

February 1, 2023

FLORA GROWTH CORP.

(NasdaqCM: FLGC)

Flora Growth Corp. manages a portfolio of international consumer brands supported by low cost, organic cannabis and cannabis derivatives that are used in a wide range of products, including cosmetics, pharmaceuticals, cannabis accessories, hemp textiles, and food and beverages. The company operates one of the largest outdoor cultivation facilities in Colombia, benefits from below-industry-average production costs, and prioritizes organic inputs and value-chain sustainability across its portfolio. Flora is in the early stages of an international expansion strategy that has established a robust supply chain and distribution network to support its portfolio of revenue-generating brands.

COMPANY HIGHLIGHTS

- * FLGC: A Rapidly Growing Global Cannabis Producer, Supplier and Brand Builder
- * Flora's growth strategy leverages cost-effective cannabis cultivation in Colombia to supply cannabis flower and derivatives for an expanding range of products, including cosmetics, pharmaceuticals, and food and beverages, as well as for its globally distributed wholesale business.
- * The company's outdoor cultivation operation in Colombia -- along the equator and at an altitude of 1500 meters above sea level -- benefits from favorable weather that allows for year-round organic growing. Flora's production costs are also significantly lower than its Colombian peers, at less than \$0.06 per gram. Flora's cultivation, which has attained GACP certification, will allow it to sell dried flower to GMP active pharmaceutical producers with distribution to international medical markets. Initial harvests have been completed and Flora has been navigating volatility in the global cannabis industry while building robust supply-chain and distribution-logistics capabilities.
- * Flora Growth has built three distinct operating units: Commercial Wholesale, House of Brands, and Life Sciences, which we think positions the company with a strong long-term growth profile. In 2022, Flora advanced on all of these fronts.

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KEY STATISTICS

Key Stock Statistics

Recent price (1/30/23)	\$0.30
Fair Value Estimate	\$3.00
52 week high/low	\$2.38- \$0.19
Shares outstanding (M)	133.4
Market cap (M)	\$40.0
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Consumer Discretionary
Sector % of S&P 500	9.8%

Financials (\$M, as of 9/30/22)

Cash & Mkt Securities	5.9
Debt	3.3
Working Capital (\$M)	14.2
Current Ratio	2.6
Total Debt/Equity (%)	6.1%
Payout ratio	NM
Revenue (M) TTM	30.4
Net Income (M) TTM	NM
Net Margin	NM

Risk

Beta	NA
Inst. ownership	8%

Valuation

P/E forward EPS	NM
Price/Sales (TTM)	1.3
Price/Book (TTM)	1.8

Top Holders

Hampstead Private Capital LTD- Asset Mgmt
 Mirae Asset Global Investments Co. Ltd
 Highbridge Capital Management LLC

Management

Chief Exec Officer/Chairman	Mr. Luis Merchan
Chief Financial Officer	Mr. Elshad Garayev
Chief Marketing Officer	Ms. Jessie Casner
Company website	https://floragrowth.ca

PRICE CHART



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First, Flora initiated harvesting to meet its export quota, following Colombia's legalization of dried flower exports in 2021. At the end of 2022, Flora acquired Franchise Global Health, a distributor of pharmaceutical-grade medical cannabis, which should accelerate Flora's entry into Germany and other EU cannabis markets over time. In February 2022, the company acquired CPG brand JustCBD, and has integrated it (as well as Vessel, acquired in November 2021) into its revenue-producing product portfolio. Finally, in May 2022, Flora acquired CBD brand Masaya and prepared for initiation of clinical trials for its nascent Life Sciences category.

- * As of September 30, 2022, Flora Growth had \$5.9 million in cash and more than \$9 million in product inventory planned for sale. In December 2022, Flora raised an additional \$5 million in gross proceeds from a direct-share and warrant offering with institutional investors. Although the company has deployed much of the \$37.6 million in cash held at December 31, 2021, and increased its shares outstanding to complete multiple strategic acquisitions, we view the company's near-term revenue growth prospects as being underappreciated by investors. As well, we think its lack of debt and modest capex requirements going forward allow Flora to execute on its strategic plan.
- * Despite significant volatility in the broader equity markets, and the cannabis industry in particular, Flora seems to be attractively valued based on its low-cost structure, strong brand portfolio, and expanding global distribution. Based on our EV/revenue analysis, our fair value estimate for FLGC is \$3 per share, well above current levels.

INVESTMENT THESIS

Flora Growth leverages cost-effective cannabis cultivation in Colombia to supply cannabis and its derivatives for an expanding range of products, including cosmetics, pharmaceuticals, food and beverages, and hemp-based textiles.

In our view, Flora Growth is well positioned to participate in a global cannabis market that BDS Analytics projects will reach \$61 billion by 2026, which represents a compounded annual growth rate (CAGR) of 16% from 2021. The company's outdoor cultivation operation in Colombia — along the equator and at an altitude of 1500 meters above sea level — benefits from favorable weather that allows for year-round organic growing, and is expected to yield three or more annual crop cycles, compared with 1-2 cycles in other regions. These operations also have low water and electricity costs.

Due to the open-air cultivation, its crop has shown more-robust growth yields over greenhouse cultivated crops, and a richer

terpene profile, which enhances the flower's aroma. Flora's operations also benefit from a highly-skilled agricultural workforce, with labor costs that are approximately 10% of those for comparable operations in the United States.

As a result, we expect Flora to be able to produce dry flower at a significantly lower cost than most growers. Its demonstrated production cost of approximately \$0.06 per gram compares with costs that can exceed \$1.00 per gram in certain parts of North America. These costs would also be lower than those of its Colombian peers, with its closest peer currently producing at \$0.15 per gram. Management estimates that Flora's all-in costs, including packaging and transportation, are closer to peer average costs for cultivation alone, and significantly lower than the all-in costs of growers in other regions.

In our view, Flora is well positioned relative to rival growers in Colombia. While the Colombian government has issued approximately 700 cannabis cultivation licenses, less than 10% are being actively used for growing operations. Moreover, only three companies in Colombia have the capabilities and infrastructure to support a growing export market. Internationally, Colombia competes with Canada and Portugal in the export market, though Canadian and Portuguese producers face higher costs.

To complement its cultivation capabilities, Flora has developed a wholesale cannabis distribution business. The company has constructed an expandable, 10,500 square foot extraction lab (dubbed Flora Lab 1) to serve as its primary processing hub, converting cannabis flower into crudes, distillates, and isolates for use in global medical and consumer cannabis markets. In total, Flora Growth has four facilities that, importantly, are fully functional and position Flora to shift from a high-capex investment mode to a revenue-generating execution mode. These facilities also include a GMP-certified processing facility for cannabis and non-cannabis topicals, phytotherapeutics, and over-the-counter products in Bogota (Lab 2, 16,000 sq ft); a cannabis transformation facility for edibles and other cannabis derivatives located in Ft. Lauderdale, Florida (Lab 3, 18,500 sq ft); and a custom compound prescription-grade medications and manufacture cannabis-based formulations," formulations lab for cannabis prescriptions in Bogota, Colombia (Lab 4, 2,300 sq ft). Flora also seeks supply-chain partners around the world with the same commitment to quality control.

Flora has initiated the process of obtaining EU-GMP certification, which would enable export of medical-grade cannabis derivatives to international markets when paired with its Good Agricultural and Collection Practices (GACP) certification, which

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
FLORA GROWTH CORP	NASDAQ: FLGC	0.30	2.38	0.19	40	-82	8372	NA	NA	NA	NA
CLEVER LEAVES HOLDINGS INC.	NASDAQ: CLVR	0.49	3.98	0.29	22	-76	27	NA	NA	1.15	NA
KHIRON LIFE SCIENCES CORP.	TSXV: KHRN	0.14*	0.28*	0.05*	31*	-33	60	NA	NA	2.12	NA
PHARMACIELO LTD	TSXV: PCLO	0.26*	1.22*	0.15*	40*	-73	-27	NA	NA	2.65	NA

* Statistics in Canadian Dollars (CAD)

was granted in October 2021. A cosmetics designation, granted in September 2021, represented only the 13th (out of 650 cosmetics laboratories in Colombia), to reach such manufacturing standards, according to the company.

In July 2021, the Colombian government updated its cannabis laws, allowing for the exportation of dried cannabis flower (which accounts for a majority of global sales demand) and its derivatives. It also removes marketing restrictions on cannabis products locally and permits the sale of cannabinoid medical products through drugstores as “custom formulas.” That seemingly favors Flora Lab, which holds licenses to produce custom formulas and has existing relationships with drugstore chains throughout Colombia. We see these laws as supporting a favorable long-term growth profile.

Flora is currently growing high-THC and high-CBD strains on only a small portion of the cultivation facility’s overall capacity. In March 2022, Flora received its 2022 export quota for up to 43,600 kilograms of high-THC cannabis flower, significantly higher than its 2021 quota for 7,200 kilograms. We note that Flora’s cultivation activities do not commence until the issuance of its quota, so we expect commercial sell-through on its cultivation activities upon the completion of harvest, testing, transport and other required regulatory and distribution steps.

Flora’s cannabis cultivation features a product validation and authentication platform that enables genome-to-sale supply-chain validation, which we expect to promote domestic and international market distribution adoption. We are encouraged by its measured cultivation activities that guard against over-growing and over-building inventory, which could outpace the capability of its supply chain and infrastructure. Shipments from Colombia to clients in Europe and elsewhere have only recently begun, and regulatory and logistics pathways are being defined. Thus, we expect the supply chain and processes to become more efficient over time.

Importantly, as of 2020, the global cannabis market was dominated by North America (97%), with Europe next at 1.5%, according to New Frontier Data. Currently, wholesale cannabis imports are legal in about 15 countries, including Israel, Germany, Australia, Italy, Portugal, and South Africa. To date, Flora has entered into distribution agreements for THC, medical CBD, and product derivatives in many of these markets and recently announced the export of products into markets including Switzerland, the Czech Republic, and the United States. In our view, Flora is well positioned to expand its market penetration to more than 10 countries in 2023, up from four in 2021.

Although Europe’s market for cannabis is nascent compared with North America, we see the region as poised for rapid expansion, and see Flora serving as an important global supplier of quality cannabis to the region. In August 2021, Flora closed on an equity investment in, and a securities swap with, Hoshi International, a vertically integrated medical cannabis company in Europe. Flora will be the preferred supplier of genetic material and finished cannabis derivative products to Hoshi’s cultivation and processing facility in Portugal. Flora holds a right of first refusal to supply any cannabis oil or derivative products acquired by Hoshi or any of its affiliates at its finished products processing facility in Malta. The distribution partnership with Hoshi spans 11 European

countries. Flora has strengthened its European supply chain and corporate footprint with distribution channels added through its recently completed acquisitions. These include a London-based regional sales headquarters and distribution center in the UK and Netherlands.

In December 2022, Flora acquired Franchise Global Health, a multi-national operator in the medical cannabis and pharmaceutical industry, with principal operations in Germany. In our view, this equity-based deal will enable Flora to leverage its Colombian-grown cannabis, particularly its 20%+ THC strains that are in high demand in Germany, directly into the German pharmaceutical and medical cannabis distribution network, which consists of 1,200+ pharmacies and the distribution of pharmaceutical products across 28 countries. We view Germany as Europe’s key market, accounting for approximately 75% of sales in Europe, with a strong profile for continued growth, with an estimated 150,000 German patients benefitting from medical cannabis and 90% of Germany’s population of 83 million people are covered by statutory health insurance. We also see the deal as likely to provide longer-term tailwinds, should Germany continue to move towards legalizing adult-use, recreational cannabis, which we think could expand the current Germany medical cannabis market from over \$100 million, to over \$1 billion during the second half of the decade.

In addition to developing a global supply chain that will allow it to move cultivated product around the world, Flora’s commercial growth strategy is underpinned by a focus on expanding its brand portfolio, as well as attracting talented employees that will lead the company through its continued stages of growth. We see Flora successfully leveraging its cultivation capabilities in a multi-product, geographically diverse consumer packaged goods (CPG) business, which will include a brick-and-mortar presence as well as e-commerce capabilities to fully unlock synergies across its brand portfolio.

The current CPG portfolio includes seven brands and more than 400 products in categories such as cannabis accessories (Vessel), various CBD products (JustCBD), cosmetics (Mind Naturals), medical products (Flora Lab), Food and Beverage (Tonino Lamborghini & Mambe) and textiles (Stardog Loungewear). Flora also manufactures white-label products, which could generate additional revenue from higher production volume. We expect that robust demand for these products will provide an opportunity to add additional brands with broad appeal.

We appreciate Flora’s strategy to acquire companies not only for their products, but also to retain their key human capital that can leverage their knowledge of local markets. We believe this decentralized “hub-and-spoke” structure will provide resources to support the growth of the company and its partnered brands.

In November 2021, Flora acquired Vessel Brand, a marketer of innovative cannabis and wellness consumer products. Vessel’s leadership team has expertise in cannabis sales and marketing, design, and production, which we expect Flora to leverage across its existing global portfolio. In addition, Vessel markets premium hardware and accessories, including vape pen batteries, throughout the United States and internationally (recently entering the Canadian market) and has numerous high-margin products in its development pipeline. The acquisition enabled Flora to broaden

its leadership team, with the appointment of Vessel's founder and CEO James Choe as its chief strategy officer and Jessie Casner as its chief marketing officer.

In February 2022, Flora acquired JustCBD, an established CPG brand with a portfolio of over 300 products, an omnichannel sales infrastructure that features over 300,000 customers, and a 14,000 stores network across the United States, and internationally. JustCBD generated revenues of US\$28 million and EBITDA of US\$7 million in fiscal year 2020.

We expect JustCBD to enhance Flora's United States distribution footprint significantly, and to create synergies across its existing brand portfolio. Its product categories include gummies, tinctures, vape cartridges, creams, and pet wellness. Flora has been able to expand product categories swiftly upon evaluating new opportunities, as it recently introduced a cannabinoid-based vape product to its marketed roster in less than 90 days.

In May 2022, Flora established a UK sales headquarters and we note that JustCBD already had 79 products registered with UK Novel Foods, which we think can support initial and scalable distribution of Flora's house of brands in Europe. Flora has increased European market penetration further by securing listing approval on Amazon U.K. for the JustCBD portfolio. Similar to the Vessel deal, the JustCBD acquisition brought human talent to Flora, as its CEO Hussein Rakine, was named to Forbes' 2022 "30 Under 30" list for retail and ecommerce.

During the first nine months of 2022, JustCBD and Vessel comprised most of Flora's revenues, as the portfolio was realigned to better support the long-term strategy. Flora has focused on the identification and integration of synergies across its House of Brands. For example, Vessel, which has historically been a predominantly DTC brand, was expanded to include a retail/wholesale smoke shop and vape channel, leveraging JustCBD's expertise. The company also expanded the international brand footprint with the opening of a distribution center in London and the opening of brick-and-mortar stores via partnership in Czech Republic and Germany, among other global distribution partnerships.

Notably, U.S. operations have been enhanced by the vertical integration of certain Flora portfolio products including its CBD edible, topicals, and other infused products into the United States from Colombia, while Flora Growth can introduce JustCBD products to the Colombian market as well. Among its other brands, Flora has made strides to expand the global footprint for MIND Naturals, Mambe, and others. More broadly, we expect Flora Growth to leverage its global reach to better understand consumer sentiment and position its commercial portfolio appropriately.

Flora Growth has established itself as an environmentally conscious company, and announced a commitment to environmental sustainability in June 2021. Its organic cultivation practices help to prevent the loss of topsoil, toxic runoff, water pollution, and soil contamination. Its Stardog Loungewear brand uses cannabis fibers to create textiles, limiting waste while supporting a higher ROIC. The company has also focused on biodegradable packaging and the use of recycled materials. Its Mind Naturals Extra Hydrating Cream with cannabidiol (CBD) is sold in a 100% biodegradable container, and its KASA Wholefoods division uses recyclable glass bottles for beverages.

In late 2021, Flora established Flora Life Sciences, which intends to develop and commercialize cannabis-derived therapeutics that can ease pain and inflammation, potentially curbing the use of opioids, which have seen hundreds of millions of annual prescriptions but are often misused and are addictive. In contrast, cannabinoid-based medicines hold the potential to provide a safer, nonaddictive treatment option. Initial efforts will focus on pain-related indications such as Fibromyalgia, which affects approximately 4 million people in the U.S. alone. We expect the program to generate proprietary and measurable data, in contrast to a subjective, self-reporting mechanism, that could potentially support claims of treating pain, inflammation, anxiety and depression management, and potentially, insomnia.

The trials primarily are based in the United States and the United Kingdom. The UK patient-study activities will be conducted in coordination with the University of Manchester, while parallel U.S. molecular and pharmacokinetic studies are being conducted with key scientists and colleagues of Dr. Annabelle Manalo-Morgan, Flora's lead scientific advisor. We are encouraged by the rapid advancement of the program, with pre-clinical activities completed within six months, and think it should advance to dosing patients during 2023. Thus, we see this unit representing a potential tailwind to Flora's growth strategy, and one that is seemingly overlooked by investors.

In May 2022, Flora acquired Dr. Manalo-Morgan's Masaya brand of patent-pending CBD formulations, and plans to distribute the brand worldwide. Masaya will be the first offering from Flora Life Sciences and its original formulation, Masaya Pure, will be used in Flora's current UK clinical trials and will be registered with various global regulatory agencies.

RECENT DEVELOPMENTS

Flora Growth shares began trading on the Nasdaq under the ticker FLGC in May 2021. Since the IPO, the stock has been volatile, trading between \$21.45 and below \$1.00. In 2022, the stock declined by 88%, compared with a 19% decline for the S&P 500. Year to date in 2023, the stock has risen by 28%, compared with a 5% increase for the S&P 500.

In November 2022, Flora reported nine-month 2022 revenues of \$25.7 million, which represented a year-over-year increase of 510%, and a net loss of approximately \$40 million, or \$0.52 per share. Notably, nearly half of the new loss was attributable to goodwill impairment of \$16 million related to the Vessel acquisition, an asset write-down from its Hoshi investment, both due to steep declines in sector valuations and the build of inventory for sale.

In January 2023, Flora issued revenue guidance for 2023 of \$90 million to \$105 million, which would represent more than 100% growth over 2022 levels.

In December 2022, Flora Growth completed the acquisition of Franchise Global Health, a multi-national operator in the pharmaceutical and medical cannabis industry, with primary operations in Germany. For the first nine months of 2022, FGH generated revenues of C\$42.0 million (~US\$32.7 million) and gross profit of C\$2.8 million (~US\$2.5 million). In the deal, Flora issued 43.5 million shares.

In September 2022, Flora acquired substantially all of the assets pertaining to the brand No Cap Hemp Co., agreeing to pay 10% of gross revenue received from the sale of No Cap products up to a maximum of \$2 million, as consideration.

In May 2022, Flora acquired Masaya, a brand of patent-pending CBD formulations created by Dr. Annabelle Manalo-Morgan. Flora plans to distribute the brand worldwide and the brand will represent the first offering from Flora's Life Sciences division.

In March 2022, Flora received its 2022 export quota from the Colombian government, totaling up to 43,600 kg of high-THC cannabis. The allotment enables Flora to produce and export both high-THC dry flower and cannabis derivative products. Upon receipt of this allotment, Flora Growth initiated cultivation activities at its Colombia facility.

In February 2022, Flora acquired JustCBD, an established CPG brand with a portfolio of over 300 products, which generated revenues of \$28 million in fiscal 2020, and features a robust distribution network. Under terms of the deal, Flora paid \$16 million in cash and issued 9.5 million shares.

In November 2021, Flora completed the acquisition of Vessel Brands, a marketer of innovative cannabis technology hardware products, in a \$30 million transaction, with \$8 million in cash and the balance from the issuance of 4.6 million shares of Flora stock.

EARNINGS & GROWTH ANALYSIS

We forecast revenue of \$40 million in 2022 and \$110 million in 2023. For 2023, we expect results to be driven by the sale of wholesale cannabis flower globally, recently enhanced by the acquisition of Franchise Global Health, through which Flora will sell high-grade, medicinal cannabis in Germany from the acquisition, as well as continued penetration of its House of Brands, with a full year of sales from JustCBD. We see 2023 results benefitting from the sell-through of remaining inventory built-up during the first half of 2022.

We also expect the Life Sciences unit to begin to contribute to the revenue profile in 2023, and for Flora to seek additional accretive acquisitions to accelerate expansion of the product and regional footprint, through which it can further leverage its emerging supply-chain and global infrastructure.

For 2022, we forecast gross margin of 46%, which compares favorably with 27% in 2021. For 2023, we project gross margins of approximately 39%, as efficiencies in cultivation and the supply-chain network are partially offset by lower margin distribution in Europe. Over time, however, we see this acquisition providing entry into the high-growth German market and expect Flora to leverage the addition of the pharmacy and customer network to offer a diversified product offering for high-grade cannabis and other products. We also expect gross margins to expand from 2023 levels as Flora realizes cost synergies from re-aligning its European footprint following the Franchise deal. We view positively Flora's flexibility to optimize its product mix towards higher margin brands, which (for example) led to a reduced focus on the food category.

We forecast a net loss per share of \$0.55 in 2022 and a net loss per share of \$0.03 in 2023. We also note that 2022 results have been impacted by several non-recurring and non-cash items, including

goodwill impairments related to the acquisition of Vessel and a write-down in its investment of Hoshi, amid declining industry valuations. We estimate this will account for more than one-third of its reported net loss for the year. For 2023, we expect a narrower net loss, as Flora shifts its focus towards revenue-generating activities, and see potential for the company to reach operational breakeven by the end of the year. We assume average shares outstanding of 78 million for 2022 and 135 million for 2023.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Flora Growth is Medium. As of September 30, 2022, the company had cash of \$5.9 million, compared with \$37.6 million at the end of 2021, which we largely attribute to the company paying \$16 million in cash to close the JustCBD acquisition in March 2022. Despite the more-modest cash balance, we note that Flora expects to sell and monetize more than \$9 million in product inventories built during the first half of 2022, and the company subsequently raised gross proceeds of \$5 million from a direct share/warrant offering with institutional investors in December 2022.

As of September 30, 2022, Flora Growth had working capital of \$14.2 million on its balance sheet, and a current ratio of 2.6. Given the expected capital inflows from inventoried products mentioned above, a lack of debt on its balance sheet, and manageable capex requirements moving forward, we view the company as well capitalized to integrate its growth pillars and its brand portfolio and establish its global cultivation supply chain.

In 2021, net cash outflows from operating activities were \$20.6 million, compared with outflows of \$8.4 million in 2020; net cash outflows from investing activities were \$14.6 million, compared with outflows of \$2.2 million in 2020. Net cash inflows from financing activities were \$58.1 million, supported by the May 2021 initial public offering and a follow-on offering in November 2021 that raised an aggregate \$44.5 million. This compared with inflows of \$25.8 million in 2020. We expect the company to receive additional funding over time through the exercise of warrants.

As of September 30, 2022, the company had 89 million shares outstanding, on a fully diluted basis. We project a fully diluted share count of approximately 160 million, following the closing of the Franchise Global Health acquisition and the December 2022 equity/warrant offering. In June 2022, the company announced a share-repurchase program for up to \$5 million, which resulted in the repurchase of 365,645 shares.

Flora Growth does not pay a dividend, and we do not expect the company to institute a dividend policy for the foreseeable future.

MANAGEMENT

Luis Merchan has served as Flora's CEO since 2020 and its board chairman since March 2022. Mr. Merchan has more than 10 years of experience in enterprise sales management and corporate strategy from industry-leading retail and packaged goods companies. Prior to joining Flora, he served as VP of workforce strategy and operations for Macy's, where he managed a multibillion-dollar P&L for the company's 540-store portfolio.

In June 2021, Flora Growth expanded its management team with the appointment of Jason Warnock as chief revenue officer. Mr. Warnock has approximately 15 years of experience in cannabis industry, and previously served as CEO of TheraCann International. In July 2022, the company appointed Elshad Garayev as chief financial officer. Mr. Garayev brings over 25 years of experience in finance supporting successful organizations through the development and implementation of accounting and reporting policies. Previously, he served in a variety of financial leadership roles at companies such as Amazon, Boeing BP and RPK Capital.

In February 2022, Flora named Vessel's founder and CEO James Choe to its executive team as chief strategy officer and Jessie Casner as its chief marketing officer.

Flora's board has nine members, including six independent directors, which we view favorably for corporate governance. Board members have expertise in multiple corporate functions, including cannabis, operations, regulation, and finance. In August 2021, Flora appointed Lead Scientific Advisor Dr. Annabelle Manalo-Morgan, PhD, to its board of directors, which led to the formation of its emerging Life Sciences operating unit. In December 2022, Flora added two senior members of the Franchise Global Health leadership team, former CEO Clifford Starke and former COO Edward Woo, to its board.

RISKS

Risks to an investment in Flora Growth include a highly competitive global market for cannabis and cannabis-derived products; reliance on maintaining production cost advantages over peers; reliance on a continued favorable regulatory environment in Colombia for cultivation and export activities; compliance requirements with a wide range of regulations governing cultivation and manufacturing in different countries; and maintaining adequate operating capital to limit the need for dilutive financing.

COMPANY DESCRIPTION

Flora Growth Corp. manages a portfolio of international consumer brands supported by low cost, organic cannabis and cannabis derivatives that are used in a wide range of products, including cosmetics, pharmaceuticals, cannabis accessories, hemp textiles, and food and beverages. The company operates one of the largest outdoor cultivation facilities in Colombia, benefits from below-in-

dustry-average production costs, and prioritizes organic inputs and value-chain sustainability across its portfolio. Flora is in the early stages of an international expansion strategy that has established a rapidly expanding supply chain and distribution network to support a portfolio of revenue-generating brands.

VALUATION

Since the company's May 2021 IPO at \$5.00 per share, shares of Flora Growth have been extremely volatile, trading in a range of \$21.45 and \$0.20. We attribute the volatility to the early stage of commercial rollout, its raising of capital and use of cash and issuance of shares to expand its product and geographic footprint, a weak global cannabis industry market for stocks, and, more recently, broad weakness in the global equity markets.

Despite these inherent uncertainties, we believe that Flora's acquisition of revenue-generating entities and the strategic nature of these acquisitions to build critical cultivation, supply-chain and distribution infrastructure are not reflected in the company's valuation. As such, we expect Flora to better attract investors as it executes on its strategic plan and communicates its outlook for 2023 and beyond.

Currently, Flora is trading at an EV/revenue multiple around 0.3-times our 2023 revenue estimate of \$110 million, which we note would represent a nearly tripling of revenues, year-over-year, based on our estimates. This compares with a multiple of between 3-4 times for a basket of global cannabis industry peers, which includes direct peers with operations in Colombia, including Clever Leaves (Nasdaq: CLVR), Khiron Life Sciences (TSXV: KHRN), Avicanna (TSX: AVCN), and PharmaCielo (TSXV: PCLO).

However, given Flora's cash balance, inventory to be sold over the near-term, lack of debt, modest capital-expenditure requirements moving forward, improving cash flow expected in 2023, and superior long-term growth profile, we think the shares warrant a premium to the peer average.

Thus, we apply a five-times multiple to our 2023 revenue estimate of \$110 million. Discounting this back one period at 15% to reflect inherent uncertainty in the timing underlying our assumptions, we calculate a target enterprise value of \$468 million. Adjusting for \$10 million in estimated net cash at the end of 2023 and dividing by our fully diluted share count estimate of 160 million, we arrive at a fair value estimate for FLGC of \$3 per share, which is well above current levels.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2020	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022E	2022E	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Revenue	0.1	9.0	0.0	14.9	10.8	14.3	40.0	25.5	27.0	27.5	30.0	110.0
Gross Profit	0.1	2.4					18.3					43.0
SG&A	12.5	20.3					30.6					46.1
R&D	NA	NA					NA					NA
Operating Income	-12.5	-17.9					-38.1					-4.0
Interest Expense	0.1	0.1					0.3					0.0
Pretax Income	-14.3	-21.5					-39.8					-4.0
Tax Rate (%)	NA	NA					NA					NA
Net income	-14.2	-21.3					-42.6					-3.8
Diluted Shares	29.9	43.9					78.0					135.0
EPS	-0.47	-0.48	0.00	-0.42	-0.10	-0.03	-0.55	-0.01	-0.01	-0.01	0.00	-0.03
Dividend	NA	NA					NA					NA
Growth Rates (%)												
Revenue	NM	NM					344					175
Operating Income	NM	NA					NA					NA
Net Income	NM	NA					NA					NA
EPS	NM	NA					NA					NA
Valuation Analysis												
Price (\$): High	NA	21.45					2.29					NA
Price (\$):Low	NA	1.68					0.24					NA
PE: High	NA	NA					NA					NA
PE: Low	NA	NA					NA					NA
PS: High	NA	NA					NA					NA
PS: Low	NA	NA					NA					NA
Yield: High	NA	NA					NA					NA
Yield: Low	NA	NA					NA					NA
Financial & Risk Analysis (\$MIL)												
Cash/Restricted Cash	15.5	37.6					NA					NA
Working Capital	14.9	41.8					NA					NA
Current Ratio	6.4	7.8					NA					NA
LTDebt/Equity (%)	2.0	1.0					NA					NA
Total Debt/Equity (%)	4.0	2.0					NA					NA
Ratio Analysis												
Gross Profit Margin	NA	27%					46%					39%
Operating Margin	NA	NA					NM					NM
Net Margin	NA	NA					NM					NM
Return on Assets (%)	NA	NA					NA					NA
Return on Equity (%)	NA	NA					NA					NA
Op Inc/Int Exp	NA	NA					NA					NA
Div Payout	NA	NA					NA					NA

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