

Friday, April 30, 2021

Gage Growth Corp. (GAGE) Growing Market Share in Michigan Market

COMPANY DETAILS



Ticker **CSE: GAGE**
 Industry **Cannabis**
 Website **gageusa.com**
 Year Founded **2017**
 Sales (CY21E) **\$167 Mn**
 Sales (CY22E) **\$310 Mn**

Value at 4/30/21

Price **\$2.42**
 Mkt Cap **\$512 Mn**
 EV **\$476 Mn**
 Shares Out. **211.8 Mn**
 Shares Float **65.6 Mn**

MANAGEMENT

Fabian Monaco
Chief Executive Officer

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Chief Financial Officer

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Retail Footprint Expansion to Drive GAGE's Revenue Growth

- Key takeaways:**
 - GAGE delivered strong results in 4Q20, clocking \$10.5 million in sales, which management believes will increase to \$17-18 million in 1Q21 and then to \$26-31 million in 2Q21.
 - Store expansion plan remains on track with 10 stores to be operational by end of May (presently eight stores operational) and 20 by end of CY21. Expansion of cultivation capacity to 7,000 lbs by year end and opening of processing facility in 3Q21 will support GAGE's overall growth.
 - GAGE has an intrinsic value of \$992 million based upon an average of 1) a 5.9x EV/NTM Sales leading to intrinsic value of \$987 million and 2) a 22.2x EV/NTM EBITDA multiple leading to an intrinsic value of \$998 million.
- GAGE Cannabis delivers outstanding 4Q20 results and promises an even stronger performance in 1Q21 and 2Q21.** GAGE Cannabis – Michigan's leading cannabis brand – reported a 615% y/y revenue growth in 4Q20 as it clocked \$10.5 million in sales during the quarter. Strong performance in 4Q helped the company generate an annual revenue of \$39.9 million, up 1,972% y/y, and representing a quarterly run-rate of ~\$10 million. Also, with this strong performance, GAGE captured ~4% of Michigan's legal cannabis market in the very first year of legalization of recreational use of cannabis in the state. Given this exceptional sales performance, GAGE has now given a revenue guidance of between \$17 million and \$18 million for 1Q21 which will increase to between \$26 million and \$31 million in 2Q21. We expect GAGE to capture 15% of Michigan's legal cannabis market by CY22, when its annual sales exceed \$300 million.

Chart 1: GAGE – Financial Guidance for 1Q21 and 2Q21

Metric	1Q21	2Q21
Revenue	\$17-18 Mn	\$26-31 Mn
Flower Gross Margin	40-45%	45-50%

Source: Intro-act, Company

- GAGE's store expansion plan will be the key driver for its revenue growth through CY22.** GAGE opened its eighth dispensary in Battle Creek today which will be followed by launch of two more stores this month – taking the retail store count to 10 by end of May. The Battle Creek store will currently serve patients with a valid Michigan Medical Marijuana ID and will gradually open for recreational customers over the coming weeks. Also, after the launch of Kalamazoo Cookie store in February, the company is now looking to open two additional Cookies branded dispensaries in 2Q/3Q. We believe GAGE is on track with its expansion plans – through addition of new stores – with total of 20 stores becoming operational by end of CY21 which will increase to 30 stores by end of CY22. Gage is in active discussions with multiple retail operators in Michigan as it actively pursues accretive retail acquisition at attractive prices in the state. The store ramp-up will also enable GAGE to achieve its goal of bringing 90% of Michigan's population within a 30-minute radius as it marches ahead to become the most favorite cannabis brand in Michigan.

- Popularity of GAGE’s products – GAGE’s key strength area – continue to scale new highs.** The strong performance of GAGE in the Michigan market was a result of high popularity of its brand and that of Cookies brand, for which GAGE is the sole partner in Michigan. This is also reflected in the company’s average basket size of \$164 for CY20, compared to Michigan’s average basket size of \$85.
 - GAGE’s Weed Day sales surpassed \$0.5 million.** 4/20 is celebrated as Weed Day or High Holiday every year and considered a national holiday in the cannabis culture. Within the marijuana consumers community, this is the single most important day and GAGE celebrated 4/20 posting a single day record retail revenue across its seven dispensaries, conducting 2,956 transactions, and generating over \$505,000 in revenue with an average basket size of \$171. In the full week leading up to 4/20, including 4/20, GAGE posted record retail revenue of \$2.3 million with 14,206 transactions and an average basket size of \$165.
 - GAGE’ market share, in Michigan market, has already surpassed 5% mark in March this year.** Michigan’s monthly cannabis sales reached \$146 million in March which represents an annualized run rate of ~\$1.8 billion whereas GAGE’s monthly sales during the month exceeded \$7.5 million. This gives it a market share of 5%+ in the state which is an improvement from ~4% market share enjoyed by GAGE in Michigan market in 2020.
 - GAGE’s \$1 million per month per store target is realistic and good enough to help it capture ~15% market share by CY22.** The popularity of GAGE’s products is established from the fact that its average monthly revenue per dispensary, over the past 60 days, was \$1 million+ and its monthly per store sales in March 2021 was even higher at \$1.3 million. Four of its dispensaries have generated sales at an annualized rate of \$15 million+ over the past 60 days. As such we believe that GAGE’s target of generating \$1 million average sales per store per month, which has been demonstrated in the past, is realistic and achievable. The store ramp-up plan, high basket size leading to \$1 million revenue per store per month will help GAGE achieve a sale of >\$300 million in CY22 with ~30 operational stores, allowing it to capture ~15% of Michigan’s expected \$2 billion legal cannabis market during that year.
- Lower losses and strong cash balance reflect strong operational performance.** With the revenue growth and store expansion, the company has also seen an increase in its cash balance which stood at \$45 million at end of CY20 compared to \$9.7 million at end of CY19. GAGE reported a gross profit of \$12.3 million, leading to a gross margin of 30.8% for CY20, and we expect the company to report better margins as benefits of economies of scale kick in with store expansion. We expect the gross margin of the company to expand to ~49% in 2Q21 and then stabilize at ~50% level through end of CY21. The net loss of the company also dropped from \$75 million in CY19 to \$29.8 million in CY20, suggesting that things are changing for better, and company is likely to turn profitable very soon.

Chart 2: GAGE – Financial Highlights

(\$ million)	CY20	CY19
Revenue	39.9	1.9
Gross Profit (Loss)	12.3	(0.1)
Gross Margin	30.8%	(3.5%)
Total Operating Expense	34.8	71.7
Net Loss	(29.8)	(75.0)
Cash Balance	45.5	9.7

Source: Intro-act, Company

- Retail expansion will be supported through cultivation ramp-up and opening of a processing lab.** GAGE with an end-to-end presence in Michigan’s cannabis market is also working towards increasing its cultivating and processing capacity. The company’s Monitor Phase II cultivation expansion is expected to be completed in 4Q21, bringing an additional

2,000lbs+/month of cultivation capacity. The company expects its aggregate monthly cultivation capacity to increase to 3,000lbs in June/July and 7,000lbs by year end. This expansion is spread across eight cultivation facilities (three GAGE operated and five contracted cultivation assets) currently in production, moving to nine facilities at the end of 2Q21, and 13 cultivation facilities by year end.

- GAGE is also expected to open its own processing asset in 3Q21 which will allow it to produce in-house branded extract-based products which command significantly higher margin. Currently, GAGE is purchasing the majority of these extract-based products from third parties. We believe this will be one of the key factors contributing towards margin expansion.
- **We arrive at an intrinsic value of \$992 million for GAGE, based on the average valuation multiples of its publicly traded peers.** We looked at seven publicly traded peers of GAGE to arrive at its intrinsic valuation (see comp set below). These peers are expected to report revenues in the range of \$119 million to \$762 million and EBITDA in the range of \$34 million to \$352 million in CY21.
 - The average EV/NTM Sales multiple of the peer set is 5.9x and based on an expected revenue of \$200 million in CY21, it implies at an enterprise value of \$987 million for GAGE.
 - The average EV/NTM EBITDA multiple of the peer set is 22.2x and based on an expected EBITDA of \$75 million in CY21, it implies at an enterprise value of \$998 million for GAGE.
 - Taking an average of the two enterprise values above, we arrive at an intrinsic value of \$992 million for GAGE.

Chart 3: GAGE – Relative Valuation Suggests an EV of \$992 Million

(USD '000s)	NTM Sales	NTM EBITDA
GAGE	167,927	44,871
Peer Group Avg. EV Multiple	5.9	22.2
Valuation based on average EV/Sales Multiple		986,904
Valuation based on average EV/EBITDA Multiple		997,837
Average Valuation		992,370
Cash and Cash Equivalents		124,620
Debt		7,594
Equity Value		875,344
# of Shares Outstanding ('000s)		256,551
Intrinsic Share Price (US\$)		3.41
CAD/USD		1.28
Intrinsic Share Price (CAD\$)		4.37

Company Name	Ticker	EV (\$ Mn)	NTM Sales (\$ mn)	EV/Sales	NTM EBITDA (\$ Mn)	EV/EBITDA
Trulieve Cannabis Corp	TCNNF	5,534	762	7.3	352	15.7
Columbia Care Inc.	CCHWF	1,982	422	4.7	66	30.0
Harvest Health & Recreation Inc	HRVSF	1,846	331	5.6	70	26.4
Terrascend Corp	TRSSF	2,067	257	8.0	102	20.3
Jushi Holdings Inc	JUSHF	759	235	3.2	37	20.5
Planet 13 Holdings, Inc.	PLNHF	1,168	122	9.6	34	34.4
4Front Ventures Corp	FFNTF	328	119	2.8	39	8.4
Average				5.9		22.2

Source: Intro-act, FactSet

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