

July 21, 2021

FLORA GROWTH CORP. (NASDAQ: FLGC)

Founded in 2019, 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.

COMPANY HIGHLIGHTS

- * FLGC: A Fast-Growing Global Cannabis Cultivator and Brand Builder
- * 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.
- * 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 those of its three Colombian peers, at less than \$0.06 per gram.
- * To complement its cultivation capabilities, Flora is building an extraction and processing facility in Colombia. It is also developing a wholesale cannabis distribution business, and is expanding internationally through acquisitions and partnerships.
- * In our view, Flora Growth is well capitalized, with \$30 million in proceeds from a December 2020 private financing, \$16.6 million in IPO proceeds, and the expected infusion of more than \$20 million from the exercise of warrants.
- * Flora is executing a growth strategy to penetrate global and local markets. The company recently announced three transactions that we think could lead to meaningful organic and M&A-based revenue growth potential in the near-term: first a signed letter of intent (LOI) to acquire Koch & Gsell, a revenue generating Swiss leader in patented Hemp cigarettes, with more than 2,500+ points of distribution across Switzerland; second, a signed LOI

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KEY STATISTICS

Key Stock Statistics

Recent price (7/20/21)	\$3.24
52 week high/low	\$6.00- \$2.85
Shares outstanding (M)	42
Market cap (M)	\$136
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Consumer Discretionary
Sector % of S&P 500	12.1%

Financials (\$M)

Cash & Mkt Securities	15.5
Debt	0.6
Working Capital (\$M)	14.9
Current Ratio	6.4
Total Debt/Equity (%)	NA
Payout ratio	NM
Revenue (M) TTM	0.1
Net Income (M) TTM	NM
Net Margin	NM

Risk

Beta	NA
Inst. ownership	0%

Valuation

P/E forward EPS	NA
Price/Sales (TTM)	NM
Price/Book (TTM)	8.1

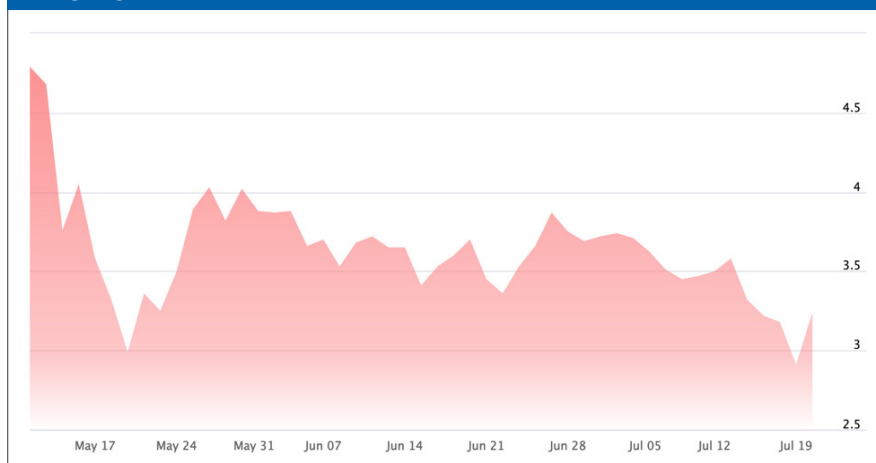
Top Holders

Mirae Asset Global Investments Co. Ltd
 Focused Wealth Management Inc.

Management

CEO	Mr. Luis Merchan
CFO	Mr. Lee Leiderman
VP/Corporate Development	Mr. James Williams
Company website	https://floragrowth.ca

PRICE CHART



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for an investment in Hoshi International, which will establish Flora as a preferred strategic supplier to Hoshi’s EU processing facilities in Portugal and Malta, providing a gateway into the European Union for Flora’s product portfolio; and third, a distribution agreement with Tropi, Colombia’s largest distributor, with an initial one-year value estimated at \$10 million in sales. The Tropi agreement should significantly expand Flora’s reach across Colombia, through Tropi’s more than 130,000 distribution points across 38 cities.

* We believe that Flora is 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 \$7.50 per share, more than two-times current levels.

INVESTMENT THESIS

Founded in 2019, 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 \$56 billion by 2026, up from \$21 billion in 2020. 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 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, Flora is able to produce dry flower at a significantly lower cost than most growers. Its production cost of approximately \$0.06 per gram compares with costs that can exceed \$1.00 per gram in certain parts of North America. Its costs are also 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. Colombian cannabis exports are currently subject to quotas, though we expect an open market system to develop over time.

To complement its cultivation capabilities, Flora is also developing a wholesale cannabis distribution business. It is currently constructing an extraction lab that will convert cannabis into crudes, distillates and isolates for use in medical and consumer cannabis markets around the

globe. Management believes that capacity at this facility, north of Bogota, can be expanded by more than 20 times to meet future demand. Flora expects to cultivate both high-CBD and high-THC cannabis in 2021, and the company expects to harvest up to 600 kilograms per week, with the first commercial harvests already occurring.

Wholesale cannabis imports are currently legal in about 15 countries, including Germany, Italy, Portugal, Israel, South Africa, and Australia. While it will likely take time to penetrate these markets, we expect Flora to emerge as an important cultivator and global supplier of quality cannabis given its significant cost advantages. We also expect Flora to use partnerships to develop its supply chain in new markets rather than building these capabilities internally. We view this strategy favorably as the development of a vertically integrated model would significantly alter the company’s capital structure.

We believe that Flora’s cultivation and manufacturing capabilities provide barriers to entry for potential competitors. The company complies with rigorous certification and regulatory requirements, including GACP for cultivation and GMP for manufacturing; tracks cannabis genetics from the source flower; and provides a certificate of analysis for all products and derivatives in order to provide end-users with a consistent product. Flora estimates that it is approximately 90% through its organic certification process. Flora also seeks supply-chain partners around the world with the same commitment to quality control, this in order to penetrate the global markets more rapidly.

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 280 products in categories such as cosmetics, medical products, and textiles. We expect that robust demand for these products will provide an opportunity to add additional brands with broad appeal. The first brand, Flora Lab, distributes products manufactured at the company’s lab in Bogota. These products span the cosmetics, dietary supplement, food and beverage, therapeutic, and medical device categories, and already have more than 1500 distribution points. Flora also manufactures “white-label” products, which could generate additional revenue from higher production volume.

Other brands include Flora Beauty, which features skincare products, one of which has launched at retail locations across South America. Flora has also partnered with Pauline Vega, a former Miss Universe, on a new line of “sustainable” CBD skincare products. In addition, the company has formed an Industrial Hemp division that uses hemp byproducts to make fibers for clothing. This allows for holistic plant use and provides environmental benefits, as cannabis extraction typically uses only 20%-40% of the hemp plant. A leading brand in this portfolio is Stardog, which launched in 4Q20 and is available online in more than 40 countries.

Flora Growth completed its initial public offering and began trading on the Nasdaq in May 2021. Supported by capital from a Regulation A+ financing in late 2020, proceeds from the IPO, and additional capital expected from the exercise of “in-the-money” warrants, Flora is executing

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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	3.24	6.00	2.85	136	-32	NA	NA	NA	NA	NA
CLEVER LEAVES HOLDINGS INC.	NASDAQ: CLVR	9.19	19.46	7.95	230	-19	55	NA	NA	NA	NA
KHIRON LIFE SCIENCES CORP.	TSXV: KHRN	0.29*	0.76*	0.27*	49*	-40	-16	NA	NA	2.01	NA
PHARMACIELO LTD	TSXV: PCLO	1.22*	2.94*	0.41*	180*	91	237	NA	NA	3.6	NA

* Statistics in Canadian Dollars (CAD)

on 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 June 2021, Flora Growth signed a letter of intent on a 2 million euro equity investment in Hoshi International, a vertically integrated medical cannabis company in Europe. Hoshi is managed by an experienced team with deep knowledge of the European cannabis market. Flora views this investment as a key step in strengthening its European supply chain as Hoshi has a wholesale processing facility in Portugal and a finished products facility in Malta. The investment will provide access to the EU market by leveraging Hoshi's distribution agreements in Germany and Poland, as well as in other countries where agreements are currently being negotiated. The investment will establish Flora as a preferred strategic supplier for Hoshi, and provide it with a European manufacturing presence and the ability to import Colombia-grown flower and derivatives into Europe.

Also in June 2021, Flora signed a letter of intent to acquire Switzerland-based Koch & Gsell — the owner of hemp brand Heimat — in a stock-based transaction valued at CHF 20 million (approximately \$22.2 million). Heimat products include hemp and hemp/tobacco-blended cigarettes that are sold in more than 2,500 stores in Switzerland. The company can produce more than 40,000 packs per day, and uses a proprietary technology that reduces the downtime for cleaning resin by up to 75% compared to traditional tobacco manufacturing. Flora views the acquisition as a means of entering the Swiss market and using its low-cost cannabis inputs. We note that Heimat is revenue generating, with trailing 12-month sales of \$7.6 million. We see the potential for Flora to expand revenues further as it leverages Heimat's distribution network and expands into new markets.

Flora plans to allow acquired companies to operate independently and to keep the management of these companies in place in order to take advantage of their knowledge of local markets. We have a favorable view of this decentralized, "hub-and-spoke" structure and believe that it will provide resources to support the growth of the company and its partnered brands.

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. In addition, as noted above, Flora uses the entire cannabis plant to create textiles, such as those used in its new Stardog Loungewear brand. This use of the entire plant supports a high ROIC and has helped to attract interest from sustainability-focused investors. 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.

RECENT DEVELOPMENTS

Flora Growth shares began trading on the Nasdaq under the ticker FLGC on May 11, 2021. The company issued 3,333,333 common shares at \$5.00 per share. Since the IPO, the stock has fallen 35% to \$3.24, compared to a 5% increase for the S&P 500. For the year ended December 31, 2020, Flora reported revenues of \$107,000 and a net loss of \$14.2 million, or \$0.16 per share. However, we note the majority of their brands launched during the fourth quarter of 2020.

In July 2021, Flora Growth announced that its food and beverage division signed an initial one-year sales agreement with Colombian distributor Importaciones y Asesorias Tropi S.A.S. (Tropi) to deliver premium and sustainable canned products, including products that target the health benefits of hemp seed oil. Flora expects the agreement to generate up to \$10 million based on current exchange and market rates.

In June 2021, Flora Growth agreed to acquire Switzerland-based

Koch & Gsell — the owner of hemp brand Heimat — in a stock-based transaction valued at CHF 20 million (approximately \$22.2 million). The acquisition will provide a rapidly growing and revenue-generating brand of hemp products that can make use of Flora's low-cost cannabis inputs. Flora will also invest CHF 2 million (\$2.2 million) to help the Heimat brand expand into new markets.

In June, the company also agreed to invest 2 million euros in Hoshi International, a vertically integrated medical cannabis company. The investment will provide Flora with access to European markets and make the company a preferred strategic supplier to Hoshi's EU processing facilities in Malta and Portugal.

In May 2021, the company announced the formation of its Flora Lab manufacturing division. Flora Lab includes a 16,000-square-foot manufacturing facility in Colombia with multiple GMP certifications. The division produces a diversified portfolio of branded and white-label products for more than 1,500 pharmacies and wholesale clients.

In June 2021, the company named Annabelle Manalo-Morgan as lead scientific advisor. Dr. Manalo-Morgan will be responsible for developing new products and educating consumers about the benefits of cannabinoids and plant-based medicine. She holds a PhD in Cell and Developmental Biology from Vanderbilt University

EARNINGS & GROWTH ANALYSIS

We forecast revenue of 9 million in 2021 and \$32 million in 2022, excluding the impact of recently announced transactions. We expect annual revenue growth to exceed 100% over the next two years as Flora expands its cultivation and extraction capabilities; broadens its consumer product portfolio; brings its manufacturing facility online; and expands into new markets, most notably in Europe. We also look for Flora to continue to acquire revenue-generating assets that can drive positive operating cash flow.

In our view, Flora Growth is poised to generate gross margins above 75% once it begins to realize economies of scale, helped by production and input costs that are well below those of other global growers. We also expect the company to generate EBITDA margins of more than 30% over the long term as the distribution business expands.

We forecast a net loss of \$0.11 per share in 2021 and EPS of \$0.03 in 2022. However, EPS could be impacted by the company's issuance of stock to pay for acquisitions, such as its planned purchase of Koch & Gsell.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Flora Growth is Medium. As of December 31, 2020, the company had pro forma cash of \$28.2 million following the completion of a Regulation A+ private financing round. Flora subsequently raised \$13 million in net proceeds from its May 2021 IPO. We expect the company to receive additional funding in the near term through the exercise of more than \$20 million of "in the money" warrants that mature in July 2021. The company also has strong banking relationships and should be able to access additional capital, if needed, to pursue its growth strategy.

As of December 31, 2020, Flora Growth had working capital of \$14.9 million, and we view the company as well capitalized, given the additional capital inflows mentioned above. The company has virtually no debt, which we view favorably given that many cannabis companies are highly levered. As such, we believe that the company will be able to complete its recently announced acquisitions and partnerships, and begin to generate positive operating cash flow in 2022.

In 2020, net cash outflows from operating activities were \$8.4 million; net cash inflows from financing activities were \$25.8 million; and net cash outflows from investing activities were \$2.2 million. Year-over-year comparisons are immaterial as the company was founded in 2019.

As of June 2021, the company had 42 million shares outstanding. Including warrants likely to be exercised in 2021, we expect the share count to increase to approximately 54 million, on a fully diluted basis.

MANAGEMENT & RISKS

Luis Merchan has served as Flora's CEO since 2019. 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 Lee Leiderman as CFO. Mr. Warnock has more than 14 years of experience in cannabis industry, and previously served as Chief Executive Officer of TheraCann International. Mr. Leiderman began his career at PricewaterhouseCoopers and has held financial management positions with Philip Morris International, Caterpillar, and RR Donnelley.

Flora's board has five members, including three independent directors. Board members have expertise in multiple corporate functions, including operations, regulation, and finance.

Investors in Flora face risks. The company operates in the highly competitive market for cannabis and cannabis-derived products. It must maintain its production cost advantages over peers, and comply with a wide range of regulations governing cultivation and manufacturing in different countries.

COMPANY DESCRIPTION

Founded in 2019, 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, Flora Growth shares have traded below their offering price of \$5.00 per share. They recently traded at \$3.24 per share, implying a market cap of approximately \$135 million. We attribute this decline to the early stage of the company's commercial rollout, and believe that the current valuation does not adequately reflect the company's progress on multiple strategic initiatives and prospects for robust revenue generation in the near term. In addition, we note that company executives, directors and 5% holders own nearly 50% of the shares, which we view favorably for long-term value creation. As such, we expect Flora to attract investors as it reports revenue growth over the remainder of 2021 and completes planned acquisitions.

Flora is trading at a projected 2022 EV/revenue multiple of 3.8-times. In comparison, its peers operating in Colombia are currently trading at a trailing 12-month average multiple of 27.8-times. These peers include Clever Leaves (Nasdaq: CLVR, with a multiple of 16); Khiron Life Sciences (TSXV: KHRN, 5); Avicanna (TSX: AVCN, 26.7); and Pharma-Cielo (TSXV: PCLO, 63.4). We believe that a normalized forward multiple of 15, is warranted for high-growth cannabis companies such as Flora.

Applying a multiple of 15 to our 2022 revenue estimate of \$32 million, and assuming \$30 million in cash, we calculate an enterprise value of \$450 million. We discount this EV back one period at 10%, to \$405 million, and divide by the share count of 54.4 million to arrive at a fair value estimate for FLGC of \$7.50 per share, more than two-times the recent price of \$3.24.

Steve Silver,
Argus Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2020	Q1 2021E	Q2 2021E	Q3 2021E	Q4 2021E	2021E	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Revenue	0.1	0.6	1.5	2.7	4.2	9.0	5.5	7.1	8.8	10.6	32.0
Gross Profit	0.1					6.4					24.1
SG&A	12.5					11.4					20.2
R&D	NA					NA					NA
Operating Income	-14.2					-7.0					2.0
Interest Expense	0.1					-0.4					-0.4
Pretax Income	-14.4					-6.6					2.4
Tax Rate (%)	NA					28					28
Net income	-14.2					-6.3					1.6
Diluted Shares	89.7					54.4					54.4
EPS	-0.16	-0.04	-0.03	-0.03	-0.01	-0.11	-0.01	0.00	0.01	0.03	0.03
Dividend	NA					NA					NA
Growth Rates (%)											
Revenue	NM					8,900					256
Operating Income	NM					NA					NA
Net Income	NM					NA					NA
EPS	NM					NA					NA
Valuation Analysis											
Price (\$): High	NA					NA					NA
Price (\$): Low	NA					NA					NA
PE: High	NA					NA					NA
PE: Low	NA					NA					NA
PS: High	NA					NA					NA
PS: Low	NA					NA					NA
Yield: High	NA					NA					NA
Yield: Low	NA					NA					NA
Financial & Risk Analysis (\$MIL)											
Cash/Restricted Cash	15.5					NA					NA
Working Capital	14.9					NA					NA
Current Ratio	6.4					NA					NA
LTDebt/Equity (%)	2.0					NA					NA
Total Debt/Equity (%)	4.0					NA					NA
Ratio Analysis											
Gross Profit Margin	NA					71%					75%
Operating Margin	NA					NA					6%
Net Margin	NA					NA					5%
Return on Assets (%)	NA					NA					NA
Return on Equity (%)	NA					NA					NA
Op Inc/Int Exp	NA					NA					NA
Div Payout	NA					NA					NA

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