

KEYSTONE'S

Small-Cap Stock Report

Editor: Ryan Irvine, BBA (Finance)

Senior Analyst: Aaron Dunn, CFA

Junior Analyst: Brennan Habetler, B.Comm (Finance)

Independent Equity Advisors

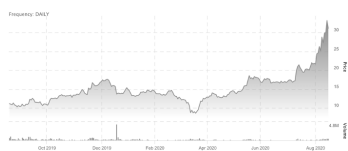
Trulieve Cannabis Corp.

Current Price (August 18, 2020): \$29.09

(TRUL:CSE)

RECOMMENDATION: SPEC BUY

PROFITABLE INTEGRATED U.S. CANNABIS PRODUCER SEES SHARE PRICE MORE THAN DOUBLE IN 2020 AS CANADIAN CANNABIS STOCKS SINK, POSTED RECORD QUARTER, INCREASES GUIDANCE – MAINTAIN RATING AT SPEC BUY



Industry: Cannabis - Integrated
 Recommended: November 2019
 Recommendation Price: \$16.00
 Current Price: \$29.09
 Market Cap: \$3.47 Billion
 Shares Outstanding: 111,573,332
 Fully Diluted: 115,307,313

Discovery Portfolio

SELECTED QUARTERLY DATA

(USD\$)

Income Statement	Q2 2020	Q2 2019
Revenues	\$120,764,879	\$57,920,112
NI	6,560,497.00	57,528,785.00
EPS (diluted)	0.06	0.50
Adj. EBITDA	60,534,971.00	31,616,072.00
EAdj. BITDA Per Share	\$0.54	\$0.28
Diluted Adj. EBITDA Share	\$0.52	\$0.27

RATINGS (Q2 2020)

VALUE

P/E (TTM)	20.78
Adj. P/EBITDA* (TTM)	13.68
Adj. EV/EBITDA* (TTM):	14.16
P/S (TTM):	7.15
P/CFO	32.13
P/B:	8.31
Current Ratio:	2.61
D/E:	0.77

Trulieve is a vertically integrated “seed-to-sale” company and is the first and largest fully licensed medical cannabis company in the State of Florida. Trulieve cultivates and produces all of its products in-house and distributes those products to Trulieve-branded stores (dispensaries) throughout the State of Florida, as well as directly to patients via home delivery. Trulieve also has operations in California, Massachusetts and Connecticut.

EXPANDED OPERATIONAL/MARKET SUMMARY

Trulieve has five material subsidiaries, being Trulieve Inc. (Trulieve US), Leef Industries Inc. (Leaf Industries), Life Essence Inc. (Life Essence), Trulieve Holdings, Inc. (Trulieve Holdings), and Trulieve Bristol, Inc. (formerly The Healing Corner, Inc. and referred to herein as Healing Corner). Trulieve US, Life Essence, Trulieve Holdings and Healing Corner are wholly owned (directly or indirectly) by Trulieve. Trulieve currently holds 99% of the issued and outstanding membership interests in Leef Industries and is proposing to acquire the balance of the issued and outstanding membership interests upon receipt of final regulatory approval from the State of California.

Trulieve is a successful cannabis company operating in highly regulated markets that require expertise in cultivation, manufacturing, retail and logistics. Trulieve has developed proficiencies in each of these functions and is committed to utilizing predictive analytics to stay abreast of sales trends, patient demographics and evolving demand. This is the foundation upon which Trulieve has built sustainable, profitable growth.

In states that require cannabis companies to be vertically integrated, ownership of the entire supply chain mitigates third party risks and allows Trulieve to completely control product quality and brand experience. This results in high patient retention and brand loyalty. Trulieve successfully operates the core business functions of cultivation, production and distribution at scale, and is skilled at rapidly increasing capacity

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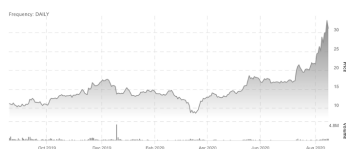
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without any interruption to existing operations. The Trulieve brand philosophy of “Patients First” permeates the Trulieve culture beginning with high-quality cultivation and GMP-certified product manufacturing, through the consumer experience at Trulieve stores, at the company’s in-house call center and at patient residences through a robust home delivery program.

Revenue has increased quarter-over-quarter driven by Trulieve’s increased customer base and continued dispensary openings. The company had 52 operating dispensaries as of June 30, 2020, compared to 31 operating dispensaries as of June 30, 2019. As at the release of this report, Trulieve had 57 dispensaries nationwide and 55th in its home state of Florida.

Three Months Ended	Revenues	Net Income/(Loss)
June 30, 2020	\$120,764,879	\$6,560,497
March 31, 2020	\$96,056,507	\$13,998,558
December 31, 2019	\$79,692,155	\$45,530,433
September 30, 2019	\$70,730,359	\$60,271,271
June 30, 2019	\$57,920,112	\$57,528,785
March 31, 2019	\$44,475,965	\$14,702,274
December 31, 2018	\$35,945,457	\$10,719,673
September 30, 2018 (As Restated)	\$28,325,604	\$2,482,128

REPORTED FINANCIAL HIGHLIGHTS

Trulieve was recently recommended in November 2019 with the company’s shares trading in the \$16.00 range. In early January of 2020, we re-recommended the stock after it moved lower to the \$13.35 range following a short seller report. Today, follow-

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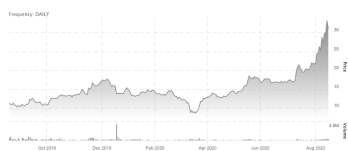
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ing record Q2 2020 results and upgraded guidance for the full year 2020, with the stock surging approximately 100% from our November recommendation, we update our rating on the stock.

Second Quarter 2020 Financial & Operational Highlights:

- Achieved record revenue of \$120.8 million, an increase of 26% on a sequential quarter-to-quarter basis.
- Adjusted EBITDA was \$60.5 million, or 50% of revenue, representing the 10th quarter of consecutive growth and profitability.
- Achieved free cash flow of \$39.6 million.
- Sustained strong cash position with cash-and-cash equivalents of \$150.3 million at June 30, 2020.
- Achieved GAAP adjusted margin of 75%.
- Announcement of transitioning to a U.S. domestic issuer subject to SEC reporting requirements as of January 2021.
- Opened five new stores in Florida, ending the second quarter with 52 stores nationwide.
- Continued to implement solid health and safety protocols in response to COVID.

Q2 2020 revenue jumped 109% to \$120.8 million from \$57.9 million for the three months ended June 30, 2019, due to increased retail sales. The state registry which approves and maintains the status of the medical cannabis license holders reached approximately 358,000 active patients during the second quarter of 2020. Trulieve operated 52 dispensaries as of June 30, 2020, compared to 31 dispensaries as of June 30, 2019. Trulieve's statewide retail and home delivery presence along with its broad product mix of over 450 SKUs were the main reason for the continued market growth.

Net income for the three months ended June 30, 2020, was \$6.6 million, down \$50.9 million or 89% from \$57.5 million for the three months ended June 30, 2019. This was partially offset by the increase of \$53.5 million period-over-period of revenues

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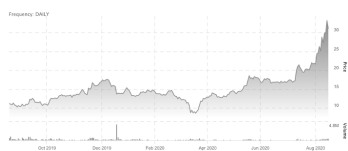
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less production expenses and cost of goods from third party suppliers, excluding 83.0 million period-over-period. The decrease in the fair value is due to the company's decision to not do a spring plant for greenhouses in 2020, as a result, there were less plants undergoing transformation and therefore a corresponding decrease in the fair value of biological assets, resulting in a decrease to net income. Additionally, total expenses increased \$20.2 million period-over-period mainly due any adjustments to the fair value of biological assets.

Net cash generated from operating activities was \$77.8 million for the six months ended June 30, 2020, an increase of \$58.2 million compared to \$19.6 million net cash generated during the six months ended June 30, 2019. The increase in cash provided by operating activities year-over-year is attributed to the increase in revenue offset by expenses related to business expansion.

Guidance

Given Trulieve's strong financial performance in the first half of 2020, the company expects full year 2020 financial results to materially exceed previously issued revenue and adjusted EBITDA guidance ranges, driven principally by continued market share gains and operating leverage. The company is raising its guidance as follows:

(millions)	Previous Guidance	Updated Guidance
Revenue	\$380.0 - \$400.0	\$465.0 - \$485.0
Adjusted EBITDA	\$140.0 - \$160.0	\$205.0 - \$225.0

VALUATION AND FAIR VALUE ASSESSMENT

As an emerging segment that is highly regulated and subject to significant regulatory risk, we consider Cannabis related stocks to hold a higher than average level

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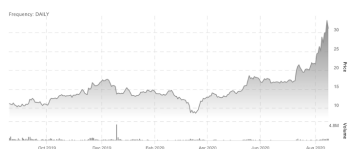
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of risk. Investments in this space are appropriate for investors with a higher tolerance for risk. With COVID impacts now clearer, management raised its full-year 2020 revenue and adjusted EBITDA guidance by 22% and 43%, respectively (based on midpoint). We believe the upper end of the guidance is achievable, if we do not see further second wave related restrictions. Additionally, Trulieve anticipates that it may now modestly surpass its previous target of 68 locations by year-end and is accelerating the buildout of an incremental 100,000 sq. ft. of indoor cultivation capacity in Florida. If we apply a discounted 13.5x multiple to the high end of Trulieve's 2020 guidance we arrive at a fair value of ~\$36.00, 24% higher than its current range.

CONCLUSION

Trulieve reported second-quarter revenues of \$120.8 million, up 26% sequentially and ahead of consensus analyst estimates of \$106.8 million. The company reported a second consecutive quarter of positive cash flow, which jumped from \$11 million in the first quarter to \$40 million in the second quarter. Adjusted EBITDA for the quarter was \$60.5 million, well ahead of analyst estimates of \$45 million. Perhaps most importantly, Trulieve raised its fiscal 2020 sales guidance from a previous range of between \$380 million and \$400 million to a new range of between \$465 million and \$485 million.

Trulieve's strong financial growth reflects largely continued organic expansion of the company's retail footprint. The numbers reaffirm Trulieve's dominance in its core Florida market and extend the company's streak of industry-leading profitability and cash generation. The strong financial performance in revenue, adjusted EBITDA and free cash flow were produced as the company pivoted its business to meet the changing behaviors and needs due to COVID-19.

Management stated their focus for the second half of the year will be on execution and expansion. Trulieve anticipates exceeding its goal of 68 stores and will continue to see strong growth in Florida. Further expansion into Massachusetts is getting

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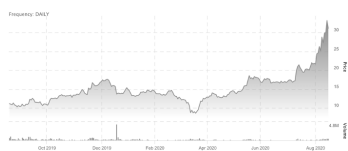
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closer to completion and the company is excited to enter this market in 2021. Management also indicated that the M&A pipeline and application processes are underway will present new opportunities for expansion.

As an emerging segment that is highly regulated and subject to significant regulatory risk, we consider Cannabis related stocks to hold a higher than average level of risk. Investments in this space are appropriate for investors with a higher tolerance for risk. With COVID impacts now clearer, management raised its full-year 2020 revenue and adjusted EBITDA guidance by 22% and 43%, respectively (based on midpoint). We believe the upper end of the guidance is achievable, if we do not see further second wave related restrictions. If we apply a discounted 13.5x multiple to the high end of Trulieve's 2020 guidance we arrive at a fair value of ~\$36.00, 24% higher than its current range. We expect the stock to be very volatile. If the company continues to execute, and the regulatory environment continues to be favourable or improves, there remains further upside.

Again, Trulieve is suitable for more risk tolerant investors. Within its higher-risk segment, the company continues to significantly outperform financially, and we continue to rank it a SPEC BUY, despite more than doubling in value since we reiterated our buy on it in January of this year. The company continues to rank as a SPEC BUY in our Canadian Small-Cap Discovery Portfolio.

BV (BV/Share): Book value (book value per share)

Book value per common share calculated as total shareholder's equity less preferred equity, and divided by the number of common shares outstanding. Should the company decide to dissolve, the book value per common share indicates the dollar value remaining for common shareholders after all assets are liquidated and all creditors are paid.

D/E: Debt-to-equity ratio

A measure of a company's financial leverage calculated by dividing long term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Current ratio

One of many ratios designed to evaluate short-term liquidity of a company. Calculated as current assets divided by current liabilities, this ratio gauges the level of cash resources relative to current liabilities as a measure of cash obligations.

EBITDA

Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

EPS: Earnings per share

A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

EV: Enterprise value

Enterprise value is calculated as market capitalization less cash and equivalents, plus debt. Evaluation of EV relative to the company's trailing EBITDA is used in identifying potential takeover targets.

FCF: Free cash flow

Capital expenditures are subtracted from cash flow from operating activities to arrive at free cash flow, which intends to measure the cash available to a company after making all cash outlays necessary to maintain existing productive capacity (as measured by capital expenditures on a company's cash flow statement).

Net working capital

A measure of the company's ability to carry on its normal business comfortably and without financial stringency, to expand its operations without the need of new financing, and to meet emergencies and losses. Calculated by deducting current liabilities from the current assets.

P/B: Price-to-book ratio

Calculated as a stock's market value (current closing price) divided by its latest quarter's book value. While a lower P/B ratio could mean that the stock is undervalued, it could also serve as a sign of weak fundamentals, and as with most ratios, this varies a fair amount by industry.

PEG ratio

The price/earnings to growth, or PEG ratio is calculated as P/E ratio divided by a company's annual EPS growth. The PEG ratio is used to determine a stock's value while taking into account earnings growth.

P/FCF: Price-to-free cash flow ratio

Calculated as a company's current share price divided by its free cash flow per share (i.e., free cash flow divided by the number of company's shares outstanding) over the last four quarters (called "TTM," or "trailing 12 months" calculation). It is a measure of the market's expectations regarding a firm's future financial health.

P/S: Price-to-sales ratio

It is calculated as a stock's current market price divided by its sales (revenue) per share. When calculating this ratio, we use the company's revenue from its latest four quarters, or on a TTM basis.

ROE: Return on equity

A measure of a corporation's profitability, calculated as net income divided by shareholder's equity. ROE is often useful in comparing the profitability of a company to other firms in the same industry.

Featured companies in KeyStone's Small-Cap Stock Report are evaluated on a scale of 1 to 5 on each of the following criteria:

Value:	1 - poor investment value 5 - excellent investment value	Risk/Liquidity:	1 - high exposure to liquidity concerns 5 - low exposure to liquidity concerns
Growth:	1 - poor growth potential 5 - excellent growth potential	Overall:	1 - poor fundamental characteristics 5 - excellent fundamental characteristics

Disclosure					
Stock Holding				Other	
Companies	KeyStone	KeyStone Employees	Related Companies	Investment Banking Client	Related Company Business Relationship
Trulieve Cannabis Corp.	NO	YES	NO	NO	NO

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