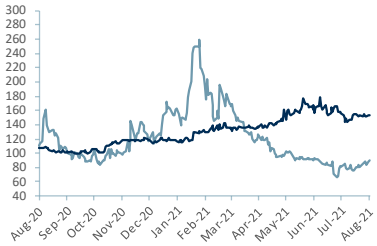
INSIGHT NOTE

Value Range

USD 8.61 – 9.52



PLPRF (lighter line) OTC market vs price relative

Wednesday, 25 August 2021

Intrinsic Price ($)	9.06
Value Range Low ($)	8.61
Value Range High ($)	9.52
Implied MCAP $(m)	378.40
Implied EV $(m)	385.49
OTC	PLPRF
Financial YE	31-Dec
Currency	USD

Business Activity
Cannabis Edibles

Key Metrics

Close Price (USD)	0.39
MCAP $(m)	$18.3
Net Debt (Cash) ($m)	$24.9
EV (m)	$43.2
52 Wk Hi	1.15
52 Wk Lo	0.27

Key Ratios

(Net Cash) / Shareholder Equity %	135.95%
FX Rate USD/CAD	1.26

Cannabis Sector
OTC Market Index
Analyst Team
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cannabis@acfequityresearch.com

Plus Products Indicative Valuation

ACF Indicative Valuations use top down models

Plus Products Inc. (PLPRF: OTC) (PLUS: CSE) develops, manufactures and sells cannabis-edibles with operations in California and Nevada. PLPRF branded products are sold to the regulated medicinal and recreational markets. PLPRF also manufacturers hemp CBD-infused gummies, which could legally be sold to consumers and retailers in 43 states across the US. PLPRF's ability to manufacture accurately dosed edibles at scale with exceptional food safety standards gives the Company a competitive edge. Highly conservative ACF "Indicative Valuation" assumptions include 1% US CBD market share only, WACC 19%, long-run FCF margin 20%, FCF Terminal value 8x.

- Revenue $2.5m 1Q21A; $15.9m in FY20A;
- EBIT $(2.4)m 1Q21A; $(8.3)m FY20A;
- Cash & cash equivalents ~$8.9m 1Q21A;
- Medical partnerships with CannRX and TFF pharmaceuticals;
- Primary operations in California (largest US market).

ACF est. $(m)	Revenue	EBITDA	EPS diluted ($)	CPS	CPS (diluted)
2024E	144	75	0.94	0.69	0.56
2025E	188	98	1.22	0.90	0.73

Multiples	EV/ Revenue	EV/ EBITDA	P/ EPS diluted ($)	P/ CPS	P/ CPS (diluted)
2024E	3.50x	6.73x	9.68x	13.14x	16.28x
2025E	2.68x	5.15x	7.41x	10.05x	12.46x

PLUS PRODUCTS INC. IS NOT A RESEARCH CLIENT OF ACF EQUITY RESEARCH

Share Price History	No. of Shares in issue	Fully diluted
NoSh (m)	41.75	51.75
Implied Intrinsic Price	9.06	7.31
Value Range Low	8.61	6.95
Value Range High	9.52	7.68
AIM	PLPRF	
Financial YE	31-Dec	
Reporting Currency	USD	

NoSh (m)	41.75
NoSh (m) expected dilution (Exp D)	51.75
NoSh (m) full dilution (FD)	51.75

Key Metrics	$	adj.
MCAP (m)	18.3	18.3
Net Debt (Cash) (m)	24.89	24.89
EV (m)	43.2	43.2
52 Wk Hi	1.15	1.15
52 Wk Lo	0.27	0.27
Free Float	66%	66%

*Key Metrics FCF adj.	2024E	2025E
CPS ($)	0.69	0.90
CPS (Exp D) ($)	0.56	0.73
CPS (FD) ($)	0.56	0.73
P/CPS	13.1x	4.9x
P/CPS (Exp D)	16.3x	12.5x
P/CPS (FD)	16.3x	12.5x

We do not have up to date information on full dilution from YE20A accounts. We have estimated full dilution based upon cash we expect will be raised to fund our growth projections

Investment Case

Leading cannabis edibles branded company – PLPRF operates as a leading branded player in the cannabis edibles market in California. It **is #1 gummies brand in the Bay area** with a **market share of ~22%**. PLPRF has sold ~100 million gummies since 2018. It boasts **350+ retail and delivery partners**.

A December 2020 survey carried out by Brightfield Group (US CBD data aggregator) reported the following on Plus Products:

- 63% of consumers say that PLPRF is their favorite gummy brand,
- 42% have been using PLPRF products 1+ years,
- 67% of use the brand at least once/week,
- 88% plan to buy PLPRF products again.

Increased investment in sales force and products: PLPRF invested in a larger internalized sales force to expand its leadership beyond the Bay area. The company's investment has expanded its sales force by more than 75% since the beginning of 4Q20A. PLPRF intends to leverage its larger sales force and broader product portfolio to improve market penetration in underperforming jurisdictions.

Large market opportunity: The total addressable market for PLPRF could expand by nearly 7x in the US over the next decade driven by legalization in more states. It is difficult to predict how and when federal legalization will impact market access, but PLPRF forecasts that its total active addressable market will grow to more than $30bn over the next 10 years through a combination of new market entry and interstate commerce.

Strong financial performance: FY20A revenue growth ~15% y/y, 35% gross margins and net C&CE consumption down by 24% from 2019 to 2020. In addition, the company received a 3-year debt extension, which provides it ample flexibility in the near term to pursue aggressive growth opportunities.

Catalyst

Cannabis legalization in all US states; Expansion in new jurisdictions and geographies.

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Operational Strategy

PLPRF is a consumer-focused cannabis company and its operational strategy revolves around product-line extension, investing in a larger sales force and entry into new jurisdictions.

The company's strategy is focused on the following key areas.

Leveraging new sales team structure: In March 2021, PLPRF entered into an exclusive partnership with Nabis Distribution (a leading cannabis distributor with a wholesale marketplace platform that supplies 99%+ of California (CA) dispensaries with logistics, POS, sales and marketing solutions) to distribute PLPRF's licensed products in CA. Under this new model, each order's sales cycle will be 100% under the control of a PLPRF team employee.

Expansion into new markets: PLPRF maintains two operations outside of California – **Nevada adult-use market** and **UK distribution via partners** - and will explore further expansion next year. As global markets continue to open up and mature, PLPRF will consider to launches in additional geographies.

Product line extension: In 2020, PLPRF prioritized the development of an innovation process to vet and introduce new products. The process runs in 5 stages from: Discovery & Ideation, Concept & Business Case, Operationalization & Sales Visibility Testing, Launch and Post-Launch Evaluation.

This investment in innovation has allowed PLPRF to expand its product portfolio by size and application. The Company has also partnered with firms to expand its medical marijuana operations:

- **CannRx Biosciences** - an Israeli cannabis company that has developed a nanoparticle that is water soluble and improves the **bioavailability of cannabinoids** and terpenes (i.e. rate at which a drug reaches systemic circulation).
- **TFF Pharmaceuticals** – clinical stage biopharma company that has licensed its **Thin Film Freezing (TFF)** to PLPRF to create a **'Dry Inhalation Powder'** device for safer inhalable cannabis consumption.

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Management Team

- **Chief Executive Officer, Jake Heimark.**

Jake Heimark is the founder and CEO of Plus Products. Jake has worked in regulated industries for his entire career. Prior to founding the Company, he worked in scaling payment technology as a product manager with Gumroad and in risk management with Facebook. Mr. Heimark earned a Bachelor of Science in Human Biology and a Bachelor of Arts in Economics from Brown University in 2011.

- **Chief Financial Offier, Tessa O'Dowd.**

Tessa O'Dowd is the CFO at Plus products. Tessa has worked in financial services for over 10 years in consumer goods. Prior to joining the Company, Tessa was Controller at Bare Snacks, a company that provides snacks that are sourced from nature and committed to non-GMO.

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The California CBD market

California (CA) became the first state in the US to legalize medical cannabis in 1996 under the Compassionate Use Act of 1996 (Proposition 215). In 2017, CA approved the Adult Use of Marijuana ACT (Proposition 64) to legalize recreational use.

In 2018 the Farm Bill was passed where according to the FDA the Community-Supported Agriculture (CSA) no longer differentiated between marijuana and hemp, descheduling some cannabis products from the Controlled Substance Act. The Act made hemp an eligible crop under the federal insurance program.

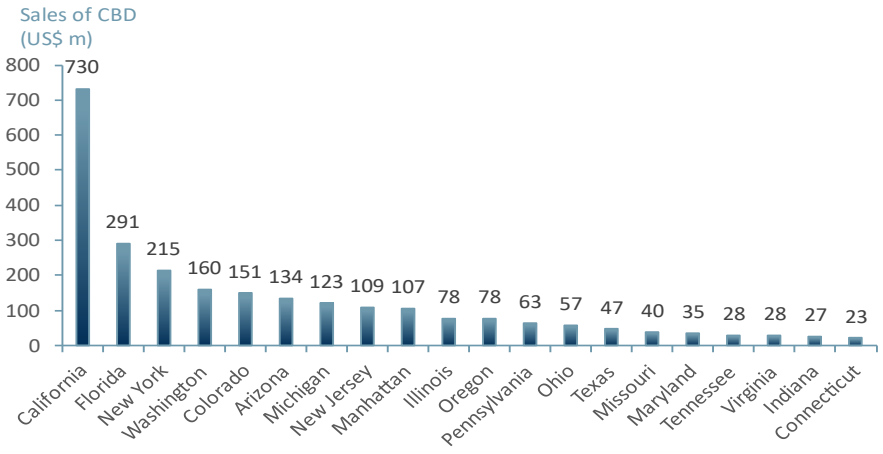
Hemp is a variety of the sativa plant where the seeds are used to produce medicinal and recreational drugs. When formulated into pharmaceutical grade it is not toxic to ingest. In addition, legal hemp cannot contain more than 0.3% of tetrahydrocannabinol (THC) – the psychoactive substance in the cannabis plant. (Marijuana refers to cannabis that has THC of over 0.3%.)

The Farm Bill legalized CBD at the federal level in 2018 by legalizing all products made from hemp, including CBD oil. Because CBD is extracted from hemp it therefore, contains less than 0.3% of THC.

In California, hemp-sourced CBD and marijuana-sourced CBD are both legal. It is only illegal to add CBD into food products – this has not yet been approved by the FDA. Nevertheless, California continues to outperform its counterparts in the sale of CBD products.

CBD sales in CA are expected to reach US$ 3.3bn by 2024E up from $730m, in 2019 (exhibit 1) - making it the most sought-after state by all existing and emerging cannabis companies.

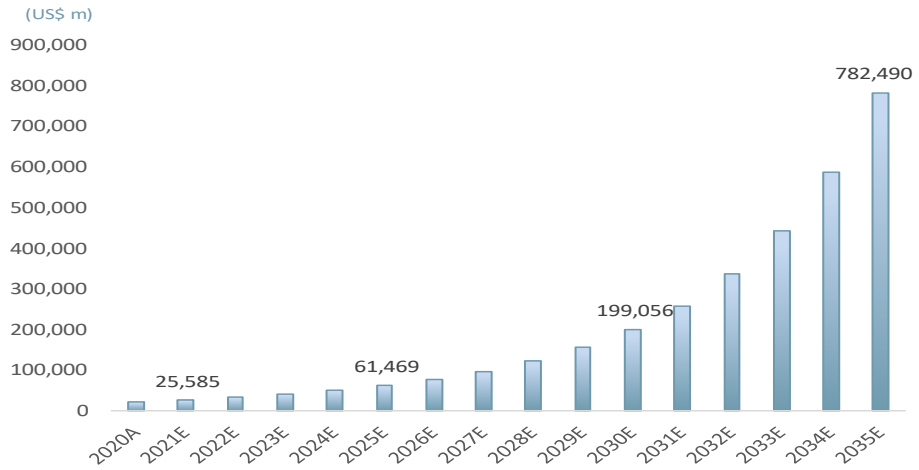
Exhibit 1: **California CBD sales ($m) vs. other US states 2019A**



Source: ACF Equity Research Graohics; Cannacord Genuity

Market Assumptions

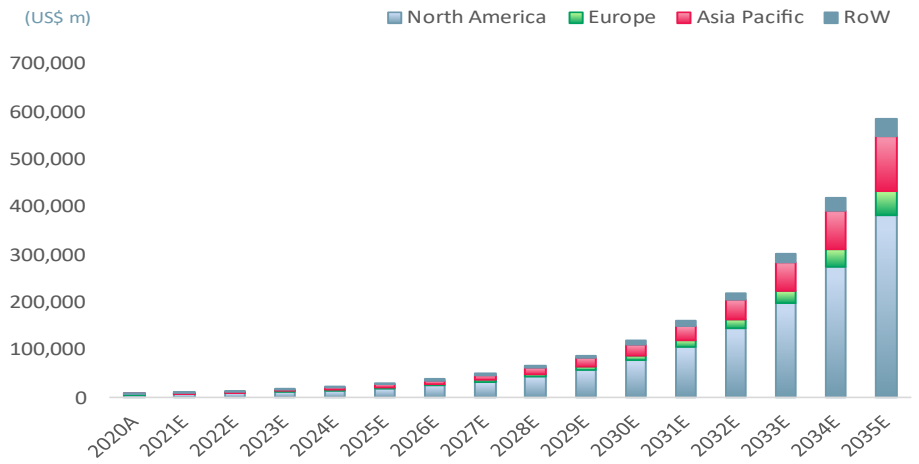
Exhibit 2: **Global legal cannabis market size 2020A-2035E**



Source: ACF Equity Research Estimates

In Exhibit 1 above, we have assumed that the global legal cannabis market will grow by 30% per year based on market consensus and ACF estimates.

Exhibit 3: **Global CBD market by region 2020A-2035E**



Source: ACF Equity Research Estimates

In Exhibit 2 above, we assume that North America accounts for the highest share of the global CBD market. We have assumed that the North American market accounts for 37.3% of the global CBD market value. We have inferred that PLPRF is capable of winning 1% of the US CBD market.

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Valuation Case

We exclude from our PLPRF (Plus)) forecasts and valuation all geographical market opportunities outside the US CBD market.

ACF's valuation is conservative. We have factored in a risk adjustment, leading to a **19% WACC** assumption, to account for operational uncertainties. However, our WACC and risk adjustment and forecasts assume that because PLPRF is already revenue generating.

Plus Products is revenue generating and therefore we have assumed a **long-term FCF Margin of 20%**, in line with both the median and average for our industry peer group (see exhibit 5 below).

We have assumed that PLPRF will increase revenues due to its medical marijuana products. This is based on the argument that the partnerships with CannRX and TFF will launch in the short-term as Covid-19 restrictions ease allowing for clinical trials to commence and/or continue.

In addition, we have used a 10-year DCF with an **FCF TV Multiple 8x vs. a peer group EV/FCF average of 89x** (growth stocks). Our 10-year DCF captures 10 years of revenue and free cash flows.

Below we have highlighted the sensitivity of PLPRF's WACC and the Market Share (%), FCF M% and TV Multiple 10 yr. The model is marginally more sensitive to FCF M% and FCF TV Multiple 10 yr.

ACF assumes a **PLPRF valuation range of US$ 8.61 to 9.52 per share** with a 5% standard deviation. Our PLPRF fair value DCF indicates a value range mid-point of US$ 385.5m, based upon the CBD market value and expected revenue forecasts from medical.

PLPRF's edibles are currently generating revenues and the Company is planning to expand into other jurisdictions and geographies. In addition, PLPRF's medical therapies could have the potential to achieve approval in other global regions, which we divide into Europe, Asia and RoW, at comparatively lower costs and shorter time scales.

Exhibit 4: **Peer group with focus on cash related metrics**

TTM Metrics / Company Name	Market	Tkr	MCAP US$(m)	EV US$(m)	EV / EBITDA	MCAP / FCF	EV / FCF	FCF margin
Plus Products	**OTCQB**	**PLPRF**	**19**	**26**	**N/M**	**N/M**	**N/M**	**N/M**
Green Thumb Industries	OTCQX	GTBIF	6,740	6,750	28x	111x	111x	8%
Verano Holdings	OTCQX	VRNOF	1,440	3,610	12x	N/A	N/A	N/A
Trulieve Cannabis	OTCQX	TCNNF	1,700	1,860	17x	N/M	N/M	N/M
TerrAscend	CSE	TER	4,023	2,685	11x	101x	67x	7%
Average					**17x**	**106x**	**89x**	**8%**
Median					**15x**	**106x**	**89x**	**8%**

Valuation - DCF

Exhibit 5: **Indicative potential financial performance**

ACF est. $(m)	2021E	2022E	2023E	2024E	2025E
Revenue	49	84	110	144	188
EBITDA	26	44	57	75	98
Net Income	49	84	110	144	188
FCF	13	17	22	29	38
CPS (diluted) USD	0.25	0.33	0.43	0.56	0.73

Exhibit 6: **WACC**

Note: We assume the conservative Debt / Equity target mix 45%. However, in the current interest rate environment 50-60% is more likely.

PLPRF - WACC Calc	
Pre-tax cost of debt	12.0%
ETR	20.0%
After-tax cost of debt	9.6%
Current Leverage	87.3%
Debt/(Cash)	7.1
Equity	18.3
Target Leverage	45.0%
D / (D+E)	27.9%
ACF β adj levered	3.00
rf	1.22%
ERP	4.7%
Cost of equity	15.4%
Risk adj.	5.5%
WACC	19%

Exhibit 7: **Implied return**

Note: Close price on front page of this ACF research note is based on shares in issue (NoSh) on 13/07/2021 of 41,748,380

Implied VR Return 2102-2334%.

We exclude from our PLPRF (Plus)) forecasts and valuation all geographical market opportunities outside the US CBD market.

Valuation Range		
Plus Products	385.5	
NPV FCF ($m)	385.5	
Net Debt/(Cash)	7.1	
Fair Value ($m)	378.4	
NoSh(m)	41.75	
NoSh (diluted)(m)	N/A	
Intrinsic Value Per Share ($m)	9.06	
Close Price USD	0.39	
VR (low - high)	**8.61**	**9.52**
VR Spread	5.00%	
Implied VR Return (low - high)	2102%	2334%

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Sensitivity Analysis

Exhibit 8: **WACC/Market Share % shows long-term value potential**

PLPRF Fair Value 10 Yr DCF USD (m) US Market Share Only

US Market Share Only	Wacc 23%	21%	19%	17%	15%
1.2%	338	386	443	511	592
1.1%	323	369	424	489	566
1.1%	309	**369**	**424**	**489**	540
1.0%	294	**336**	**386**	**444**	514
1.0%	279	**319**	**366**	**422**	489
0.9%	264	302	347	400	463
0.9%	250	285	328	378	437

We exclude from our PLPRF (Plus)) forecasts and valuation all geographical market opportunities outside the US CBD market.

Sources: ACF Research Estimates; Companies reports; Factset

Exhibit 9: **WACC/FCF Margin % shows long-term value potential**

PLPRF Fair Value 10 yr USD (m)

FCF M (%)	Wacc 23%	21%	19%	17%	15%
26%	382	437	501	578	669
24%	353	403	463	533	617
22%	323	**369**	**424**	**489**	566
20%	294	**336**	**386**	**444**	514
18%	264	**302**	**347**	**400**	463
16%	235	269	308	356	412
14%	206	235	270	311	360

Sources: ACF Research Estimates; Companies reports; Factset

Exhibit 10: **WACC/FCF TVx 10yr shows long-term value potential**

PLPRF Fair Value 10 yr USD (m)

TV Multiple 10yr	Wacc 23%	21%	19%	17%	15%
14	409	471	545	633	739
12	370	426	492	570	664
10	332	**381**	**439**	**507**	589
8	294	**336**	**386**	**444**	514
6	256	**291**	**332**	**381**	440
4	217	246	279	318	365
2	179	201	226	255	290

Sources: ACF Research Estimates; Companies reports; Factset

Valuation – Trading Multiples

Exhibit 11: Trailing peer group metrics – income statement

TTM Metrics / Company Name	Market	Tkr	EV US$(m)	Div %	EBITDA M%	EV / REVS	MCAP / EBITDA	EV / FCF
Plus Products	**OTCQB**	**PLPRF**	**26**	**N/A**	**N/M**	**2x**	**N/M**	**N/M**
Green Thumb Industries	OTCQX	GTBIF	6,750	N/A	32	9x	28x	111x
Verano Holdings	OTCQX	VRNOF	3,610	N/A	64	8x	5x	N/A
Trulieve Cannabis	OTCQX	TCNNF	1,860	N/A	51	9x	16x	N/M
TerrAscend	CSE	TER	2,685	N/A	45	5x	16x	67x
Average				N/A	48%	8x	16x	89x
Median				N/A	48%	8x	16x	89x

Exhibit 12: Trailing peer group metrics – balance sheet

TTM Metrics / Company Name	Market	Tkr	MCAP US$(m)	Gross Debt / Assets	Gross Debt / to Equity	RoA	RoE	RoI
Plus Products	**OTCQB**	**PLPRF**	**19**	**82**	**928**	**-24**	**-300**	**-56**
Green Thumb Industries	OTCQX	GTBIF	6,740	21	30	8	7	N/A
Verano Holdings	OTCQX	VRNOF	1,440	8	12	N/A	N/A	N/A
Trulieve Cannabis	OTCQX	TCNNF	1,700	18	97	11	-83	28
TerrAscend	CSE	TER	4,023	31	40	19	17	N/A
Average				20%	45%	12%	-20%	28%
Median				19%	35%	11%	7%	28%

Exhibit 13: IMEXF Forecast trading multiples

ACF est. $(m)	Revenue	EBITDA	FCF	EPS ($)	EPS diluted ($)	CPS	CPS (diluted)
2024E	144	75	29	1.16	0.94	0.69	0.56
2025E	188	98	38	1.52	1.22	0.90	0.73

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS ($)	P/ EPS diluted ($)	P/ CPS	P/ CPS (diluted)
2024E	3.50x	6.73x	17.49x	7.81x	9.68x	13.14x	16.28x
2025E	2.68x	5.15x	13.38x	5.98x	7.41x	10.05x	12.46x

We exclude from our PLPRF (Plus)) forecasts and valuation all geographical market opportunities outside the US CBD market.

Our peer group is made up of cannabis companies that operate on a global scale in the medical and recreational space. We note that the peers are larger than PLPRF, however this provides an indication as to how PLPRF could perform in future.

PLPRF does not make up a constituent of our average or median values in the peer group metrics. We have excluded PLPRF from these values to make multiple comparisons undistorted.

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Peer Group Selection

The peer group below has been selected as all companies produce CBD products, making them comparable to Plus Products for the purpose of this Indicative Valuation.

Green Thumb Industries Inc. (**OTCQX** : **GTBIF**) is based **Chicago, Illinois**. The company manufactures and sells various cannabis products for medical and adult-use in the US. The company offers processed and packaged products, including concentrates, edibles, topical and other cannabis products. GTBIF's brand portfolio includes: Rythm, Dogwalkers, The Feel Collection, Incredibles, Dr. Solomon's, Beboe, and other brands. The Company distributes its products through its Rise retail stores and through third-party retail stores. As of May 2021, GTBIF owns and operates 97 retail stores.

Verano Holdings (**OTCQX : VRNOF**) is based in **Chicago, Illinois**. Verano cultivates and produces cannabis products under its brands: Encore, Avexia, muv and Verano in 10 facilities. The company distributes products for medical and adult-use under its Zen Leaf brand dispensaries in 82 operational locations across 11 US states. Verano also engages in the wholesale of consumer packaged goods (CPG).

Trulieve Cannabis Corp.'s (**OTCQX : TCNNF**) HQ is in **Quincy, Florida** and operates as a medical cannabis company. The company cultivates and produces products and distributes them through their Trulieve branded stores in Florida, California, Massachusetts, and Connecticut, as well as directly to patients via home delivery. It produces approximately 155 stock keeping units, including smokable flower, flower pods for vaporizing, concentrates, topicals, capsules, tinctures, and vape cartridges. As of 2021, TCNNF had 85 bricks and mortar retail stores.

TerrAscend (**CSE : TER**) is based in Canada. It is vertically integrated - cultivating, processing and selling medical and adult-use cannabis in Canada and the US. TER has three retail dispensaries under the Apothecarium brand in California and Pennsylvania. Its brands also include: Ilera Healthcare, Kind Tree, Prism, State Flower, Valhalla Confections and Arise Bioscience Inc.

Financial Projections – Indicative Proforma

Our financial projections are pro-forma and indicative only. They are not based upon a full model or management discussions. We do not have access to full up to date YE20 financials. We have made various margin assumptions based upon the companies in the cannabis market segement, market share potential based upon and innovative device rather than an incremental improvement, and various broader growth company characteristics.

We exclude from our PLPRF (Plus)) forecasts and valuation all geographical market opportunities outside the US CBD market.

Income Statement $(m)	2021E	2022E	2023E	2024E	2025E
Revs	**49**	**84**	**110**	**144**	**188**
gr%		1	0	0	0
Total Expenses	24	40	53	69	90
EBITDA	**26**	**44**	**57**	**75**	**98**
% Revs	1	1	1	1	1
FV adj.	0	0	0	0	0
% Revs	0	0	0	0	0
EBIT	**21**	**35**	**46**	**60**	**79**
EBT	21	35	46	61	79
% Revs	NM	0	0	0	0
ETR	0	0	0	0	0
NI	**17**	**28**	**37**	**48**	**63**
% Revs	NM	0	0	0	0
Adj EPS (p)	0	1	1	1	1
Basic EPS (p)	0	1	1	1	2
Diluted EPS (p)	0	1	1	1	1
Balance Sheet $(m)	2021E	2022E	2023E	2024E	2025E
PP&E	0	0	0	0	0
Total Fixed Assets	**0**	**0**	**0**	**0**	**0**
Current assets	2	4	6	7	9
Cash	12	36	71	111	165
Total Current Assets	**19**	**49**	**87**	**133**	**193**
Total Assets	**19**	**49**	**87**	**133**	**194**
Creditors	2	4	6	7	9
Other liabilities	0	0	0	0	0
Loans	1	1	1	1	1
Total Liabilities	**3**	**5**	**6**	**8**	**10**
Net Assets	**16**	**44**	**81**	**125**	**183**
Share Capital	14	14	14	14	14
Accum. Profit/(loss)	-1	28	65	108	166
Total Equity	**16**	**44**	**81**	**125**	**183**
Total Equity & Liabilities	**19**	**49**	**88**	**133**	**193**
Basic NAV (p)	0	1	2	3	4
Diluted NAV (p)	0	1	2	2	4
Cash Flow $(m)	2021E	2022E	2023E	2024E	2025E
EBT Profit/(loss)	21	35	46	61	79
Finance costs	0	0	0	0	0
FV adj. + Other adj.	**0**	**0**	**0**	**0**	**0**
Cash Taxes	-4	-7	-9	-12	-16
WCap change	-5	-3	-3	-3	-4
Net CFO	**16**	**29**	**38**	**50**	**66**

Source: ACF Research Estimates; Companies reports.

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Glossary

CBD	Cannabidiol – A phytocannabinoid and one of the 113 cannabinoids in the cannabis plant..
DCF	Discounted Cash Flow – a valuation method that estimates the value of an investment or a company based on its expected future cash flows.
EBITDA	Earnings before interest, depreciation and amortisation – the presentation of EBITDA by companies is not a requirement of UK GAAP or IFRS accounting standards. However, in certain cases it can act as a close proxy to free cash flow.
ERP	Equity Risk Premium – the excess return an investor earns from an investment.
ETR	Effective Tax rate – the amount of tax paid on income, as a percent.
EV	Enterprise Value – the total value of a company, including debt held.
FCF	Free Cash Flow generated in ACF's models after all obligatory cash costs have been satisfied such as Interest payable (Ip), cash taxes and maintenance capex (as opposed to investment capex). FCF, in general, represents the cash remaining for theoretical distribution or investment after all obligatory cash-based costs including net interest payable have been deducted.
FCF M%	Free Cash Flow Margin – calculated by dividing FCF/Revenues and represents a profitability indicator of a company.
FDA	Food and Drug Administration - is a US regulatory authority.
MCAP	Market Capitalization – total dollar value of a company's outstanding shares of stock.
NI	Net Income – a company's income minus cost of goods sold, expense, depreciation and amortisation.
NoSH	Number of Shares in issue (NoSh).

NPV	Net Present Value (NPV) - refers to the current value of future cash flows generated by the project
REVS	Revenues – a company's income or increase in net assets.
RoA	Return on Assets – represents a company's profitability based on assets.
RoE	Return on Equity - measure of financial performance and is calculated by dividing net income by shareholders' equity.
RoI	Return on Investment – a ratio between net profit and the cost of investment. RoI evaluates the efficiency of an investment.
RoW	Rest of the World
THC	Tetrahydrocannabinol – The psychoactive substance in the marijuana plant.
TTM	Trailing Twelve Months – data from the past consecutive 12-months.
TV	Terminal Value – value of a company at the end of a forecasted period.
VR	Valuation Range – the range of the valuation calculated.
WACC	Refers to the weighted average cost of capital for the firm.

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