

September 14, 2022

## 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 expanding internationally and growing its business through partnerships and acquisitions.

### COMPANY HIGHLIGHTS

- \* FLGC: A Fast-Growing Global Cannabis Producer 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 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 is at a nascent growth stage, has attained GACP certification, which will allow it to sell dried flower to GMP active pharmaceutical producers with distribution to international medical markets. Initial harvests are expected to generate revenue for its commercial wholesale unit during the second half of 2022.
- \* Flora has signed letters of intent with global distributors of THC, medical CBD, and product derivatives in regions including South Africa, Germany, U.K., the European Union, Australia, Israel, Latin America and South America.

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### KEY STATISTICS

Key Stock Statistics	
Recent price (9/12/22)	\$1.25
Fair Value Estimate	\$4.00
52 week high/low	\$7.50- \$0.59
Shares outstanding (M)	76.9
Market cap (M)	\$96
Dividend	Nil
Yield	Nil

#### Sector Overview

Sector	Consumer Discretionary
Sector % of S&P 500	11.4%

#### Financials (\$M, as of 6/30/22)

Cash & Mkt Securities	10.3
Debt	3.7
Working Capital (\$M)	18.6
Current Ratio	3.2
Total Debt/Equity (%)	6%
Payout ratio	NM
Revenue (M) TTM	21.8
Net Income (M) TTM	NM
Net Margin	NM

#### Risk

Beta	NA
Inst. ownership	6%

#### Valuation

P/E forward EPS	NM
Price/Sales (TTM)	4.4
Price/Book (TTM)	4.1

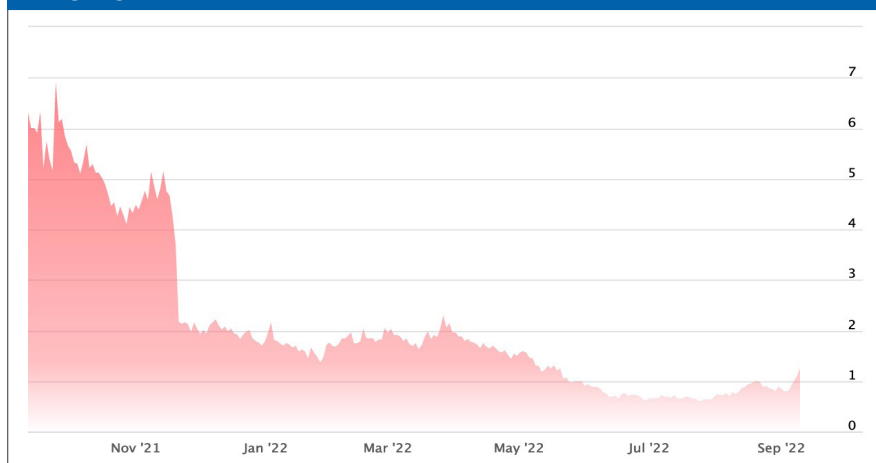
#### Top Holders

Mirae Asset Global Investments Co. Ltd  
Highbridge Capital Management LLC  
Renaissance Technologies LLC

#### Management

Chairman/CEO	Mr. Luis Merchan
Chief Financial Officer	Mr. Elshad Garayev
Chief Marketing Officer	Ms. Jessie Casner
Company website	<a href="https://floragrowth.ca">https://floragrowth.ca</a>

### PRICE CHART



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- \* In our view, Flora has been successfully navigating volatility in the global cannabis industry, including complex regulatory and supply-chain logistics frameworks, and higher inflation, to assemble 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.
- \* During the first half of 2022, Flora has advanced on all three growth pillars. First, Colombia legalized dried flower exports and Flora began harvesting to meet its 2022 export quota. Second, the company acquired leading CPG brand JustCBD, and has integrated it (and previously acquired Vessel) into its product portfolio. Finally, Flora acquired CBD brand Masaya and neared the initiation of clinical trials for its nascent Life Sciences category.
- \* In March 2022, the company paid \$16 million in cash to acquire JustCBD. At June 30, 2022, Flora Growth had \$10.3 million in cash and more than \$9 million in product inventory that it expected to sell during the second half of the year. With no debt and minimal capex required over the near-term, Flora seems to be sufficiently capitalized to execute on its strategic plan and reach profitability, without raising additional capital.
- \* Despite significant volatility in the broader equity markets, and the cannabis industry in particular, Flora seems to be attractively valued relative to peers 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 \$4 per share.

## 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 opera-

tions 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 a 15,000 square foot extraction lab (dubbed Flora Lab 1), which can be expanded, 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 which, importantly, are fully functional and should enable 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); a cannabis transformation facility for edibles and other cannabis derivatives located in Ft. Lauderdale, Florida (Lab 3); and a custom-formulations lab for cannabis prescriptions in Bogota, Colombia (Lab 4). 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 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.

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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	1.25	7.50	0.59	96	-80	8372	NA	NA	NA	NA
CLEVER LEAVES HOLDINGS INC.	NASDAQ: CLVR	0.84	9.08	0.76	36	-90	27	NA	NA	1.08	NA
KHIRON LIFE SCIENCES CORP.	TSXV: KHRN	0.12*	0.30*	0.11*	25*	-59	60	NA	NA	2.03	NA
PHARMACIELO LTD	TSXV: PCLO	0.43*	1.48*	0.16*	65*	-66	-27	NA	NA	2.84	NA

\* Statistics in Canadian Dollars (CAD)

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 representing a tailwind for Flora’s long-term growth.

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. Ahead of initiating cultivation, Flora instituted a global cannabis 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 note that Flora’s cultivation activities did not commence until the issuance of its quota, so we expect activity to increase significantly over the second half of 2022. We are encouraged by its measured cultivation activities to date, rather than risking over-growing, over-building inventory, which could outpace the capability of its supply chain and infrastructure. Its shipments from Colombia to clients in Europe and elsewhere only recently began, and regulatory pathways are being defined. Thus, we expect the supply chain and processes to become more efficient over time.

Currently, wholesale cannabis imports are legal in about 15 countries, including Israel, Germany, Australia, Italy, Portugal, and South Africa. While we expect it will take time to penetrate these markets, we see Flora emerging as an important cultivator and global supplier of quality cannabis given its significant cost advantages. To date, Flora has entered into distribution agreements for THC, medical CBD, and product derivatives. In total, Flora expects to expand its market penetration from four countries in 2021 to more than 10 countries by the end of 2022.

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 that is managed by an experienced team with deep knowledge of the European cannabis market. Flora will be the preferred supplier of genetic material and finished cannabis derivative products to Hoshi’s cultivation and processing facility in Portugal. Flora will hold 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. In May 2022, Flora expanded its partnership with Hoshi to distribute its broader product portfolio to 11 European countries. Flora views this investment as a key step in strengthening its European supply chain, as it provides access to export Colombia-grown flower and derivatives into the EU market. Flora has expanded its European footprint, with a London-based office to serve as the regional headquarters for its sales force and management of its distribution centers in the UK and Netherlands.

Flora’s commercial growth strategy is underpinned by three key initiatives: first, to develop a global supply chain that will allow

it to move cultivated product around the world; second, to further expand its brand portfolio; and third, to attract talented employees that will lead the company through its next stage of growth.

In our view, Flora is well positioned to leverage these cultivation and extraction capabilities in a multiproduct, geographically diverse consumer packaged goods (CPG) business. Management expects the company to have a brick-and-mortar presence as well as e-commerce capabilities that can unlock synergies across its brands.

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 March 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 half 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 its expectation for dosing in patients before the end of 2022. 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 on May 11, 2021. Since the IPO, the stock has been volatile, trading between \$21.45 and \$0.60 per share, and has declined by approximately 36% year-to-date, compared with a 14% decline for the S&P 500.

In August 2022, Flora reported revenues of \$14.9 million for the first half of 2022, and a net loss of \$32.6 million, or \$0.42 per share. Results were negatively impacted by goodwill impairment of \$16 million related to the Vessel acquisition, an asset write-down from its Hoshi investment, and build up on inventory expected to be sold in the second half of 2022.

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 Growth signed a licensing agreement with Tonino Lamborghini to produce and distribute Tonino Lamborghini branded cannabis beverages, containing CBD and other premium cannabinoids, across North America and Colombia. The products will be sold in U.S. states where CBD ingestibles are legal, and distribution will target ecommerce and brick-and-mortar channels.

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 \$41 million in 2022 and \$77.5 million in 2023. We expect 2022 revenues to ramp over the second half of the year, as cultivation efforts and international penetration for its House of Brands take hold. We expect much of its \$9 million in built-up inventory to be sold through in the second half of 2022 as

well. Over the coming years, we expect Commercial Wholesale/Life Sciences to balance the revenue profile, as its brands have driven revenues to date, and anticipate additional accretive acquisitions it can sell through its emerging supply chain and global infrastructure.

In our view, Flora Growth is poised to generate gross margins near 75% once it begins to realize economies of scale from its lower production and input costs compared with other growers. For 2022 and 2023, however, we forecast gross margin of 49% and 54%, respectively, as Flora utilizes a more modest percentage of its cultivation capacity across its cultivation and manufacturing footprint. Over time, we expect the company to generate EBITDA margins around 30%, as integration costs and supply chain investments begin to wane, and as the company optimizes its product mix towards higher margin items, and away from categories such as food.

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, due to declining industry valuations and higher discount rates. These transactions accounted for more than half (\$17.2 million) of Flora's report net loss for the first half of 2022.

We forecast a net loss per share of \$0.45 in 2022 and EPS of \$0.02 in 2023, as Flora shifts from investment and integration in its infrastructure towards revenue-generating activities. We assume shares outstanding of 77 million in 2022 and 80 million in 2023, but expect variability in share count over time, as Flora could issue shares as a component of its M&A strategy, upon improvement in economic conditions and its equity valuation.

## FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Flora Growth is Medium. As of June 30, 2022, the company had cash of \$10.3 million, down from \$37.6 million at the end of 2020, which we largely attribute to the company paying \$16 million in cash to close the JustCBD acquisition in March 2022. We note that Flora expects to sell and monetize more than \$9 million in product inventories built during 1H during the second half of 2022. We also expect the company to receive additional funding over time through the exercise of warrants.

As of June 30, 2022, Flora Growth had working capital of \$18.6 million on its balance sheet, and a current ratio of 3.2. Given the capital inflows from inventoried products mentioned above, the completion of its 2022 capital expenditure program, and a lack of debt on its balance sheet, we view the company as well capitalized to integrate its growth pillars and its brand portfolio and establish its global supply chain for its cultivation facility.

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 June 30, 2022, the company had 77 million shares outstanding, after issuing equity to complete the acquisitions of Vessel and JustCBD. In June 2022, the company announced a share-repurchase program for up to \$5 million. Subsequent to June 30, 2022, it repurchased 365,645 shares. On a fully diluted basis, we project a share count of approximately 90 million, as of August 2022.

## 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 appointments of Jason Warnock as chief revenue officer, and Elshad Garayev as chief financial officer. Mr. Warnock has more than 14 years of experience in cannabis industry, and previously served as CEO of TheraCann International. 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 seven members, including five independent directors, which we view favorably for corporate governance. Board members have expertise in multiple corporate functions, including 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.

## 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; and compliance requirements with a wide range of regulations governing cultivation and manufacturing in different countries.

## 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, 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 also expanding internationally and growing its business through partnerships and acquisitions.

## VALUATION

Since the company's May 2021 IPO at \$5.00 per share, shares of Flora Growth have been volatile, trading in a range of \$21.45 and \$0.59. We attribute the volatility to the early stage of commercial rollout, its raising of capital 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.

Thus, we believe that the current valuation does not adequately reflect the company's progress on multiple strategic initiatives and the prospects for robust revenue generation in the near term. As such, we expect Flora to attract investors as it continues to execute on its strategic plan.

Currently, Flora is trading at an EV/revenue multiple around 1.0-time our 2022 revenue estimate of \$45 million. This compares with a multiple of between 3-4 times for a basket of global cannabis industry peers, including its direct peers with operations in Colombia, including Clever Leaves (Nasdaq: CLVR), Khiron Life

Sciences (TSXV: KHRN), Avicanna (TSX: AVCN), and Pharma-Cielo (TSXV: PCLO).

However, given Flora's cash balance over \$10 million as of mid-2022, nearly \$10 million in inventory expected to be sold in 2H, the completion of its near-term capital expenditure requirements, no debt, and robust and superior growth profile, we think the shares warrant a premium to the peer average. We also think that Flora is poised to benefit from a favorable regulatory environment in Colombia for growth and exportation.

We apply a multiple of 5-times to our 2023 revenue estimate of \$77.5 million, which we believe reflects the broad valuation contraction seen across the industry over the past year. Discounting this back one period at 10%, we calculate a target enterprise value of \$388 million. Adjusting for \$10 million in estimated net cash at the end of 2022 and dividing by the fully diluted share count near 90 million, we arrive at a fair value estimate for FLGC of \$4 per share, which is well above current levels.

Steve Silver,  
Argus Research Analyst

**INCOME STATEMENT**

<b>Growth Analysis (\$MIL)</b>	<b>2020</b>	<b>2021</b>	<b>Q1 2022</b>	<b>Q2 2022</b>	<b>Q3 2022E</b>	<b>Q4 2022E</b>	<b>2022E</b>	<b>Q1 2023E</b>	<b>Q2 2023E</b>	<b>Q3 2023E</b>	<b>Q4 2023E</b>	<b>2023E</b>
Revenue	0.1	9.0	0.0	14.9	11.0	15.1	41.0	16.8	17.8	19.4	23.6	77.5
Gross Profit	0.1	2.4					20.0					42.1
SG&A	12.5	20.3					28.6					40.9
R&D	NA	NA					NA					NA
Operating Income	-12.5	-17.9					-33.2					1.2
Interest Expense	0.1	0.1					0.0					0.0
Pretax Income	-14.3	-21.5					-34.7					1.3
Tax Rate (%)	NA	NA					NA					NA
Net income	-14.2	-21.3					-34.6					1.3
Diluted Shares	29.9	43.9					77.1					80.0
EPS	-0.47	-0.48	0.00	-0.42	-0.03	0.00	-0.45	0.00	0.00	0.01	0.01	0.02
Dividend	NA	NA					NA					NA
<b>Growth Rates (%)</b>												
Revenue	NM	NM					356					89
Operating Income	NM	NA					NA					NA
Net Income	NM	NA					NA					NA
EPS	NM	NA					NA					NA
<b>Valuation Analysis</b>												
Price (\$): High	NA	21.45					NA					NA
Price (\$): Low	NA	1.68					NA					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
<b>Financial &amp; Risk Analysis (\$MIL)</b>												
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
<b>Ratio Analysis</b>												
Gross Profit Margin	NA	27%					49%					54%
Operating Margin	NA	NA					NM					2%
Net Margin	NA	NA					NM					2%
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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