and initiatives follows.

### SAFE Banking Act

The Secure and Fair Enforcement (SAFE) Banking Act is a piece of legislation that was first introduced to Congress in May 2017. The Act aims to open access to federal banking and insurance systems for legal cannabis operators. The bill was introduced as a response to the risk posed to many state-legal cannabis operators from holding large amounts of cash, which many believe represent a public safety risk in the form of robberies and theft. Although the SAFE banking act would not force all institutions to engage in business with a cannabis company, it would remove barriers for institutions that choose to do so as it would become prohibited to penalize or discourage any bank or institution from providing financial services to a cannabis company (if operating in good faith under the state regulations).

The SAFE Banking Act was the first major piece of pro-cannabis legislation to be passed in the House of Representatives, in September 2019 (301 in favour to 123 against), and moved up to the Senate for consideration (as part of the 116<sup>th</sup> congress). However, within the Senate, the bill was only ever referred to the

Senate's Banking committee where the Chairman, Senator Mike Crapo, stated that he had "significant concerns" with the legislation. Ultimately the bill missed the deadline for enactment within the 116<sup>th</sup> congress and will require re-introduction within the new, Democrat-controlled congress.

Although this bill does not necessarily have a direct capital market implication for public companies, the SAFE Banking Act aims to allow banks subject to federal oversight to hold funds, issue loans, and process all payments made through credit, debit, checks or e-transfers of legal cannabis operators. And perhaps more importantly, if passed, we believe it would represent yet another mitigating factor for potential new (but interested) investors, who remain on the sidelines given the federal risk associated with the US cannabis sector.

We have seen increased support for cannabis reform as a result of the 2020 presidential and the 2021 Georgia run-off elections. We note that Democrats made strong effort to include the provisions within this bill as a rider onto the COVID-19 relief package; however, this was met with great opposition from the Republican-controlled senate. With the transition of the Senate to Democratic power, we believe the SAFE Banking Act has now seen the catalyst necessary to propel it (or a bill containing similar relief) to enactment. When combined with our view that The SAFE Banking Act is the most palatable of the major cannabis-related legislation in conversation today, we believe that provisions from this Act will be included in the next significant cannabis legislation to pass full congress (if not the Act itself).

### **STATES Act**

The Strengthening the Tenth Amendment Through Entrusting States (STATES) Act was first introduced in Congress in 2018, ultimately falling short of passing that year. In 2019, Senator Cory Gardner and Senator Elizabeth Warren reintroduced a version of the bill that would not penalize individuals or corporations under the Controlled Substances Act (CSA) that are compliant with state laws regarding the operation or participation of marijuana (possession, manufacturing, delivery, etc.)

The STATES Act further stipulates that the distribution or sale of marijuana to persons under the age of 21 should remain strictly prohibited, other than for medical purposes, and that compliant transactions should not be considered unlawful by the federal government. Although the drug would still be illegal at the federal level, the proposal is structured so that each state is awarded the right to determine marijuana legislation within its borders, effectively legalizing the plant in accordance with state laws without fear of federal intervention.

The STATES Act and SAFE Banking Act differ in that it is argued that the STATES Act could potentially permit access to US capital markets for cannabis companies (so long as they are operating within state cannabis laws), which could represent a significant positive valuation catalyst if MSOs/operators can dual-list onto major US stock exchanges. We believe this could have a profound effect on the industry if it introduces new/capital money to the sector.

Although a potentially significant piece of legislation, The STATES Act has historically been left at a relatively nascent stage in prior congresses. However, the bill does have 65 co-sponsors (including 20 Republican representatives), representing the largest support among the three major legislative pieces impacting marijuana (i.e., MORE, SAFE, and STATES Acts) by the Republican Party. We believe the reason the STATES Act has been placed on idle extends beyond the headwinds faced due to the coronavirus epidemic. We believe the Democratic Party has shifted attention to the MORE Act, which aims to remove marijuana as a Schedule-1 drug in the CSA and enact several criminal justice reform measures, given that MORE was more aligned with current event issues (i.e., tackling social justice concerns). Regardless, proponents of the bill find merit in its ability to continue restricting

interstate commerce (something not explicitly disallowed under the MORE Act and mirroring regulations on the Alcohol industry) while allowing for recreational sales in states that choose, which therefore leads us to believe that the bill will remain topical and continue to garner attention in the current Congress.

### **MORE Act**

The Marijuana Opportunity Reinvestment and Expungement Act (MORE) aims to de-schedule marijuana on a nationwide basis while accomplishing social justice goals related to business ownership, employment and criminal records. The Act would in effect amend the CSA to remove marijuana as a Schedule-1 drug and ease restrictions surrounding the company operations (including access to banking or interstate commerce should local governments permit). The bill does not implement a licensing process for sales of cannabis products; however, it does implement a 5% national tax (used to fund a series of social justice programs) on the sale of all cannabis products for the first two years, with successive, yearly 1% increases until an 8% tax is reached. In addition, the bill contains provisions that would reduce barriers to cannabis research, expunge certain cannabis-related offenses, provide access to banking services for cannabis-related business (CRB), and also allow CRB's to deduct certain expenses formally disallowed under Section 280E of the tax code.

On November 20, 2019, the MORE Act passed the House Judiciary committee with 24 of 34 votes in favour of the legislation. Subsequently, the bill was either voted on or waived by seven other committees prior to being considered for a full vote on the House floor. However, on December 4, 2020, the United States House of Representatives voted in favour (228 to 164) of passing the Marijuana Opportunity, Reinvestment and Expungement (MORE) Act. The passage of this legislation in the House marks the first time any stand-alone cannabis bill has been voted on and approved by Congress and marks improving overall sentiment towards the industry, although it was mostly symbolic at the time (given that it was unlikely to pass the full Senate before Congress adjourned). Given a changed overall sentiment, we believe the environment to advance the MORE Act (along with other cannabis legislations) has much improved, especially when considering key Democratic support for the movement (including Senate Majority Leader Chuck Schumer and now Vice President Kamala Harris who introduced this bill in the Senate).

Figure 63: Highlights of acts

	SAFE Banking Act	STATES Act	MORE Act
<b>Proposed change</b>	The act does not amend the CSA, rather it introduces new legislation to remove federal prosecution for financial institutions that choose to engage in business with cannabis or cannabis related businesses (CROs)	The act amends the Controlled Substances Act (CSA) to allow individual states the right to choose cannabis laws within its border	The bill amends the Controlled Substances Act (CSA) to de-schedule cannabis on a nationwide basis while accomplishing social justice goals related to business ownership, employment and criminal records
<b>Implications on banking</b>	The act will allow CROs to access the federal banking system including: <ul style="list-style-type: none"> <li>- Payment functions (credit card processing/ check processing and EFTs)</li> <li>- Depository privileges</li> <li>- Access to insurance coverage</li> <li>- Access to loans</li> </ul> The act <b>does not</b> include capital markets activities The act mandates for guidance for any institution looking to service the cannabis industry to be issued by the Federal Financial Institutions Examination Council (FFIEC) within 180 days of the Act's enactment.	The act will allow CROs to access all levels of banking so long as the CRO is compliant with state cannabis laws. Given that this is a fundamental change in the CSA, CROs would be able to access all levels of banking and insurance in the US (including capital markets).	The bill does not implement a licensing or permitting process for sales of cannabis products; it does implement a 5% national tax (for the first 2 years, followed by 1% yearly increase until 8%) on all sales that will be used to fund a series of social justice programs that include: <ul style="list-style-type: none"> <li>- Community Reinvestment Grant Program: ~60% of proceeds will go here</li> <li>- Cannabis Opportunity Grant Program: ~20% of proceeds will go here</li> <li>- Equitable Licensing Grant Program: ~20% of proceeds will go here</li> </ul>
<b>Historical progress in congress</b>	<b>House of Representatives:</b> The bill was approved with a 45-15 vote in the house subcommittee and passed a full house vote (301-123) in September 2019. <b>Senate:</b> The bill was introduced to the Senate and the 1 <sup>st</sup> hearing with the Housing, Banking and Urban Affairs committee is currently underway.	<b>House of Representatives:</b> The bill has been introduced to the House Judiciary, Energy and Commerce and Transportation and Infrastructure Committees. <b>Senate:</b> The bill has been introduced to the Senate Judiciary Committee with no advancements.	<b>House of Representatives:</b> The bill passed a House Judiciary committee vote 24-10 and passed the full house vote (228-164) in December 2020. <b>Senate:</b> The is in the first state of the legislative process, where it was introduced to congress and referred to the Committee on Finance.
<b>Limitations</b>	<ul style="list-style-type: none"> <li>• The act does not amend the CSA</li> <li>• The protections are limited to depository institutions (omits broker-dealers, underwriters, asset managers and custodians)</li> <li>• The Safe harbor is only applicable to actions by Federal banking regulators and not the Department of Justice</li> </ul>	<ul style="list-style-type: none"> <li>• Makes no specific reference to financial services therefore offering no guidance for institutions when performing due diligence procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Does not have bi-partisan senate sponsorship</li> </ul>
<b>Tax implication</b>	Section 280E of the tax code prevents the deduction of ordinary business expenses if the business is considered to be trafficking a Schedule-I or Schedule-II substance. Given that the SAFE Act does not amend the CSA, CROs would still be subject to the same tax implications.	The STATES Act will amend the CSA to remove marijuana as a Schedule-I drug. Given this, CROs would then not be subject to section 280E of the tax code and able to deduct ordinary businesses expenses.	The Act amends the CSA to remove marijuana as a Schedule-I drug therefore not subjecting CROs to section 280E of the tax code and allowing ordinary businesses deductions. It imposes a 5% tax for the first two years after implementation, followed by 1% yearly increases until reaching 8%.
<b>Relative sentiment to pass (based on 116<sup>th</sup> congress)</b>	The SAFE Banking Act has gathered a significant following with 206 (of 435) co-sponsors, including 26 republicans, in the House and 34 (of 100) cosponsors, including five republicans, in the Senate.	The STATES act has gathered 65 (of 435) co-sponsors, including 20 republicans, in the House and 9 (of 100) co-sponsors, including five republicans, in the Senate.	The MORE act currently has 120 (of 435) co-sponsors, including one republican, in the House and 8 (of 100) co-sponsors, all of whom are democrats, in the Senate.

Source: US Senate/House Website

In addition to the aforementioned bills, we note the following risk-mitigating factors for the MSO community as a whole that are prevalent today:

### Potential 2021 catalysts

Given continued acceptance of cannabis at the consumer level, and sizeable economic benefits to the government via tax revenue, state legislators across the US have begun to make a concerted push for advanced cannabis legislation in their home states. We believe there are a number of high-profile US states on the brink of cannabis legislation (whether medical or recreational) that will serve as near-term catalysts for the sector. Below, we highlight commentary from leaders VRNO has exposure to, including Pennsylvania and Maryland:

- **Pennsylvania.** The options for adult-use cannabis have been a priority for Pennsylvania Governor Tom Wolf. Regulators are keen on adopting a recreational marijuana program in the state to realize the economic benefits of additional taxation from a rapidly growing and high-consumption industry (in light of budget shortfalls stemming from COVID-19). To this end, Pennsylvania Lt. Governor John Fetterman met virtually with his counterparts in Illinois and Michigan to seek advice on instituting a legal cannabis market with a focus on the actual passage of a recreational law through legislation, taxation and social equity. Given increased support

from senior officials within the PA legislature and general voter support for an adult-use framework, we believe Pennsylvania could represent one of the next major markets to transition into adult use (potentially within the next 12 months).

- **Maryland.** We have also seen a recent change in momentum to pass a bill that would legalize adult-use marijuana. In mid-February 2021, the House Judiciary Committee held a hearing to consider a bill that would regulate adult-use cannabis and tax revenues, while imposing social justice measures. Although the panel has not yet cast a vote on The Cannabis Inclusion and Restoration Act (HB0032) to determine whether or not to advance the measure, it is evident that the state has made deliberation on the premise of an adult-use marijuana program a priority. The draft legislation would allow adults 21 years and older to possess up to 2oz of cannabis or 15g of concentrate; maximum 100 retail licenses (unaffected existing medical program); personal home grow of up to 6 plants; expungement of standalone cannabis offenses. We remain positive that the state will introduce a recreational cannabis program in the near term.

## 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.

### **US cannabis operators are subject to unfavourable federal tax rules**

Legal cannabis operators are still subject to unfavourable tax treatment on federal filings. Specifically, Revenue Code Section 280E outright disallows the deduction of operating expenses for state-level legal cannabis operators. 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 30%+ (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.

### **Significant unknowns and material assumptions in our valuation**

Because of the different regulatory frameworks and growth profiles of the target markets where Verano operates, our estimates and valuation are susceptible to many assumptions and unknowns inherent in these markets. As a result, our valuation could be materially impacted if changes in the industry or the company's ability to execute differ from our assumptions.

### **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; however, we believe increased clarity on this issue will be critical as the market reaches a more normalized state.

### **FX risk**

As Verano Holdings operates in US markets (but is listed and trades in C\$), its stock price is subject to USD/CAD FX fluctuations. Should the US\$ depreciate materially against the C\$, the stock prices of VRNO could experience headwinds independent of its underlying operational performance.

### **Regulatory/licensing risk**

Verano Holdings operates in several US states with different regulatory, licensing and compliance requirements. Changes to or non-compliance with regulations in any of the states where the company currently has a presence could have a material adverse impact on operating and financial performance going forward.

### **Execution risk**

Although we believe Verano Holdings is positioned as a leading cannabis MSO in the United States, we believe there is moderate-to-high execution risk for all players in this rapidly evolving space.

## Management Team and Board of Directors

### **George Archos | Founder, Chairman & CEO**

George Archos began his career in the cannabis industry after receiving a medical marijuana license in Illinois. His company, Ataraxia Grow and Labs, was the first to receive authorization to grow medical cannabis in the state. Mr. Archos brings a wealth of entrepreneurial experience that he has developed by designing and operating several successful restaurants in the Chicagoland area, including Wildberry Pancakes and Café, Westwood Tavern & Tap, and the Scout Waterhouse & Kitchen.

### **Brian Ward | Chief Financial Officer**

Brian Ward joined the Verano team in late 2019, bringing a wealth of accounting and finance experience collected over the years working at start-up ventures, consulting firms, and other large entities. During his time at Verano, he has helped integrate technology, which has in turn helped the company run more efficient finance processes and scale quickly. He is also responsible for formulating the company's financial and operational strategy, implementing key financial performance measures and leading M&A activity.

### **John Tipton | President**

John Tipton also joined Verano management following the acquisition of AME, where he was the founder and CEO of the Florida operation. During his time at AltMed Florida, John Tipton helped guide the company through the process of obtaining a vertically integrated license in the Sunshine State and building the company into one of the top players in the market. Mr. Tipton is a Certified Public Accountant and previously worked in a CFO role within the agricultural and land development space.

### **Sam Dorf, ESQ | Founder, Chief Growth Officer**

Sam Dorf has been a key proponent in Verano Holdings' growth, by strategizing the company's license application wins and effectively expanding the company's footprint. Mr. Dorf has helped the company shore up merit-based application license wins in Illinois, Nevada, Pennsylvania and Ohio.

### **Darren H. Weiss, ESQ | General Counsel, Chief Legal Officer**

Darren Weiss joined Verano after leaving his position as a Principal at a large law firm, where he led the cannabis practice. During his time at the law firm, he worked with private and public entities on corporate financings; drafting documents, contracts and agreements; and providing business advice and counsel. Mr. Weiss sits on the Executive Committee and Board of the Maryland Wholesale Medical Cannabis Trade Association and has received numerous awards of recognition. He received his Juris Doctorate cum laude from George Mason University School of Law.

### **R. Michael Smullen | Director & Corporate Secretary**

Mr. Smullen is the co-founder, CEO and Chairman of AltMed (AME) and was brought over to join Verano management following the acquisition in late 2020. Mr. Smullen has spent over 30 years working in the pharmaceutical and biotech industries, building and leading operations across multiple companies where he helped grow top line and overlooked M&A activity. His segue into the industry was sparked after realizing the efficacy of medical cannabis (over pharmaceutical drugs), via his youngest daughter's experience with epilepsy.

**Edward Brown | Director**

Mr. Brown brings expertise that he gained working in prominent executive positions in the alcoholic beverage industry. Edward Brown began his career at Seagram's where he worked for 10 years and later moved on to serve as the CEO of the highly coveted alcohol company, The Patron Spirit's Company AG, for nearly two decades. During his time at Patron, he helped complete the sale of the brand to Bacardi for US\$5.1B, marking it the single largest brand sale in the world. Currently, he is the CEO and Chairman of Clear Sports and is focused on growing the non-profit that he founded with his wife which is dedicated to transforming the lives of current and former foster children.

**Christina Nuñez | Director**

Ms. Nuñez's background stems from her passion of transforming entrepreneurial businesses into enduring brands. She brings over 13 years of experience working in the investing, operating, and advertising space and is currently the co-founder & partner of True Beauty Ventures, which is an emerging venture capital fund that is focused on the beauty, wellness and personal care market. Prior to the inception of her venture capital fund, she took on the role as General Manager and Chief Operating Officer of Clark's Botanicals and led all brand strategy, sales and marketing efforts.

Figure 64: Verano: Summary Sheet

## Verano Holdings (VRNO-CSE)



### Company Description

Founded in 2014 and headquartered in Chicago, Verano is currently the leading cannabis brand by market share in its home state of Illinois. It has amassed a national footprint that now has more than 50 active dispensaries spanning 11 markets (with licenses in hand that allow the company to increase its US exposure to 14 states and ~84 retail stores) and wholesale penetration into a further ~350 locations throughout the US. In addition, we believe Verano's infrastructure has begun to reach critical mass with eight cultivation/production centers that house ~690,000 sq. ft. of cultivation space with plans to increase this by an additional ~60,000 sq. ft. this year (2021).

### P&L Forecasts

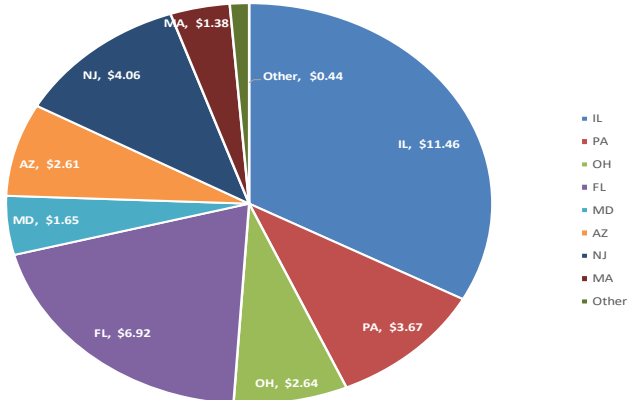
Year end Dec 31 USD\$000s	2020E	2021E	2022E
Revenue	\$ 354,721	\$ 830,451	\$ 1,146,874
Cost of Goods Sold	\$ (108,261)	\$ (273,929)	\$ (385,540)
Operating Expenses	\$ 72,174	\$ 182,619	\$ 257,027
Adj. EBITDA	\$ 89,382	\$ 335,185	\$ 504,307
Depreciation/Amortization	\$ 12,088	\$ 18,129	\$ 24,266
Interest Expense/Other	\$ -	\$ -	\$ -
Income Before Taxes	\$ 101,086	\$ 307,925	\$ 467,190
Taxes	\$ 40,923	\$ 104,503	\$ 141,913
Net Income	\$ 60,164	\$ 203,422	\$ 325,276
Shares o/s (FD)	303,306	303,306	303,306
EPS - FD	\$ 0.20	\$ 0.67	\$ 1.07

### Consolidated Balance Sheet

Year end Dec 31 USD\$000s	2020E	2021E	2022E
Cash	\$ 421,727	\$ 493,878	\$ 743,571
Current Assets	\$ 499,136	\$ 687,269	\$ 1,018,177
Total Assets	\$ 1,240,058	\$ 1,502,062	\$ 1,875,704
Current Liabilities	\$ 119,547	\$ 168,998	\$ 204,513
Shareholders' Equity	\$ 1,034,440	\$ 1,246,993	\$ 1,585,121
Total Liabilities & Shareholders' Equity	\$ 1,240,058	\$ 1,502,062	\$ 1,875,704

### Valuation

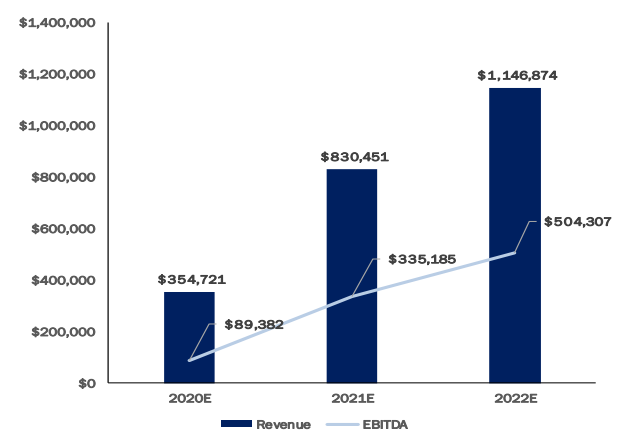
#### Breakdown of Net Asset Value by Region



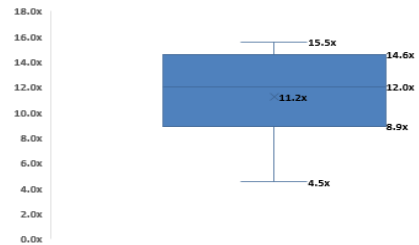
### State Exposure

States/Regions	# of Active Dispensaries
Florida	31
Illinois	8
Maryland	4
Pennsylvania	6
Ohio	4
Massachusetts	2
New Jersey	1
Arizona	5
Michigan	1
Nevada	1
California	0
West Virginia	0
Missouri	0
Arkansas	1
Total	64

### Revenue & Adj. EBITDA Forecasts

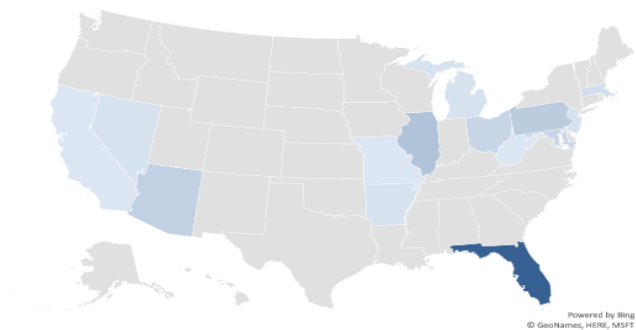


### Box & Whisker Plot: Top US MSO Peers CY2022 EV/EBITDA



Average of Top US MSOs: 11.2x  
Median of Top US MSOs: 12.0x  
Data Skewness: Downward

Year end Dec 31 USD\$000s	2021E	2022E
Enterprise Value / Revenue	6.7x	4.9x
Enterprise Value / EBITDA	16.7x	11.1x



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Source: Company Reports, Canaccord Genuity estimates

Figure 65: VRNO: Forecast consolidated P&L

FYE Dec 31 (US\$000s)	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Pro Forma (AltMed)	\$ 119,821	354,721	\$ 830,451	\$ 1,146,874	\$ 1,409,531	\$ 1,608,254	\$ 1,817,863	\$ 1,951,606	\$ 2,030,277	\$ 2,072,277	\$ 2,127,446	\$ 2,196,540
Net Revenue	\$ 65,968	\$ 233,130	\$ 791,732	\$ 1,146,874	\$ 1,409,531	\$ 1,608,254	\$ 1,817,863	\$ 1,951,606	\$ 2,030,277	\$ 2,072,277	\$ 2,127,446	\$ 2,196,540
Revenue growth %				45%	23%	14%	13%	7%	4%	2%	3%	3%
Cost of goods sold	38,469	108,261	273,929	385,540	483,816	556,456	630,359	677,234	704,677	719,553	742,228	758,309
Loss (Gain) on FV Changes	(14,564)		-	-	-	-	-	-	-	-	-	-
Adj. Gross Profit	\$ 42,063	\$ 188,957	\$ 517,804	\$ 761,334	\$ 925,715	\$ 1,051,798	\$ 1,187,504	\$ 1,274,372	\$ 1,325,600	\$ 1,352,724	\$ 1,385,218	\$ 1,438,231
General & Administrative	28,107	45,109	114,137	160,642	201,590	231,857	262,650	282,181	293,615	299,814	309,262	315,962
Sales & Marketing		27,065	68,482	96,385	120,954	139,114	157,590	169,309	176,169	179,888	185,557	189,577
Share-based payments	6,231	3,609	9,131	12,851	16,127	18,549	21,012	22,574	23,489	23,985	24,741	25,277
Amortization and Depreciation	-	12,088	18,129	24,266	27,690	29,321	29,739	29,865	30,078	30,020	29,818	-
Corporate Overhead	2,546		-	-	-	-	-	-	-	-	-	-
Income (loss) from operations	\$ 3,796	\$ 101,086	\$ 307,925	\$ 467,190	\$ 559,354	\$ 632,958	\$ 716,515	\$ 770,444	\$ 802,248	\$ 819,017	\$ 835,840	\$ 907,415
Adjusted EBITDA	\$ 4,252	\$ 89,382	\$ 335,185	\$ 504,307	\$ 603,170	\$ 680,827	\$ 767,265	\$ 822,883	\$ 855,815	\$ 873,022	\$ 890,399	\$ 932,692
Adj. EBITDA %	6%		42%	44%	43%	42%	42%	42%	42%	42%	42%	42%
Interest expense & other	\$ (6,787)		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income (Loss) before taxes	\$ (2,991)	\$ 101,086	\$ 307,925	\$ 467,190	\$ 559,354	\$ 632,958	\$ 716,515	\$ 770,444	\$ 802,248	\$ 819,017	\$ 835,840	\$ 907,415
Tax Expense	\$ 15,203	\$ 40,923	\$ 104,503	\$ 141,913	\$ 161,414	\$ 170,207	\$ 187,441	\$ 192,763	\$ 191,978	\$ 192,548	\$ 186,984	\$ 195,865
Net Income	(18,194)	60,164	203,422	325,276	397,939	462,751	529,074	577,681	610,270	626,468	648,856	711,549
Non-Controlling Interest	240	240	240	240	240	240	240	240	240	240	240	240
Net Income attributable to VRNO	\$ (18,434)	\$ 59,924	\$ 203,182	\$ 325,037	\$ 397,700	\$ 462,512	\$ 528,834	\$ 577,441	\$ 610,030	\$ 626,229	\$ 648,616	\$ 711,310
# of Shares (FD)	-	303,306	303,306	303,306	303,306	303,306	303,306	303,306	303,306	303,306	303,306	303,306
Earnings per Share		\$ 0.20	\$ 0.67	\$ 1.07	\$ 1.31	\$ 1.52	\$ 1.74	\$ 1.90	\$ 2.01	\$ 2.06	\$ 2.14	\$ 2.35

Source: Company Reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

### Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

Analysts employed outside the US are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity LLC and therefore may not be subject to the FINRA Rule 2241 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

### Investment Recommendation

Date and time of first dissemination: March 11, 2021, 10:56 ET

Date and time of production: March 11, 2021, 10:56 ET

### Target Price / Valuation Methodology:

Verano Holdings, LLC - VRNO

We value VRNO using a SOTP analysis with DCF valuations utilizing discount rates ranging from 8% to 12% and a terminal growth rate of 2%. Our SOTP analysis results in a TP of C\$35.00 per share, representing **16.3x** our CY2022E EV/EBITDA, compared to the overall MSO average of ~11.8x and the current valuations of other leading MSOs at ~14.2x.

### Risks to achieving Target Price / Valuation:

Verano Holdings, LLC - VRNO

### 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.

### US cannabis operators are subject to unfavourable federal tax rules

Legal cannabis operators are still subject to unfavourable tax treatment on federal filings. Specifically, Revenue Code Section 280E outright disallows the deduction of operating expenses for state-level legal cannabis operators. 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 30%+ (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.

### Significant unknowns and material assumptions in our valuation

Because of the different regulatory frameworks and growth profiles of the target markets where Verano operates, our estimates and valuation are susceptible to many assumptions and unknowns inherent in these markets. As a result, our valuation could be materially impacted if changes in the industry or the company's ability to execute differ from our assumptions.

### 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; however, we believe increased clarity on this issue will be critical as the market reaches a more normalized state.

### FX risk

As Verano Holdings operates in US markets (but is listed and trades in C\$), its stock price is subject to USD/CAD FX fluctuations. Should the US\$ depreciate materially against the C\$, the stock prices of VRNO could experience headwinds independent of its underlying operational performance.

### Regulatory/licensing risk

Verano Holdings operates in several US states with different regulatory, licensing and compliance requirements. Changes to or non-compliance with regulations in any of the states where the company currently has a presence could have a material adverse impact on operating and financial performance going forward.

## Execution risk

Although we believe Verano Holdings is positioned as a leading cannabis MSO in the United States, we believe there is moderate-to-high execution risk for all players in this rapidly evolving space.

## Distribution of Ratings:

### Global Stock Ratings (as of 03/11/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	595	64.89%	60.50%
Hold	157	17.12%	42.68%
Sell	14	1.53%	42.86%
Speculative Buy	135	14.72%	80.74%
	917*	100.0%	

\*Total includes stocks that are Under Review

## Canaccord Genuity Ratings System

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

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

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

## Risk Qualifier

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## 12-Month Recommendation History (as of date same as the Global Stock Ratings table)

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx>

## Required Company-Specific Disclosures (as of date of this publication)

Verano Holdings, LLC currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided investment banking services to Verano Holdings, LLC.

In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Investment Banking services from Verano Holdings, LLC.

In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of Verano Holdings, LLC or any publicly disclosed offer of securities of Verano Holdings, LLC or in any related derivatives.

Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from Verano Holdings, LLC in the next three months.

## Verano Holdings, LLC Rating History as of 03/10/2021



Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

## **Required Company-Specific Disclosures (as of date of this publication)**

### **Past performance**

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

### **Online Disclosures**

Up-to-date disclosures may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures.canaccordgenuity.com/EN/Pages/default.aspx>; or by sending a request to Canaccord Genuity Corp. Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2; or by sending a request by email to [disclosures@cgf.com](mailto:disclosures@cgf.com). The reader may also obtain a copy of Canaccord Genuity's policies and procedures regarding the dissemination of research by following the steps outlined above.

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