Canaccord Genuity Capital Markets

PLUS Products

Cannabis

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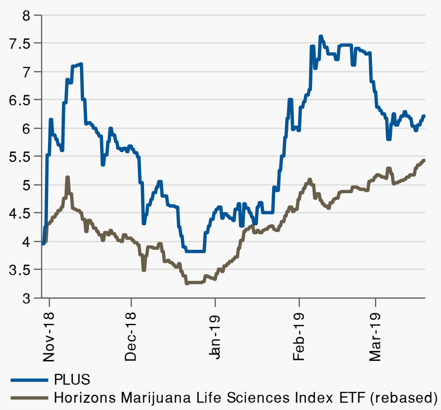
US Equity Research
20 March 2019

SPECULATIVE BUY

PRICE TARGET	C$8.00
Price (19-Mar)	C$6.04
Ticker	PLUS-CSE

Market Cap (C$M):	286
Shares Out., FD (M) :	47.4
Enterprise Value (C$M):	262

FYE Dec	2018E	2019E	2020E
Sales (US$M)	8.4	24.5	74.8
EBITDA (US$M)	(6.5)	(3.8)	12.2
Free Cash Flow (US$M)	(8.1)	(10.4)	3.6
EV/Sales (x)	24.0	8.2	2.7
EV/EBITDA (x)	-	-	16.6



Source: FactSet

Priced as of close of business 19 March 2019

PLUS manufactures branded cannabis products.

Initiation of Coverage

Premier cannabis brand play, winning in California and poised for expansion

We are initiating coverage of PLUS Products with a SPECULATIVE BUY rating and C$8 price target. Through its popular line of gummies, PLUS has attained leading share of the legal edibles market in California (10% in 2H 2018), arguably the world's most competitive. We believe PLUS will be able to leverage this leadership into continued strong growth for existing SKUs and gains in additional edibles categories, where the company is poised to convert shelf space, brand awareness, and operational excellence into penetration of baked goods and mints. We also expect initial state expansion into additional geographies is imminent, prioritizing states with legal recreational sales. We expect FL, NY, MA, MI and NV to be the most likely near-term state expansion targets, with Canada a focus internationally. California alone should represent a roughly $1B edibles opportunity by 2022E. While expansion markets conservatively increase that TAM 3x, we note there is nothing yet reflected for sales beyond CA in our model, somewhat de-risking our estimates considering imminent state expansion appears likely. Near term, demand for PLUS's gummies within CA could strengthen, fueled in part by a crackdown on unlicensed dispensaries when coupled with continuing share gains for the edibles category. We are also encouraged by progress on PLUS's product and market expansion plans.

Leading share in CA edibles: Last year, PLUS had the two top-selling edibles SKUs in CA and nearly 8% of category retail sales. We expect continued adoption for PLUS products in CA on share gains through brand recognition and product line expansion along with overall category adoption in the developing market. We expect the launch of mints and baked goods this year and believe a hemp-based CBD line of gummies products is likely in the near term given the company's successful existing cannabis-based CBD product (#1 in CA and sold in dispensaries).

Expansion into new markets: Moving forward, we expect PLUS to expand into new markets in both the US and internationally with emerging recreational and growing medical opportunities. The company plans to utilize a franchise-like model, where PLUS partners with existing operators to leverage their established supply and distribution networks and reduce capex requirements. While our estimates do not yet include contributions outside of CA, we believe successful expansion could drive as much as 100% upside to our estimates for revenue and greater upside for EBITDA.

Valuation: Our C$8 price target is based on a DCF analysis of the company's CA operations. We note that any additional state expansion would be incremental to our estimates. Our price target represents an EV/Rev multiple of 3.7x our 2020 estimate and 22x EV/EBITDA. Currently the stock is trading at an EV/Rev multiple of 2.7x our 2020 estimate and 16.6x on EV/EBITDA, which compares with the peer group at 3.0x and 9.7x, respectively. We believe a premium to prevailing EV/EBITDA multiples is justified, considering a scarcity of pure brand plays, PLUS's dominant market share in edibles, potential upside from geographical expansion and our near-term revenue and margin assumptions, which we believe could prove conservative. Given the various risks associated with execution, regulation and other factors highlighted in our risks section, we believe a SPECULATIVE BUY rating is appropriate at this time.

For important information, please see the Important Disclosures beginning on page 32 of this document.

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Executive summary

Figure 1: PLUS Products

PLUS™

Source: Company materials

We are initiating coverage of PLUS Products (PLUS) with a SPECULATIVE BUY rating and an C$8.00 price target. PLUS is a market-leading producer of cannabis edibles in California, selling into more than 200 licensed dispensaries in the state and through direct-to-consumer (DTC) home delivery. We expect continuing strong growth from the company's core gummies line in California, a broadening edibles product portfolio, and expansion into additional markets domestically and abroad. We note that following the recent C$25M capital raise, PLUS is positioned to fund near-term capex needs in California and to fund state expansion initiatives particularly in light of the company's planned modular low-cost expansion model. This year for California we expect PLUS to spend approximately $7M on capacity expansion initiatives and investment into the development of new products. We expect more moderate spending in California moving forward. The company currently has $38M in cash and $19M in debt on its balance sheet. We note that with management and insiders holding an approximately 25% stake in the company, goals should be well aligned with investors in terms of spending. Given the various risks associated with execution, regulation and other factors highlighted in our risks section, we believe a SPECULATIVE BUY rating is appropriate at this time.

Our C$8.00 price target for PLUS is derived through a discounted cash flow analysis of the company's operations in California through 2028. Within our analysis we utilize a 12% discount rate, a terminal growth rate of 2% and a CAD-to-USD exchange rate of C$1.30/US $1.00. Inclusive within our California estimate is the assumption that the company can achieve a long-term market share in the state of roughly 5% and that PLUS can maintain long-term EBITDA margins of approximately 20%. We note that any expansion of company operations into additional geographies would be incremental to our financial model and could present upside to our valuation assumptions.

Our C$8 price target represents an EV/Revenue multiple of 3.7x our 2020 estimate and 22x on EV/EBITDA. Our price target analysis assumes a share count of 47.4M and PLUS's current cash and debt positions of $38M and $19M, respectively, following the latest capital raise. Relative to our 2020 estimates, PLUS is currently trading at an EV/Revenue multiple of 2.7x and 16.6x on an EV/EBITDA basis. On EV/EBITDA, PLUS is trading at a significant premium to the broader peer group of US operators currently trading at 9.7x 2020 estimates; however, on an EV/revenue basis the stock is trading below the peer group, which is at 3.0x 2020 estimates. We believe a premium to prevailing EV/EBITDA multiples is justified, considering a scarcity of pure brand plays, PLUS's dominant market share in edibles, potential upside from geographical expansion and our near-term revenue and margin assumptions, which we believe could prove conservative.

Figure 2: Price target summary

	Market Cap ($M)	Price per Share	Enterprise Value	2020 EV/Rev	2020 EV/EBITDA
PLUS Products	379.3	8.00	354.8	3.7	22.4
Discount Rate	12%				
Terminal Growth	2%				
Shares	47.4				
Cash ($M)	38				
Debt ($M)	19				
CAD/USD Translation	C$1.3/$1.00				

Source: Company reports, Canaccord Genuity estimates

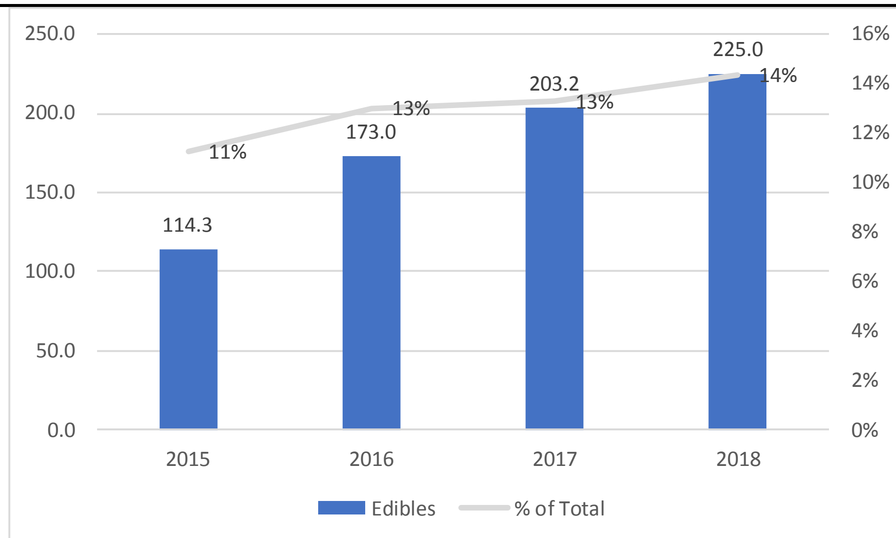
Market opportunity expanding as edibles category grows and PLUS executes expansion plans

PLUS is a market-leading producer of cannabis edibles in California. The company's branded products are sold in more than 200 licensed dispensaries and through direct-to-consumer (DTC) home delivery within California's legal cannabis market. PLUS's primary SKUs are THC-based gummies, and a leading cannabis-based CBD gummy, infused with cannabis oils from third parties, and falling within the broader edibles category. PLUS is expanding into CBD gummies, baked goods and mints, as well as broadening its geographical exposure to include additional US states and Canada. We estimate additional edibles products increase PLUS's addressable market within CA from $314M last year to $1.2B in 2022, while US and international expansion increases its overall edibles exposure to $2.3B in 2022.

Shifting consumer preferences driving edibles gains against flower

Over the past few years, there has been an expansion of the types of cannabis-derived consumer products available for sale in legal US cannabis markets, especially those allowing recreational sales. In addition to traditional flower, cannabis increasingly comes in the form of vapes, edibles, and other concentrates. Data from Colorado's mature recreational market offers an informative illustration of this shift. According to BDS Analytics, flower has declined from 59% share of retail cannabis sales in 2015 to 42% in 2018, while edibles have grown their share of the pie from 11% to more than 14% over the same period. Importantly, while CO's overall growth for cannabis retail sales was a tepid 3% in 2018, edibles grew 11% Y/Y according the same data underscoring the category's resilience. We believe California should exhibit similar mix dynamics going forward, noting flower's declining share of total sales within the state since California's launch of legal recreational sales last year. Strong demand for edibles appears to be driven in part by greater access to specific strains of cannabis (spurred by legalization) and technological advancements that have improved taste, increased variety, and allowed for more accurate dosage.

Figure 3: Annual edibles sales in Colorado ($M)

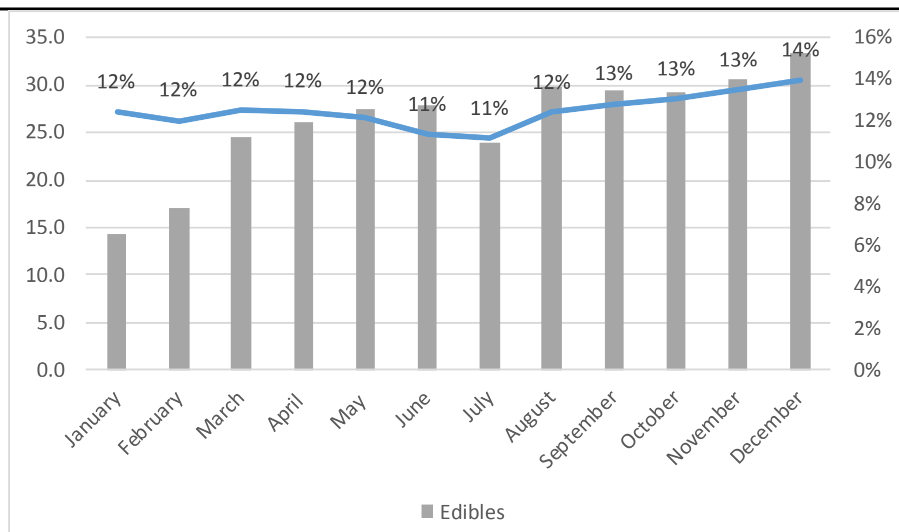


Source: BDS Analytics

California's edibles market should see substantial growth

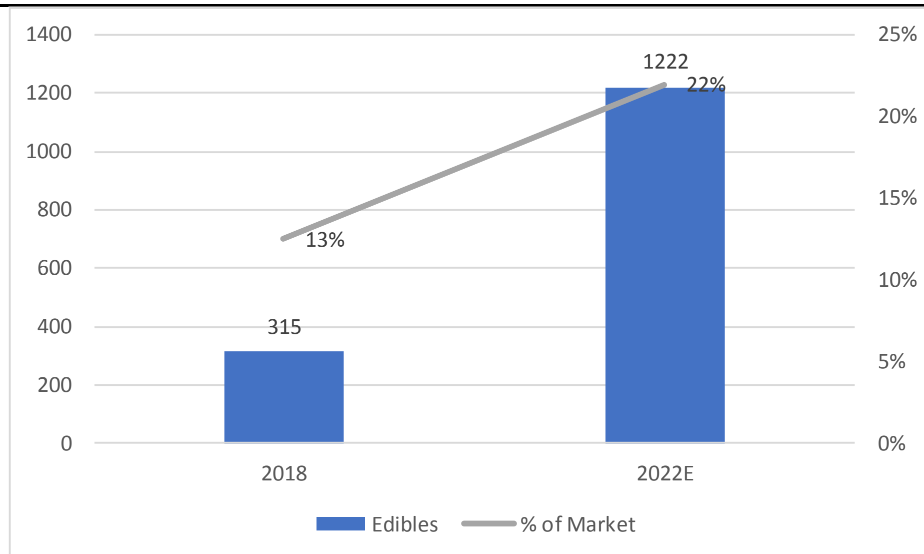
Edibles occupy meaningful share of CA's legal cannabis sales, PLUS's core market, at roughly 12.5% in 2018 according to BDS Analytics. While recreational sales in the state have gotten off to a slow start, we continue to expect strong growth going forward. We also expect edibles to increase their share of the market. We are forecasting CA's legal cannabis sales to grow at a 22% CAGR from 2018 to 2022, from $2.5B to $5.6B. Over the same period, edibles in CA should grow from $315M to $1.2B (31% CAGR), when utilizing similar consumption patterns experienced by CO to date and our conservative estimate for edibles to reach 22% of the market by 2022. Importantly, monthly data from 2018 shows this trend is underway. Adoption of edibles grew throughout the year, beginning with 12% share in January, and exiting 2018 at 13.9% share (recovering from sharp mid-year declines with the introduction of testing).

Figure 4: CA edibles sales 2018 ($M) and % of total market



Source: BDS Analytics

Figure 5: California edibles ($M) market

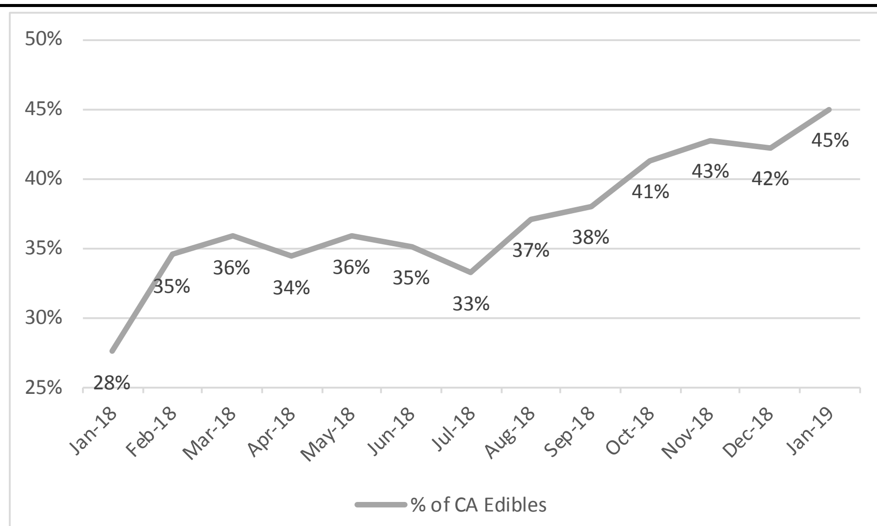


Source: BDS Analytics, Canaccord Genuity estimates

PLUS is focused on largest segment of edibles category

Last year according to BDS Analytics, gummies were the largest portion of the edibles market in California with sales representing 36% of the category. We note that no other product type represented more than 20% of the category with chocolate (19% and baked goods (12%) having the next largest shares. Meanwhile, adoption for gummies in California appeared to be growing throughout the year and the beginning of 2019. In the last twelve months, gummies as a percentage of total edibles sales increased from 28% in January 2018 to approximately 45% this past January.

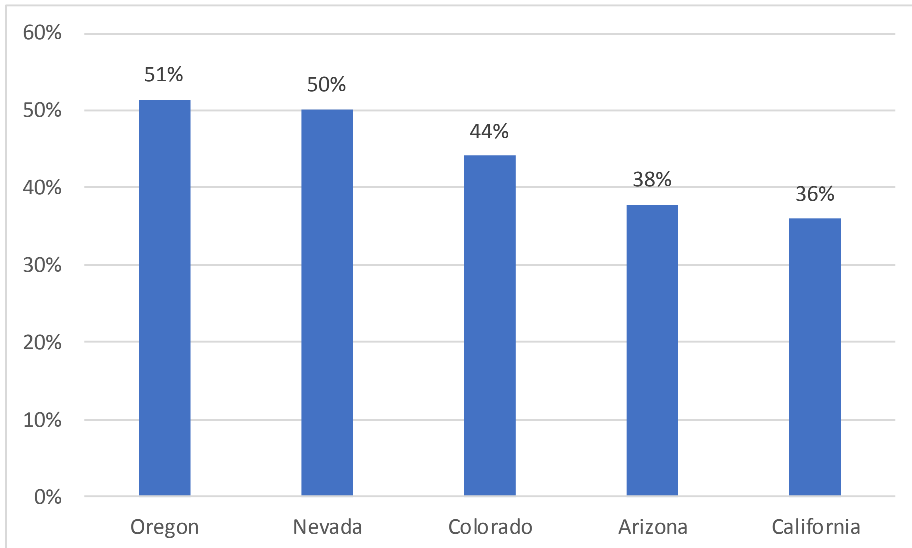
Figure 6: Gummies as a % of California edibles market



Source: BDS Analytics

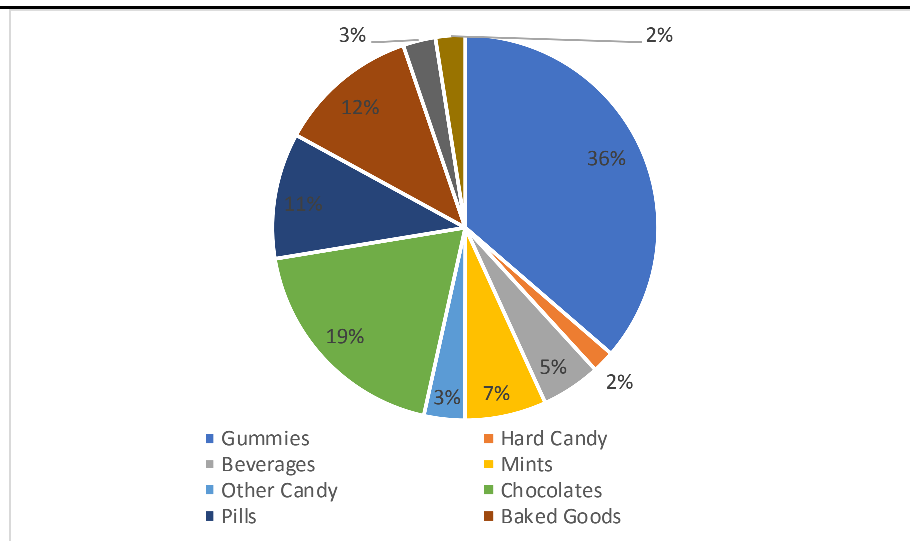
We note that gummies adoption in other more mature markets is even greater based on the percentage of gummies to total edibles. In Oregon and Nevada, gummies represented more than 50% of edibles sales; in Colorado, gummies represented 44% of edibles sales; and in Arizona, gummies were 38% of edibles sales according to BDS Analytics.

Figure 7: Gummies as a percentage of edibles market (key states)



Source: BDS Analytics

Figure 8: California edibles product category sales as a percentage of total edibles, 2018



Source: BDS Analytics

Expansion into baked goods and mints underway

In December, PLUS acquired GOOD Co-Op Inc for approximately C$2M in an all-share transaction. GOOD is a premium edibles brand focused on cannabis-infused brownies and other baked goods. The acquisition broadens PLUS's edibles expertise, which should allow PLUS to launch cannabis baked goods and other products under the PLUS name. The acquisition also added a production facility in Sacramento. We note that baked goods represent the fifth largest category in the California edibles market, and was approximately 12% of CA edibles last year, or roughly $38M. We also expect PLUS to launch a line of cannabis infused mints in the second half of this year. We believe mints represent a $22M market (6% last year). We believe baked goods and mints will fall into a similar price point ($15-$25 per package range) as PLUS's gummies which currently sell at a retail price of $16 per tin.

Hemp-based CBD could also contribute considerably to growth

With its CBD Relief edibles brand, PLUS has the number-one selling CBD product in the State of California (cannabis-based). Moving forward, PLUS plans to build on strong adoption of CBD Relief by launching a line of hemp-based CBD products. We expect the initial launch to continue to focus on flavored gummies while longer term we believe PLUS will launch hemp-based CBD products within other edibles categories. We see significant long-term growth opportunities for hemp-based CBD following recent passage of Farm Bill. With hemp-based CBD effectively removed from the Controlled Substances Act, hemp-derived CBD products will soon be legally manufactured, distributed and sold throughout the United States. Federal legalization could entice mass market retailers to broadly distribute CBD products by as soon as late 2019. There is also interest from outside consumer packaged goods players looking to inject growth into their traditional wellness portfolios, including beverages. Growth should be dramatic. According to the Hemp Business Journal, hemp-based CBD sales have grown from essentially nothing five years ago to $190M in 2017, accounting for almost 25% of US hemp product sales. Over the next five years, the Hemp Business Journal expects hemp-derived CBD to represent the largest category of US hemp product sales at $646M, or 34% of the total. This estimate appears excessively conservative, in our view, especially when compared to the Brightfield Group's forecast of $22B in the US by 2020.

Figure 9: PLUS CBD Relief

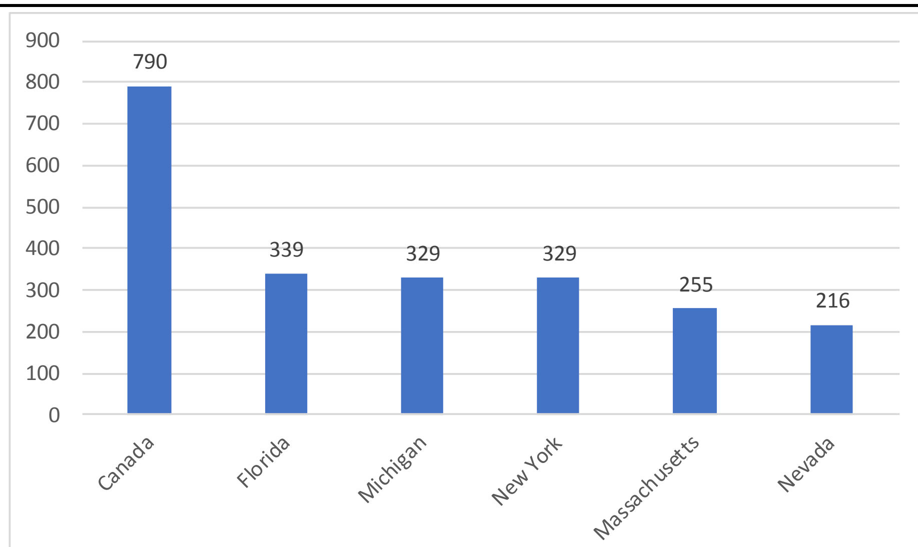
Source: Company materials

Imminent expansion into additional states and internationally longer term

To date, PLUS has focused exclusively on the California market. Moving forward we expect PLUS to expand into new markets with emerging recreational and growing medical opportunities including Florida, Massachusetts, Michigan, Nevada and New York in the US, and Canada internationally. We expect Nevada and Massachusetts to represent the most likely near-term areas for expansion. Importantly, we believe adoption in less mature states than California will be rapid, and we expect PLUS to see meaningful contributions and sizeable share gains quickly after entering new markets. Longer term, we believe PLUS revenues will be more evenly split between California and other markets. We estimate the expansion states and Canada could represent a combined market of more than $10B by 2022, with consumption trends in PLUS expansion markets driving edibles adoption rates similar to our forecast for California (conservatively estimating 22% of the market for 2022 in expansion states). We see a combined 2022 edibles opportunity in California and the expansion markets of approximately $3.5B for the company to capitalize on.

Meanwhile for 2020, assuming 1) similar market adoption levels for edibles in PLUS' key expansion markets to those expected for California (20% in 2020E), 2) PLUS products achieving a 14% share of the market (CA estimate at 14% this year) and 3) similar pricing dynamics whereby PLUS as a wholesale provider collects revenues on approximately 35% of the retail ASP, we believe the expansion markets have the potential to add an incremental $72M to our 2020 revenue estimate. This $72M revenue contribution would nearly double our total revenue estimate for the company. We note that our 14% penetration rate estimate for PLUS products as a percentage of retail sales in 2020 in expansion markets could prove conservative given the limited current competition in these markets. From a profitability standpoint, we expect PLUS to take a similar approach to what it has done in California in focusing on market share gains over profitability, and we expect near-term revenues from expansion states will come at a lower EBITDA margin than that achieved in California. At approximately 8% margins the incremental revenues would add approximately $6M to our 2020 EBITDA assumption.

Figure 10: 2020E potential expansion markets ($M market opportunity)



Source: Company reports, Canaccord Genuity estimates, BDS Analytics

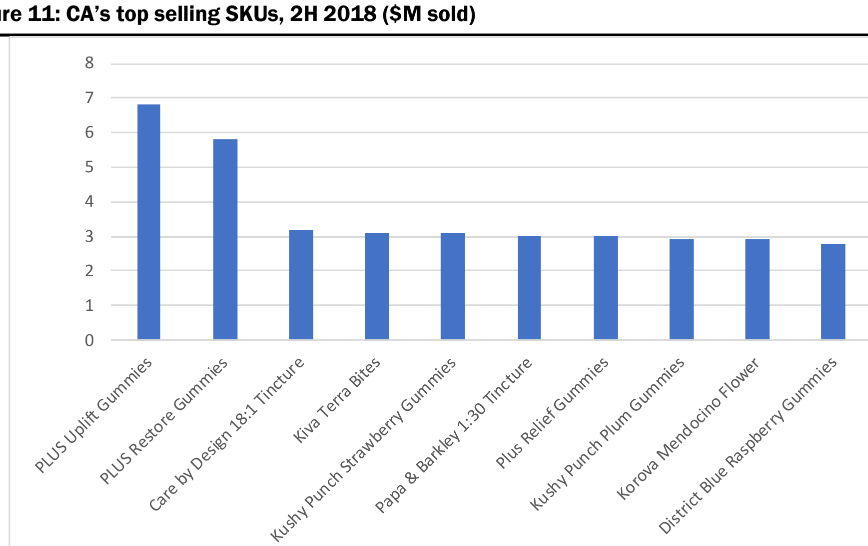
Strong competitive positioning in edibles has substantial merits

In our view, PLUS's strong position within California's edibles market bolsters the company's ability to grow profitably in an increasingly competitive market. As a category, edibles are increasing their share of cannabis retail sales, particularly in recreational markets including CA. Further, improving ASPs have been observed for edibles across several states, in contrast with declining prices for flower and oils, boding well for profitability. Importantly, PLUS has built its edibles business in CA, a market with the broadest range of branded consumer products in the cannabis industry and an established leadership role when it comes to building brand awareness in the US and abroad.

PLUS has already gained leading share in California

As mentioned above, we believe edibles will grow their mix of legal cannabis sales within California and in PLUS's expansion markets. According to point-of-sales data, PLUS had the top two cannabis SKUs in CA in 2018, by dominating the edibles category where PLUS products represented 9% of California edibles sales in the most recently reported quarter (Q3/18) based on retail ASPs. We note that PLUS reflects a retail price which is approximately 35% of retail ASPs (~$16 per tin) in generating revenues. For the gummies sub-category, PLUS drove approximately 30% of California's sales. We believe PLUS's leading share of edibles will enhance its ability to penetrate new product areas including baked goods, as the company parlays high profile success in gummies into increased shelf space in adjacent sub-categories. Further, we note that PLUS focus on branded products portends to sustainable high market share in other larger and more mature consumer packaged goods industries including beverages, chocolate and toothpaste where Coco Cola, Hershey's and Colgate hold 43%, 32% and 42% market shares, respectively. Within our current forecast, we believe PLUS products will represent approximately 32% of the California edibles market in 2020.

Figure 11: CA's top selling SKUs, 2H 2018 ($M sold)



Source: Company reports, BDS Analytics GreenEdge

California is optimal launch-point for national cannabis brand

As the world's fifth largest economy and the most visited tourist destination in North America, California is uniquely positioned to significantly influence the global cannabis market following the advent of legal recreational cannabis. We expect significant levels of cannabis tourism in the state. After legalization of rec use went into effect in Colorado in 2014, the state saw roughly $100M in cannabis-related tourism the following year, according to the state's tourism board. We think the more significant takeaway for California, however, is the unmatched potential for awareness of its cannabis brands to grow beyond state borders. As has historically been the case in non-cannabis businesses including fashion, entertainment and traditional consumer products, the California market will serve as a beachhead for the development of national consumer brands with those brands with strong California adoption gaining rapid adoption in other markets. According to data provided by BDS Analytics, branded products represented approximately 76% of product sales in California last year which compares to 44% for Colorado and approximately 50% for other mature states including Nevada and Arizona. In total there were 846 cannabis brands generating revenues in California last year, which compares with 551 for Oregon, 320 for Colorado and 150 for Arizona. In terms of brands generating sizeable revenues, thirty brands generated more than $10M in revenues in California last year, this is more than the total number of brands that generated similar levels in Colorado, Oregon and Arizona combined (25). Meanwhile, 17 brands last year in California generated more than $25M in revenues (compared with eight total in the other markets) and three brands generated more than $50M in revenues (compared with one each in Colorado and Arizona).

Figure 12: 2018 revenue levels by major brands and state

	California	Colorado	Oregon	Arizona
>$50M	3	1	0	1
$25M-$50M	14	4	1	1
$10M-$25M	13	13	2	2
<$10M	816	302	548	146

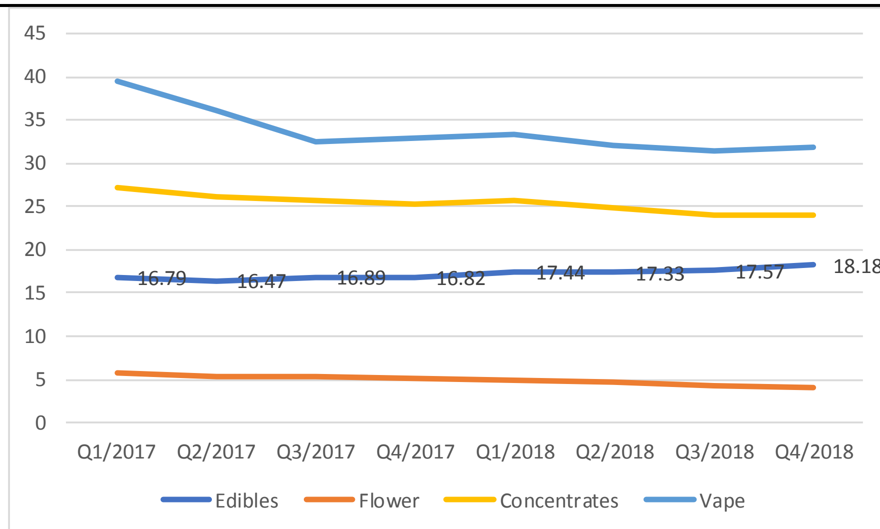
Source: BDS Analytics

Edibles focus should support healthy long-term margins

Through a focus on edibles, PLUS is positioned to benefit from a lower cost of flower and oils, while the prices for its finished products remain flat and even increase. In general, the further away from flower, the better the pricing and margins for cannabis products. Pricing pressure for flower has been severe in recent years, especially in western recreational cannabis states. In stark contrast, price per gram for edibles has been going up.

According to POS data from BDS, over the past two years in Colorado the average price per unit (per gram) of edibles increased by 8% from $16.79 in Q1/17 to $18.18 in Q1/19. Over the same period, the price of flower per gram sold declined 28%, the price of concentrates per gram declined by 12%, and the price of vape per gram declined by 19%.

Figure 13: CO avg. retail price per unit by product type



Flower price per unit is reflected as $/Gram.
Source: BDS Analytics GreenEdge

Low-cost expansion strategy should allow rapid brand deployment

As PLUS expands into new markets, the company looks to leverage insights and operational experience gained in California. Expansion of its brands will utilize a franchise-like model, where PLUS partners with existing operators to leverage their established supply and distribution networks. PLUS will offer turn-key production modules, deploying smaller versions of its existing equipment in order to fit within less than 5,000 sq. feet of production space. Modular production operations will be capable of annual production output of $10M to $30M while requiring less than $1M in initial capex.

Investment risks

Risk factors related to the long-term success of PLUS include:

- Changes to US federal laws: While unlikely in our view, a near-term change to make cannabis federally legal in the US could lead to increased competition in all phases of PLUS' operations while a change in the federal government's current disposition that allows individual states to decide upon the legality of marijuana could result in operations being ceased in existing states and markets in which the company is planning near-term expansion.
- US state-level regulations: Any adverse change in the state-level regulatory environments in California or any other states in which the company plans to operate could hinder PLUS operations.
- California concentration: Given PLUS' current exclusive operations in the California market, the company is subject to significant risk related to any downturn in that market including a change to state-level regulation or any other factor that could have an adverse effect on pricing (both retail and supply) or adoption for cannabis products.
- Supply and distribution agreements: PLUS maintains near-exclusive relationships for flower supply and distribution with California Refined Essentials Cooperative Inc. (CRE) and Calyx Brands. Any change to these relationships could impact near-term results and profitability.
- Manufacturing capacity limitation: Currently the company utilizes its Adelanto, California manufacturing facility for all product manufacturing. The facility is limited in scale to enable approximately $50M in annual capacity. While PLUS has plans to expand capacity at the existing facility in the near term and open a new production facility next year, the inability to expand production operations would limit the company's near-term growth potential.
- Customer concentration: The Eaze Delivery platform represents the largest customer for PLUS and accounts for between 10% and 15% of the business. Any adverse change to this customer relationship, whether the loss of the customer or a change to the outstanding pricing structure, could result in an adverse impact on near-term results and the future growth outlook for PLUS. In addition, as PLUS expands beyond the California market, the company will have to develop new delivery relationships as Eaze maintains on-demand delivery services only within the California market.
- Capital market uncertainty: PLUS remains cash flow negative in our model and requires significant capex to fund California growth and expansion initiatives in the near term, so the company may need to raise further capital to fund expansion initiatives. Should sentiment or regulations regarding US cannabis operations materially change, it could be difficult (or impractical) for the company to secure additional public market capital.
- Increased competition: PLUS operates within the highly competitive California market. Any unforeseen change in the competitive landscape could hinder the company's ability to develop and launch new product and service offerings as planned and could have an adverse impact on near-term financial performance.
- Expansion into new markets: The long-term success of PLUS depends in part on the development of and expansion into new markets. The inability to expand operations into new markets in which the company does not currently operate, whether due to unforeseen regulatory headwinds or operating challenges, could result in the failure to meet expectations.

- New product development: PLUS will invest significantly in the years ahead to develop new consumer products. The inability to match customer demand with new products would result in lower-than-expected contributions from branded products.
- Pricing risk: Any significant drop in edibles pricing within key markets could have a negative impact on PLUS revenues and profitability. Similarly, as PLUS sources flower from wholesale cultivation operations, any significant change to flower prices could negatively impact company costs and margins.
- FX risk: As PLUS operates in the US while the stock is listed on a Canadian exchange, stock returns are subject to USD/CAD FX fluctuations.

Operational overview

PLUS is a market-leading producer of cannabis edibles in California. The company's branded products are sold to more than 200 licensed dispensaries and through home delivery within California's legal medical and recreational cannabis markets. PLUS's four primary SKUs are THC-based gummies falling within the broader edibles category. Following its acquisition of GOOD Co-Op in December, PLUS expects to expand its product portfolio into baked goods, mints, and hard candy. PLUS maintains its own manufacturing facilities, sourcing cannabis oils from licensed third parties.

Products

Figure 14: PLUS edibles

Source: Company materials

Currently, PLUS has four primary SKUs of branded cannabis gummies and sells limited-edition gummies. In December, PLUS acquired GOOD Co-Op Inc., a cannabis-infused baked goods brand in California. PLUS plans to leverage the GOOD acquisition to develop products for adjacent edibles categories including baked goods, mints, and hard candies.

PLUS gummies are infused with cannabis oil and contain both THC and CBD. The company's primary product SKUs are: "Restore" Blackberry & Lemon and "Create" Sour Blueberry, which combine both THC and CBD; "Uplift" Sour Watermelon, which is a fully THC-infused product; and "CBD Relief" Pineapple & Coconut, which is a CBD-only infused product. According to point of sale dispensary data from BDS Analytics, PLUS' Uplift and Restore products were the top two selling cannabis product SKUs in California in the second half of last year. In addition to its main SKUs, PLUS manufactures limited edition products for sale on a seasonal basis with flavors including Pink Lemonade, Holiday Bliss, Rose & Vanilla, Rainbow Sorbet and Vanilla Rose. All products are packaged in resealable aluminum tins, which meet the regulatory requirements of the state of California. Each edibles package contains 20 gummies with each gummy containing approximately 5mg of cannabinoid content. The PLUS gummies currently retail at approximately $16 per tin through Eaze.

Primary SKUs:

- "Restore" Blackberry & Lemon: Indica, 90 MG THC, 10 MG CBD per tin (4.5 MG THC, 0.5 MG CBD per piece).
- "Uplift" Sour Watermelon: Sativa, 100 MG THC per tin (5 MG THC per piece).
- "CBD Relief" Pineapple & Coconut: 100 MG CBD per tin (5 MG CBD per piece).
- "Create" Sour Blueberry: Hybrid, 100 MG THC per tin (5 MG THC per piece).

Production

Currently, all PLUS products are manufactured at the company's Adelanto facility. The facility has 12,000 sq. feet of production space and is currently running at a capacity supportive of an annual revenue run rate of $15M-$20M. By adding shifts at the facility, the company estimates it can convert to approximately $50M in annual revenues., or ~8.3M packages of gummies. We estimate that in 2018, the company sold approximately 1.4M packages of gummies, and for this year we forecast PLUS will sell 3.7M packages, PLUS acquired a 4,800-square-foot production facility in Sacramento, CA. The Sacramento facility is not currently operational but could be utilized for further capacity expansion.

Figure 15: Adelanto production facility

Source: Company reports

Supply agreements

PLUS maintains a non-exclusive supply arrangement with California Refined Essentials Cooperative Inc. (CRE). Under the agreement, CRE provides PLUS with substantially all its cannabis extract needs. The near-exclusive arrangement is strategic as PLUS has chosen to maintain a single supplier to ensure consistency in product performance.

Distribution

Figure 16: Calyx Brands

Source: Company Reports

PLUS maintains a non-exclusive agreement with Calyx Brands Inc. for the distribution of its manufactured products. Calyx is a leading distribution and logistics company in California with operations in Colorado, Washington, Nevada and Oregon.

Calyx maintains a full suite of branded cannabis products for distribution including: edibles, flower, vape, beverages and oils. Under the agreement with PLUS, Calyx provides the company with warehousing, transportation and brand promotion. Currently, all of PLUS's wholesale revenue is from the Calyx distribution arrangement. In terms of end-customer concentration, Eaze is PLUS's largest customer, representing 10-15% percent of sales.

Figure 18: GOOD Co-Op Inc.

Source: Company materials

GOOD acquisition expands portfolio

In December, PLUS acquired GOOD Co-Op Inc for approximately C$2M in an all-share transaction. GOOD is a premium edible brand focused on cannabis-infused brownies and other baked goods. Along with the expertise in baked goods production, with the acquisition PLUS has expanded its production capacity with a 4,800-square-foot plant in Sacramento.

The acquisition broadens PLUS' expertise within the edibles category overall. GOOD had temporarily lost its manufacturing license as it was building out its Sacramento production facility, so the company was not manufacturing products for sale at the time of the acquisition. Moving forward, we expect PLUS to leverage GOOD's experience to launch baked goods and other edibles products. Baked Goods are the fifth-largest category in the California edibles market and we estimate they accounted for roughly 10% edibles sales in Q4.

Figure 19: GOOD brownies

Source: Company materials

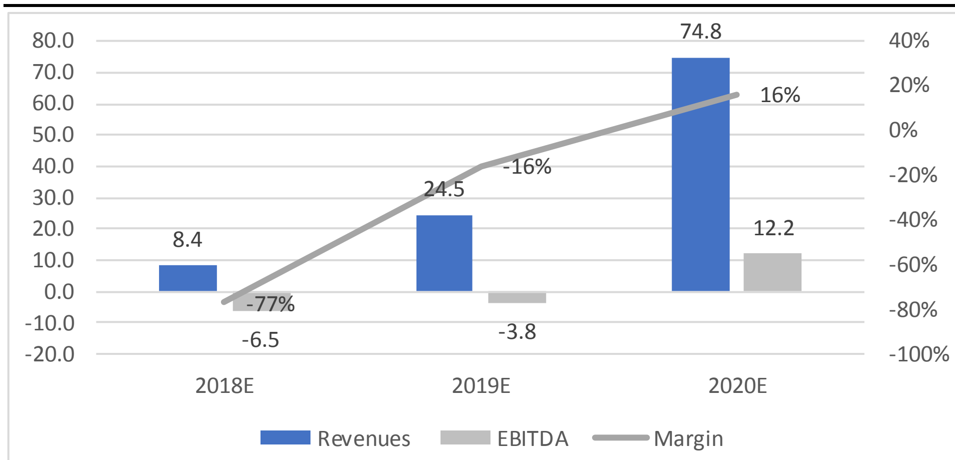
Strong top-line growth anticipated on market share gains, profitability to come on scale

We believe PLUS will experience significant growth over the next two years, driven by healthy share gains in the growing California category and expansion into new edibles products. We are not yet including any contributions from markets outside of California. Over the next two years, we expect the sale of edibles in California to increase from approximately $315M in 2018 to $494M this year and $759M in 2020, which represents approximately 20% of our 2020 full state forecast. We believe that last year, PLUS product represented approximately 8% of edibles sales in California and we expect the share to grow to more than 15% this year and 28% in 2020 as the company launches new products for sale and as a greater awareness of the brand is created. We note that the share of the edibles market for products sold is reflected in retail ASPs, while PLUS as a wholesale provider of product receives approximately 35% of the retail ASP to be reflected as revenues. With the increasing market share of PLUS products in retail sales, we expect PLUS revenues as a percentage of the California edibles market to increase from approximately 3% in 2018 to 5% in 2019 and 10% in 2020.

Increased market share over the next two years should translate to strong top-line growth for PLUS in 2019 and 2020 and we are currently forecasting revenue growth of 192% Y/Y in 2019 (to $24.5M) followed by 205% Y/Y growth in 2020 (to $74.8M) off of our 2018 revenue estimate of $8.4M. We note that our revenue forecasts for 2019 could prove conservative given the fact that we believe adoption for edibles could be higher than our current assumptions and, more importantly, due to our belief that PLUS will expand into additional markets in the near term. Any additional state or country contributions would be incremental to our revenue forecasts.

In terms of profitability, we believe management will continue to focus on market share expansion at the expense of price increases in the near term and are forecasting EBITDA losses of $6.5M (-77% margin) and $3.8M (-16% margin) for 2018 and 2019 respectively. In 2020, we believe the company will begin to see a greater benefit from scale on operating expenses as well as demonstrate a continued improvement to gross margins. As such we are forecasting positive EBITDA of $12.2M for 2020, which represents a margin of 16%.

Figure 20: Fiscal year expectations



Source: Canaccord Genuity estimates

Revenues increasingly to be driven by new products

As previously mentioned, to date gummies have been the only product sold by PLUS. We expect, however, that the company will launch a line of mints and baked goods products this year, with initial sales to come in second quarter for mints and later this year for baked goods. For 2019, we believe gummies will represent approximately 90% of revenues, with revenues from the sale of mints at 9% and baked goods at approximately 1% of revenues for the year. Moving forward, we continue to expect gummies to represent the vast majority of revenues for PLUS and anticipate revenues from gummies to be 73% of revenues in 2020, with revenues from the sale of mints and baked goods at 18% and 9% respectively.

Figure 21: Revenues by product line ($M)

	2018E	2019E	2020E
PLUS Gummies	8.4	22.0	54.5
Mints		2.1	13.3
Baked Goods		0.4	6.8
% PLUS Revenues			
Gummies	100%	90%	73%
Mints	0%	9%	18%
Baked Goods	0%	1%	9%
Total	100%	100%	100%

Source: Company reports, Canaccord Genuity estimates

Valuation

Discounted cash flow analysis

Our C$8.00 price target for PLUS is derived through a discounted cash flow analysis of the company's operations in California through 2028. Within our analysis we utilize a 12% discount rate, a terminal growth rate of 2% and a CAD-to-USD exchange rate of C$1.30/US $1.00. Inclusive within our California estimate is the assumption that the company can achieve a long-term market share in the state of roughly 5% and that PLUS can maintain long-term EBITDA margins at approximately 20%. We note that any expansion of company operations into additional geographies would be incremental to our financial model and could present upside to our valuation assumptions. Our C$8 price target represents an EV/Revenues multiple of 3.7x our 2020 estimate and EV/EBITDA at 22.4x. Our price target analysis assumes a share count of 47.4M and PLUS's current cash and debt positions of $38M and $19M, respectively, following the company's latest capital raise.

Figure 22: Price target summary

	Market Cap ($M)	Price per Share	Enterprise Value	2020 EV/Rev	2020 EV/EBITDA
PLUS Products	379.3	8.00	354.8	3.7	22.4
Discount Rate	12%				
Terminal Growth	2%				
Shares	47.4				
Cash ($M)	38				
Debt ($M)	19				
CAD/USD Translation	C$1.3/$1.00				

Source: Company reports, Canaccord Genuity estimates

Figure 23: California market DCF

	2018E	2019E	2020E	2021E	2022E...	2028E
CA Market	2510.3	3063.1	3843.9	4641.7	5556.4	8268.9
Y/Y Growth		22%	25%	21%	20%	1%
PLUS CA Revenue	8	25	75	139.3	222.3	413.4
% CA Market	0%	1%	2%	3%	4%	5%
EBITDA	-6.5	-3.8	12.2	18.1	28.9	82.7
Margin	-77%	-16%	16.3%	13%	13%	20%
Taxes	0.3	0.6	0.9	2.7	4.3	12.4
Tax Rate	-4%	-16%	7%	15%	15%	15%
Working Capital	0.8	1.6	5.0	6.4	8.3	0.2
Capex	1.5	7.0	4.0	3.3	2.2	2.1
% Revenue	18%	29%	5%	2%	1%	1%
Free Cash Flow	-9.1	-13.0	2.2	5.6	14.0	68.0
Terminal Value						679.7
PV of Cash Flow	-8.1	-10.4	1.6	3.6	8.0	214.9
Timing	1	2	3	4	5	11
Discount Rate	12%					
Terminal Growth	2%					
Present Value $M	291.8					
Present Value C$M	379.3					
Shares	47.4					
Price	8.00					

Source: Canaccord Genuity estimates

Relative valuation

Relative to our 2020 estimates, PLUS is currently trading at an EV/revenue multiple of 2.7x our 2020 estimate and an EV/EBITDA multiple of 16.6x. On an EV/EBITDA basis, PLUS is currently trading at a significant premium to the broader peer group of US operators currently trading at 9.7x 2020 estimates; however, on an EV/revenue basis the stock is trading below the peer group, which trades at 3.0x 2020 estimates. As previously mentioned, we believe a premium to prevailing multiples is justified considering a scarcity of pure brand plays, PLUS's dominant market share in edibles, potential upside from geographical expansion and our near-term revenue and margin assumptions, which we believe could prove conservative.

Figure 24: Peer group of US operators

		Share Price ($)	Market Cap (M)	EV/Revenue CY2019E	EV/Revenue CY2020E	EV/EBITDA CY2019E	EV/EBITDA CY2020E
PLUS Products	PLUS	6.04	286	8.2	2.7	-52.6	16.6
1933 Industries	TGIF	0.54	125	4.0x	2.9x	28.9x	10.9x
Acreage	ACRG.U	19.85	3250	7.9x	3.8x	30.1x	12.0x
Charlotte's Web	CWEB	24.36	2595	11.9x	6.0x	33.6x	17.6x
CLS Holdings USA	CLSH.U	0.38	99	1.4x	0.6x	4.1x	1.4x
Curaleaf	CURA	8.81	4431	8.1x	4.9x	23.1x	13.6x
DionyMed Brands	DYME	3.50	306	1.3x	0.9x	8.3x	4.4x
Golden Leaf	GLH	0.14	88	1.0x	0.7x	5.2x	2.7x
Harvest Health and Recreation	HARV	11.64	3341	9.7x	4.3x	32.2x	11.3x
IAN + MPX	IAN	7.39	1613	4.8x	3.4x	17.9x	11.7x
Khiron	KHRN	3.87	362	25.6x	3.8x	N/A	12.9x
KushCo Holdings	KSHB	5.63	588	3.1x	2.0x	902.0x	20.6x
Liberty Health Sciences	LHS	0.97	360	3.7x	2.2x	15.8x	7.0x
MedMen	MMEN	4.00	2716	5.2x	2.7x	N/A	10.5x
Mjardin	MJAR	3.86	287	2.4x	1.5x	4.9x	2.9x
Origin House (CannaRoyalty)	OH	10.21	770	4.0x	2.4x	17.2x	9.2x
Planet 13	PLTH	1.84	216	1.7x	1.3x	7.4x	4.8x
TILT	TILT	2.95	1290	2.1x	1.2x	6.6x	3.1x
Trulieve	TRUL	15.63	1725	6.0x	4.5x	14.9x	10.5x
Average of U.S. companies				6.2x	3.0x	71.3x	9.7x

PLUS, CLSH, DYME, KSHB, MJAR, PLTH, TGIF, TILT are covered by Bobby Burleson Canaccord Genuity LLC (US); ACRG, CURA, HARV, IAN, LHS, MMEN, OH, TRUL are covered by Matt Bottomley Canaccord Genuity Corp. (CAN); CWEB is covered by Derek Dley, Canaccord Genuity Corp. (CAN); KHRN is covered by Kim Hedlin Canaccord Genuity Corp. (CAN).

Source: Priced 3.19.2019 FactSet, company reports, Canaccord Genuity estimates,

Senior management

Currently, insiders and members of senior management own approximately 25% of shares outstanding.

Jacob Heimark, Chief Executive Officer

Mr. Heimark is the CEO of PLUS and founded the company. Prior to founding the company, Mr. Heimark was a product manager with Gumroad and worked in risk management at Facebook. He holds a ScB in human biology and an AB in economics from Brown University.

Craig Heimark, Executive Chairman, Chief Financial Officer

Mr. Heimark is the executive chairman and CFO for PLUS. Mr. Heimark is the managing partner of Hawthorne Group LLC, a strategic advisory firm. Prior to his current roles, Mr. Heimark was the chairman and found of CohesiveFT and was a director for Avistar, Inc. In addition, Mr. Heimark has served in supervisory positions at Deutsche Borse AG, Swiss Bank Corporation (now UBS). Mr. Heimark holds a BA in economics and a BS in biology from Brown University.

Jennifer Tung, Chief Risk Officer

Ms. Tung is the chief risk officer for PLUS after having been the legal director for payments at Uber. Prior to Uber, Ms. Tung was the lead counsel for commerce and payments at Facebook and practiced commercial and securities law at Hunton & Williams. Ms. Tung holds a JD from Harvard Law School and a bachelor's degree from Stanford University.

Figure 25: FY model (US$M)

	2018E					2019E					2020E				
	Q1	Q2	Q3	Q4E	FYE	Q1E	Q2E	Q3E	Q4E	FYE	Q1E	Q2E	Q3E	Q4E	FYE
	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20
Revenue	0.9	1.6	2.6	3.4	8.4	3.5	6.7	7.2	7.2	24.5	13.8	20.9	21.0	19.0	74.8
Cost of Sales	0.8	1.4	2.2	3.2	7.5	2.9	5.5	6.0	5.9	20.3	10.9	16.3	16.1	14.6	57.9
Gross Profit	0.1	0.2	0.4	0.2	0.9	0.6	1.1	1.2	1.2	4.2	2.9	4.7	4.9	4.4	16.9
Advertising & Promotion	0.0	0.1	0.1	0.5	0.7	0.4	0.4	0.4	0.4	1.6	0.3	0.3	0.3	0.3	1.2
Amortization	0.0	0.0	0.0	0	0.0	0	0	0	0	0.0	0	0	0	0	0.0
Consulting Fees	0.5	0.0	0.3	0.6	1.4	0.3	0.3	0.3	0.3	1.2	0	0	0	0	0.0
G&A	0.0	0.1	0.2	0.7	1.0	0.3	0.3	0.3	0.3	1.2	0.2	0.2	0.2	0.2	0.7
Meals & Travel	0.0	0.1	0.1	0.4	0.6	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4
Professional Fees	0.3	0.2	0.6	0.8	2.0	0.6	0.6	0.6	0.6	2.4	0.4	0.4	0.3	0.2	1.3
Salaries & Benefits	0.2	0.4	0.4	0.5	1.6	0.3	0.3	0.3	0.3	1.2	0.3	0.3	0.3	0.2	1.1
Share Based Comp		0.3	0.3	0.3	0.8	0.3	0.3	0.3	0.3	1.2	0.3	0.3	0.3	0.3	1.2
Opex	1.2	1.1	2.1	3.8	8.2	2.3	2.3	2.3	2.3	9.2	1.6	1.6	1.5	1.3	5.9
Operating Profit	-1.1	-0.9	-1.7	-3.6	-7.3	-1.7	-1.2	-1.1	-1.1	-5.0	1.3	3.1	3.4	3.1	11.0
Interest	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	0	0.0
Pre-tax Income	-1.1	-0.9	-1.7	-3.6	-7.3	-1.7	-1.2	-1.1	-1.1	-5.1	1.3	3.1	3.4	3.1	10.9
Taxes	0.0	0.1	0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.8
Net Income	-1.1	-1.0	-1.8	-3.7	-7.6	-1.9	-1.4	-1.3	-1.3	-5.9	1.1	2.9	3.2	2.9	10.1
EPS	-0.05	-0.03	-0.06	-0.12	-0.27	-0.04	-0.03	-0.03	-0.03	-0.12	0.02	0.06	0.07	0.06	0.21
Shares	24.6	28.9	30.2	30.2	28.5	47.4	47.6	47.9	48.1	47.8	48.4	48.6	48.8	49.1	48.7
EBITDA	-1.1	-0.6	-1.4	-3.3	-6.5	-1.4	-0.9	-0.8	-0.8	-3.8	1.6	3.4	3.7	3.4	12.2
Margin	-127%	-41%	-55%	-97%	-77%	-40%	-13%	-11%	-11%	-16%	12%	16%	18%	18%	16%
Margins															
Gross Margin	8%	14%	15%	6%	8%	17%	17%	17%	17%	17%	21%	22%	23%	23%	23%
Opex	135%	72%	80%	112%	97%	65%	34%	32%	32%	38%	12%	8%	7%	7%	8%
G&A	4%	5%	8%	21%	12%	9%	4%	4%	4%	5%	1%	1%	1%	1%	1%
Operating Income	-127%	-57%	-65%	-106%	-87%	-48%	-17%	-15%	-15%	-21%	9%	15%	16%	17%	15%
Tax Rate	-2%	-7%	-7%	-3%	-4%	-12%	-17%	-18%	-18%	-16%	15%	7%	6%	6%	7%
Net Income	-131%	-62%	-70%	-109%	-91%	-54%	-21%	-18%	-18%	-24%	8%	14%	15%	15%	14%
Y/Y Growth															
Revenues	1005%	534%	618%			305%	322%	180%	112%	192%	293%	214%	193%	166%	205%

Source: Company reports, Canaccord Genuity estimates; A more detailed financial model, including balance sheet, income statement, and cash flow projections, if available, may be obtained by contacting your Canaccord Genuity Sales Person or the Authoring Analyst, whose contact information appears on the front page of this report.

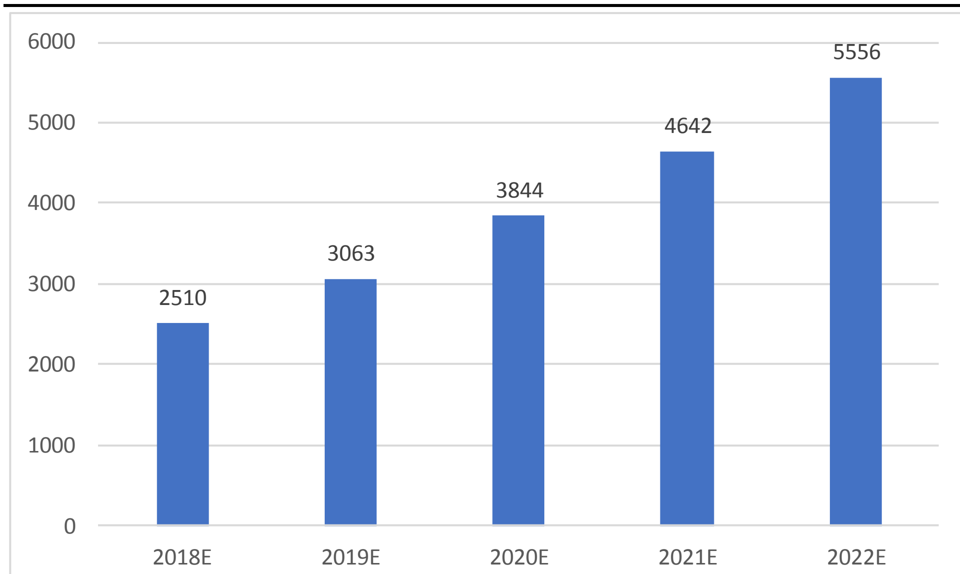
Overview of California and key expansion states

Below we detail our view of PLUS's current market of California, along with several states that we think could be key as PLUS expands to other geographies.

California: Forecasting growth after slow rec launch

California became the first US state to allow medical marijuana when it passed the Compassionate Care Act in 1996. Following passage of the Adult Use of Marijuana Act in late 2016, recreational sales began at the start of 2018. Despite a choppy initial recreational program rollout, we expect adoption to be rapid in California and for the market to see accelerating growth in the years ahead. Of note we believe recent regulations in the state, which permit home delivery in jurisdictions that bar dispensaries, will drive strong demand in as yet underpenetrated California markets. According to BDS Analytics, the California market was approximately $2.5B in 2018, down from approximately $3B in 2017 when it was a medical-only market. We estimate that California will grow to reach $5.6B in 2022. We note that our 2022 estimate could prove conservative given our expectations reflect some continued moderate challenges for the rollout.

Figure 26: California total market estimate 2018-2022E ($M)



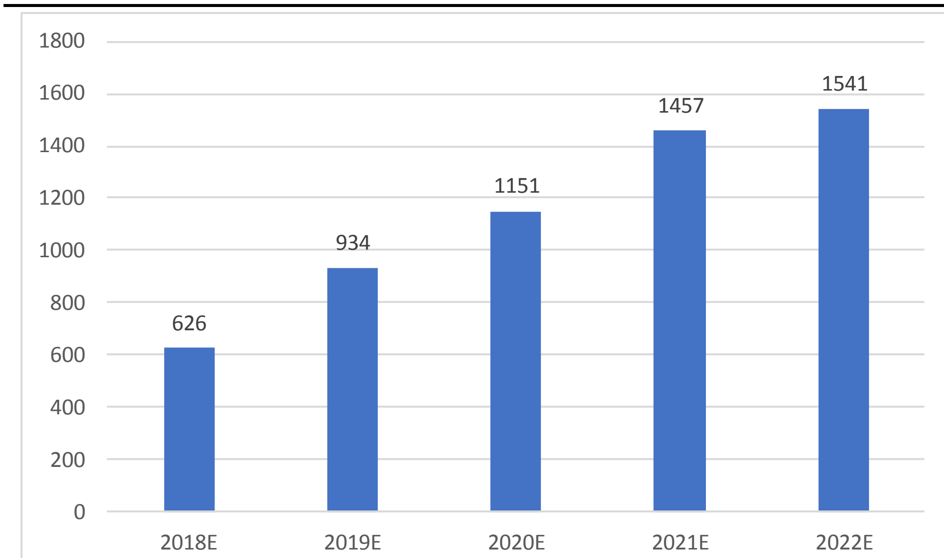
Source: Canaccord Genuity estimates

Florida

Large growth opportunity for medical-only market

Following an initial slow rollout to the program which included lawsuits against the state over restrictive regulations that business operators saw as "unconstitutional" in the first half of last year, the medical cannabis market in Florida experienced strong growth in 2018. Arcview market research estimates that the Florida medical market experienced approximately $630M in sales last year. Based on the Arcview forecast, this would place Florida as the seventh largest market in the country last year despite the state's slow and challenged rollout to date and medical-only operations. Meanwhile the number of patients registered in the state nearly tripled last year from less than 60 thousand in 2017 to more than 160 thousand by year end. Moving forward, with judicial rulings last year opening the market to new businesses, a new governor in Ron DeSantis who has been outspoken about being more accommodating to cannabis businesses and the potential that the state's ban on smokable cannabis products and edibles will be lifted in the short term, we expect the Florida market is poised for even more substantial growth in 2019 and the years ahead. Through 2022, we are forecasting the Florida medical market to grow to more than $1.5B which would represent a CAGR of 25%. We note that while a conservative view on the topic is likely to continue at the state level, there has been a push in Florida to expand the market to become an adult use program. Any addition of an adult use program in the near term would be incremental to our estimates.

Figure 27: Florida total market estimates ($M)



Source: Canaccord Genuity estimates

Massachusetts

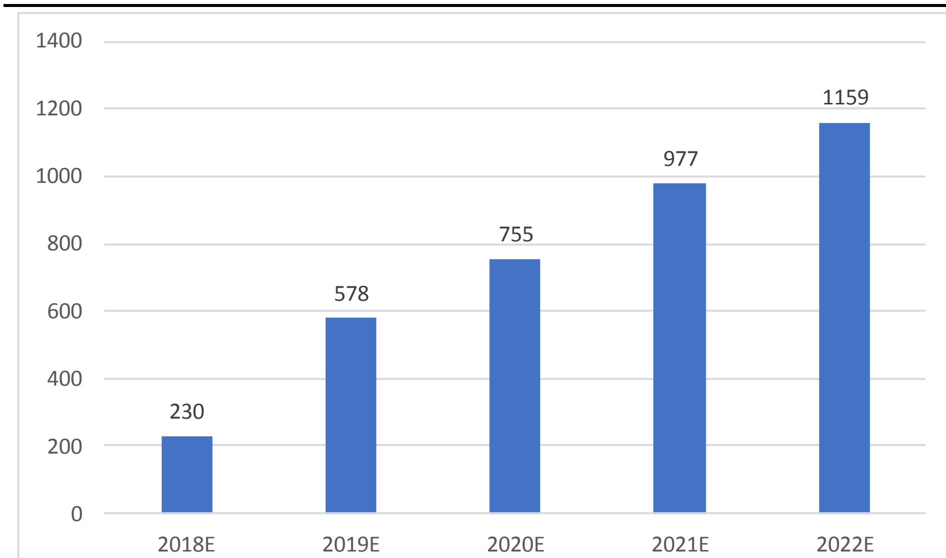
Significant recreational market opportunity

Two years after voters approved recreational marijuana in the 2016 election, Massachusetts saw the first recreational marijuana businesses in the state open last November, five months later than originally expected and at a smaller scale. According to industry estimates from BDS Analytics, Massachusetts 2018 total sales were approximately $221M, down approximately 31% from prior estimates for the period of $377M.

The delays in initial rollout last year were attributed to a lack of licensed independent testing labs along with bureaucratic headwinds at both the state and municipal levels. Under the Massachusetts law for recreational cannabis, host communities must sign off on the proposed operation before a license can be issued. Additionally, the municipality can charge a 3% local tax on gross revenues and negotiate a community impact fee for as much as an additional 3% of gross revenues. According to the state's Cannabis Control Commission, including testing labs, there are now 23 total cannabis operations authorized in Massachusetts (across eleven companies).

While the pace of rollout continues to be slow and largely unpredictable, we believe Massachusetts will quickly become one of the fastest growing cannabis markets in the world due to attractive demographics (6.9M people, blue state) and its position as the first sizable recreational market on the East Coast. The state also has a relatively large existing medical marijuana market with nearly 65,000 registered patients, and likely significant pent-up demand given the slow pace of the rec rollout thus far. We note that once dispensaries open in the Boston metropolitan area, Massachusetts could see a boost from tourism in the next few years with visitors coming from adjacent states in the Northeast. A study by the Colorado Tourism Office from 2016 found that 10% of visitors to Colorado that year came exclusively for legal recreational marijuana. Overall, we continue to forecast the Massachusetts market growing to approximately $1.2B by 2022 and believe this could prove conservative.

Figure 28: Massachusetts total market estimates ($M)



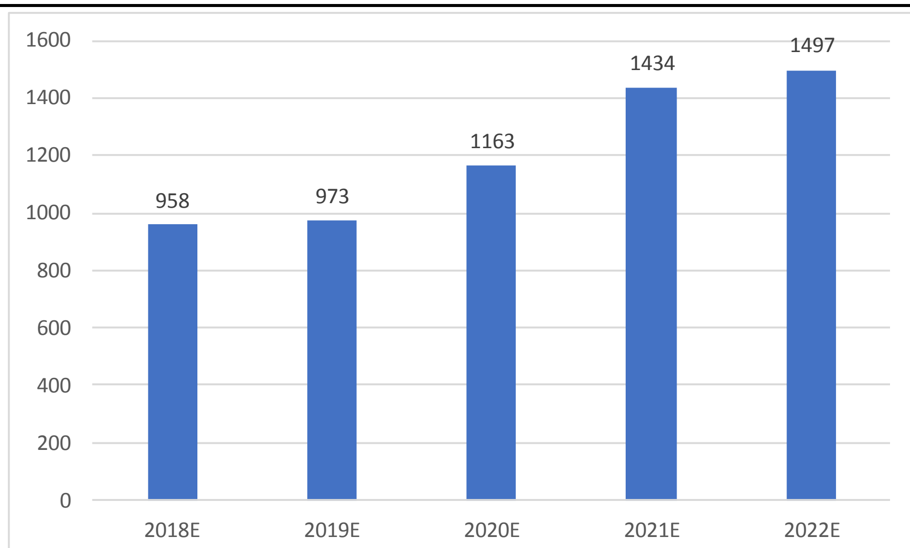
Source: Canaccord Genuity estimates

Michigan

Looming recreational market opportunity

Michigan, as a medical only market, experienced sales of roughly $950M last year according to BDS Analytics which makes the state the fourth largest cannabis market in the country after only California, Colorado and Washington. With Michigan becoming the first state in Midwest to pass adult use legislation in last year's mid-term election, Michigan appears poised for even greater growth in the years ahead. As was highlighted on a recent Key Opinion Leader Call hosted by Canaccord Genuity on the Michigan market, Michigan is likely to heed the lessons of other states including California in implementing its recreational program regulations ahead of a kick off to the program next year. Despite potential lumpiness in the initial years of the recreational program rollout, we believe Michigan will experience strong growth over the next five years and are forecasting the market to grow to nearly $1.5B in 2022.

Figure 29: Michigan total market estimates ($M)



Source: Canaccord Genuity estimates

Nevada

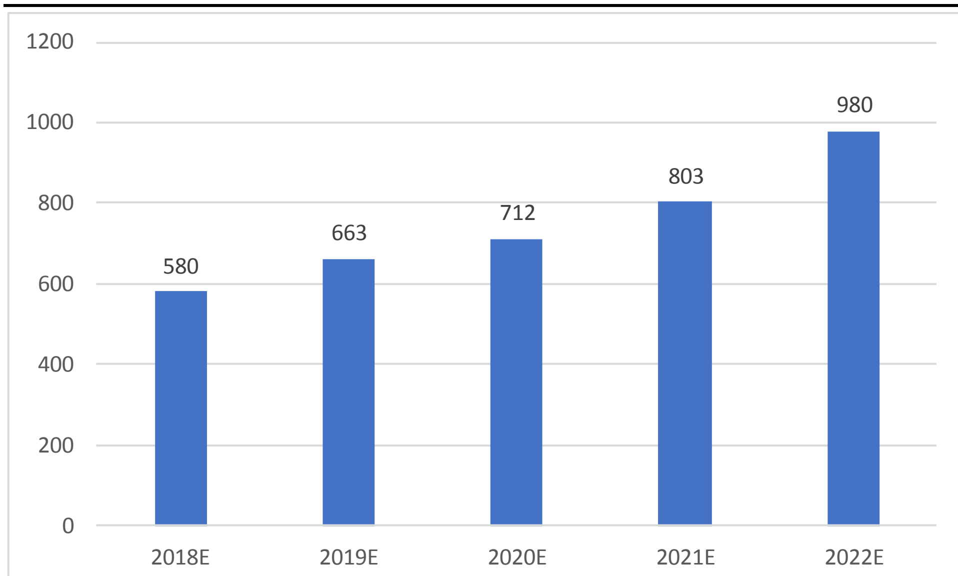
Strong start for rec program

While Massachusetts has been slow to implement a recreational program following the 2016 election, Nevada was quick to enact its program and launched recreational sales in July 2017. Adoption has been rapid, with consumers spending more than $200M in the first six months of operation. The strong start came despite inventory shortages as growers struggled to meet demand and testing requirements and as a limited number of businesses were able to gain appropriate licenses. In Nevada, only existing medical marijuana businesses were able to apply for licenses during the first round of applications, and the number of licenses was capped at 172 until last November when the state held a formal round of licensing. In total, 61 dispensaries were issued conditional licenses by the state, which nearly matched the total number of licenses previously issued (64). Of the licenses issued, 31 were for Clark County (Las Vegas).

According to estimates from BDS Analytics, the market in Nevada grew significantly faster than expected in 2018, reaching an estimated $580M in sales. vs. a prior estimate of $369M. In 2019, we expect the market to grow to more than $650M on continued strong demand for existing operations and through the addition of newly licensed businesses.

Tourism remains a positive demand driver for the cannabis market in Nevada, and the degree to which it will impact demand is unknown. Over the past ten years Las Vegas has averaged roughly 40M tourists annually, more than 13x the state's population. We continue to believe that cannabis consumption is complementary to Las Vegas' broader entertainment offering, and we expect companies in the state to capitalize on strong tourist spending. We believe cannabis companies that build brands in Las Vegas through exceptional retail stores or quality consumer products will be able to propagate those brands into tourist states of origin. Meanwhile, looming changes to local laws may allow cannabis lounges for on-premise consumption, perhaps driving tourist interest in cannabis even further. We believe the first licensed cannabis lounges in Nevada will open this year. We continue to expect the Nevada market to grow to nearly $1B by 2022.

Figure 30: Nevada total market estimates ($M)



Source: Canaccord Genuity estimates

New York

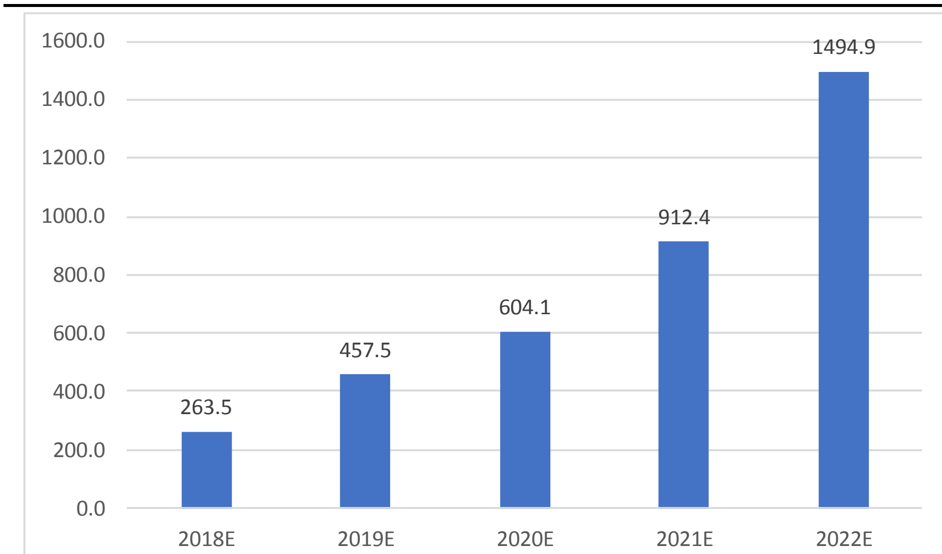
Expanding medical market poised for growth on recreational program adoption

New York's medical cannabis program experienced significant growth last year as regulators expanded the list of qualifying conditions to allow cannabis to be used as an alternative to opioids last summer and increased the number of licensed dispensaries in the state. The expansion of qualifying conditions followed the addition of chronic pain in late 2017 and reflects a continued change of sentiment in the state. New York first approved medical cannabis in 2014 but prior to 2017 the market had been very restrictive.

In 2018, medical sales in New York were $264M, up from approximately $72M in 2017 according to Arcview Market Research. We expect continued strong growth this year and are forecasting the market to nearly double to $457.5M for 2019. Meanwhile, there has been a significant push in the state for the implementation of a recreational program and Governor Andrew Cuomo presented a plan to legalize cannabis in the state earlier this after having spoken out in support of a recreational market last December. Under the Governor's proposal, New York would have a 20% tax on sales from wholesalers to dispensaries, a $1 per dry weight gram of flower and $0.25 per dry weight gram of trim would be imposed on cultivators but there would be no retail sales tax in the state. The Governor's proposal estimates that New York would collect $300M in tax revenues within the first three years of a recreational program. On top of the anticipated tax benefits, we expect pressure from the loss of business to neighboring states could come in the years ahead, following the implementation of a recreational program in Massachusetts last year and the belief that both Connecticut and New Jersey are considering legal recreational use in the near term.

Whether or not Governor Cuomo's plan is passed in the next few months, we believe a recreational program is forthcoming in the near term and are now forecasting initial recreational sales next year. Following what could be an initial choppy rollout, similar to what has occurred in other states in their initial transitions from medical-only sales, we expect a significant ramp in recreational program sales in the years thereafter. Given the state's large population (New York is the fourth most populous state with 20M residents), the growing medical market, the presence of a large existing black market and attractive demographics for adoption, we believe New York will experience rapid growth as a cannabis market and quickly become one of the most important markets in the country and the world. We are currently forecasting the New York cannabis market to grow to nearly $1.5B by 2022.

Figure 31: New York total market estimates ($M)



Source: Canaccord Genuity estimates

Federal outlook: Path to legalization

Despite liberalizing attitudes toward marijuana and increasing legalization at the state level, the US federal government continues to ban cannabis under the Controlled Substance Act (CSA). Over the past few years, there has been movement at the federal level toward decriminalization. During the Obama presidency, the Justice Department issued guidance that deprioritized marijuana enforcement (the Cole Memo, since rescinded), and the current Congress has more marijuana reform bills than ever attempting to work their way toward approval. Nevertheless, it will likely take several years for marijuana to achieve broader federal legal status, and many roadblocks remain. The following section looks at potential pathways toward legalization at the federal level, important milestones along the way, and some of the laws currently in place that govern marijuana federally in the US.

We note that as expected, the midterm elections last year delivered several cannabis industry wins including Democrats taking the majority in the House of Representatives. We believe that the Democrat controlled House could grease the wheels for the STATES Act.

Pathway to federal legalization

The industry is increasingly optimistic regarding an eventual federal legalization and an unprecedented number of marijuana reform bills are currently working their way (albeit slowly) through Congress. In total, the 115th session of Congress (which began in January of 2017 and runs until January 2019) sponsored 41 marijuana reform bills, 27 in the House and 14 in the Senate. The Senate's 14 bills are more than the cumulative total seen during the 17 years prior to this session. We are focusing on five bills of note including the recently passed Farm Bill:

STATES Act

A recent bipartisan bill called the STATES (Strengthening the Tenth Amendment through Entrusting States) Act shows growing support spanning the political spectrum for states' rights with respect to regulating marijuana. The STATES Act essentially proposes that federal law defer to state law where marijuana is concerned (it also would remove industrial hemp from the definition of marijuana in the CSA). Ironically, some of the impetus for the bill may have come from Attorney General Jeff Sessions' rescission of the Cole Memo last January, an action condemned by the bill's Republican co-sponsor Cory Gardner of Colorado.

Farm Bill

Last December the Agriculture Improvement Act of 2018 (the 2018 Farm Bill) was officially signed into law by President Trump. The bill removes industrial hemp and all extracts containing less than 0.3% concentration of THC from the Controlled Substances Act. It is now legal to manufacture, distribute and sell hemp-derived cannabidiol (CBD) anywhere in the US and across state boundaries. As previously mentioned, in our view the passing of the Farm Bill is transformational for the commercialization of products containing industrial hemp, including hemp-derived extracts such as CBD. We believe companies producing/marketing products containing hemp-derived CBD stand to benefit both in terms of growth opportunity and access to capital.

Regulate Marijuana Like Alcohol Act

The Regulate Marijuana Like Alcohol Act (H.R. 420) was introduced in Congress in January by Representative and seeks to regulate cannabis like alcohol. The proposed bill would remove cannabis from the list of federally controlled substances and establish regulatory authority for cannabis through the Bureau of Alcohol, Tobacco, Firearms and Explosives. Further, the bill would allow for federal permitting for cultivation, packaging, selling and importing of marijuana. Shipping and transporting cannabis into states that have not legalized cannabis operations would remain prohibited under the proposed legislation.

Marijuana Justice Act

Introduced in 2017 by Sen. Cory Booker (D-NJ), the Marijuana Justice Act would remove marijuana from the list of controlled substances and erase the records of criminal marijuana convictions. It would also create a $500M fund focused on community reinvestment in the form of job training in the cannabis industry. Senators Ron Wyden (D-OR), Kirsten Gillibrand (D-NY), and Bernie Sanders (I-VT) cosponsor the bill, while Representatives Barbara Lee (D-CA) and Ro Khanna (D-CA) introduced a companion measure with over 20 co-sponsors in the House. We do not expect bipartisan support for the Marijuana Justice Act.

VA Medical Cannabis Research Act

Another key piece of pending legislation is the VA Medicinal Cannabis Research Act of 2018. While hundreds of marijuana bills have been filed to date, this is the first to get a vote (it was place on the Union Calendar on 5/18/2018). The bill would authorize the Department of Veterans Affairs (VA) “to conduct and support research on the efficacy and safety of certain forms of cannabis and cannabis delivery for veterans enrolled in the VA health care system diagnosed with conditions such as chronic pain or post-traumatic stress disorder.” Though fairly limited in scope, it has bipartisan support, and could contribute data toward a growing body of evidence that shows medical benefits of cannabis, in direct contradiction with Schedule I classification within the CSA. Beyond these and other bills, the FDA’s recent approval of Epidiolex, a plant-based cannabis-derived pharmaceutical, and continuing momentum for legalization on the state level appear to portend inevitable federal legal status.

Figure 30: Key cannabis legalization bills

STATES Act	Federal law defers to state law where cannabis is concerned.
Hemp Farming Act	Legalizes the cultivation, processing and sale of industrial hemp.
Regulate Marijuana Like Alcohol Act	Would remove cannabis from the list of federally controlled substances and establish regulatory authority for cannabis through the Bureau of Alcohol, Tobaco, Firearms and Explosives.
Marijuana Justice Act	Would remove cannabis from the list of controlled substances and erase the records for criminal cannabis convictions.
VA Medical Cannabis Research Act	Authorizes the Dept of Veterans Affairs to support research on the efficacy and safety of certain forms of cannabis delivery for veterans.

Source: Canaccord Genuity research

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: March 20, 2019, 04:55 ET

Date and time of production: March 20, 2019, 04:55 ET

Target Price / Valuation Methodology:

PLUS Products - PLUS

Our C$8 price target is based on a DCF analysis of the company's CA operations. We note that any additional state expansion would be incremental to our estimates. Our price target represents an EV/Rev multiple of 3.7x our 2020 estimate and 22x EV/EBITDA.

Risks to achieving Target Price / Valuation:

PLUS Products - PLUS

Risk factors related to the long-term success of PLUS include:

- Changes to US federal laws: While unlikely in our view, a near-term change to make cannabis federally legal in the US could lead to increased competition in all phases of PLUS' operations while a change in the federal government's current disposition that allows individual states to decide upon the legality of marijuana could result in operations being ceased in existing states and markets in which the company is planning near-term expansion.
- US state-level regulations: Any adverse change in the state-level regulatory environments in California or any other states in which the company plans to operate could hinder PLUS operations.
- California concentration: Given PLUS' current exclusive operations in the California market, the company is subject to significant risk related to any downturn in that market including a change to state-level regulation or any other factor that could have an adverse effect on pricing (both retail and supply) or adoption for cannabis products.
- Supply and distribution agreements: PLUS maintains near-exclusive relationships for flower supply and distribution with California Refined Essentials Cooperative Inc. (CRE) and Calyx Brands. Any change to these relationships could impact near-term results and profitability.
- Manufacturing capacity limitation: Currently the company utilizes its Adelanto, California manufacturing facility for all product manufacturing. The facility is limited in scale to enable approximately $50M in annual capacity. While PLUS has plans to expand capacity at the existing facility in the near term and open a new production facility next year, the inability to expand production operations would limit the company's near-term growth potential.
- Customer concentration: The Eaze Delivery platform represents the largest customer for PLUS and accounts for between 10% and 15% of the business. Any adverse change to this customer relationship, whether the loss of the customer or a change to the outstanding pricing structure, could result in an adverse impact on near-term results and the future growth outlook for PLUS. In addition, as PLUS expands beyond the California market, the company will have to develop new delivery relationships as Eaze maintains on-demand delivery services only within the California market.
- Capital market uncertainty: While not expected at this time, PLUS may need to raise further capital to fund expansion initiatives. Should sentiment or regulations regarding US cannabis operations materially change, it could be difficult (or impractical) for the company to secure additional public market capital.
- Increased competition: PLUS operates within the highly competitive California market. Any unforeseen change in the competitive landscape could hinder the company's ability to develop and launch new product and service offerings as planned and could have an adverse impact on near-term financial performance.
- Expansion into new markets: The long-term success of PLUS depends in part on the development of and expansion into new markets. The inability to expand operations into new markets in which the company does not currently operate, whether due to unforeseen regulatory headwinds or operating challenges, could result in the failure to meet expectations.

- New product development: PLUS will invest significantly in the years ahead to develop new consumer products. The inability to match customer demand with new products would result in lower-than-expected contributions from branded products.
- Pricing risk: Any significant drop in edibles pricing within key markets could have a negative impact on PLUS revenues and profitability. Similarly, as PLUS sources flower from wholesale cultivation operations, any significant change to flower prices could negatively impact company costs and margins.
- FX risk: As PLUS operates in the US while the stock is listed on a Canadian exchange, stock returns are subject to USD/CAD FX fluctuations.

Distribution of Ratings:

Global Stock Ratings (as of 03/20/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	545	61.24%	47.52%
Hold	202	22.70%	29.70%
Sell	17	1.91%	23.53%
Speculative Buy	126	14.16%	71.43%
	890*	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.

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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)

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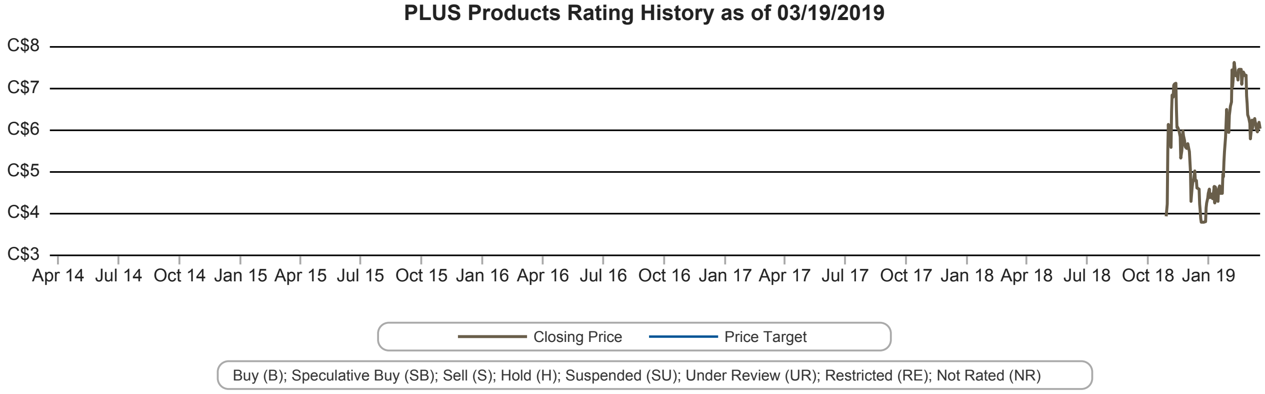
An analyst has visited the material operations of PLUS Products. No payment was received for the related travel costs.

PLUS Products Rating History as of 03/19/2019



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