

Friday, July 29, 2022

VALUATION

Current Price	\$0.10
52 Week Range	\$0.09 – 0.59
Market Cap (\$-Mn)	12.0
Ent. Value (\$-Mn)	15.8
Shares Out. (Mn)	113
Short Int (% Flt)	0%
Daily Vol	92K
P/Book	0.4x
EV/Sales (3QFY22 Annualized)	0.5x

FUNDAMENTALS

<u>Annual Run-rate Level (based on 3QFY22)</u>	
Sales	\$31.5Mn
Insider Owner	5.7%
Inst. Owners	0%
Retail Owners	70%
ROIC	NM
Cash (\$-Mn)	\$3.7Mn

RELATIVE PERFORMANCE



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Body and Mind, Inc. (CSE:BAMM/OTC:BMMJ) Expansion to Limited License States Continues

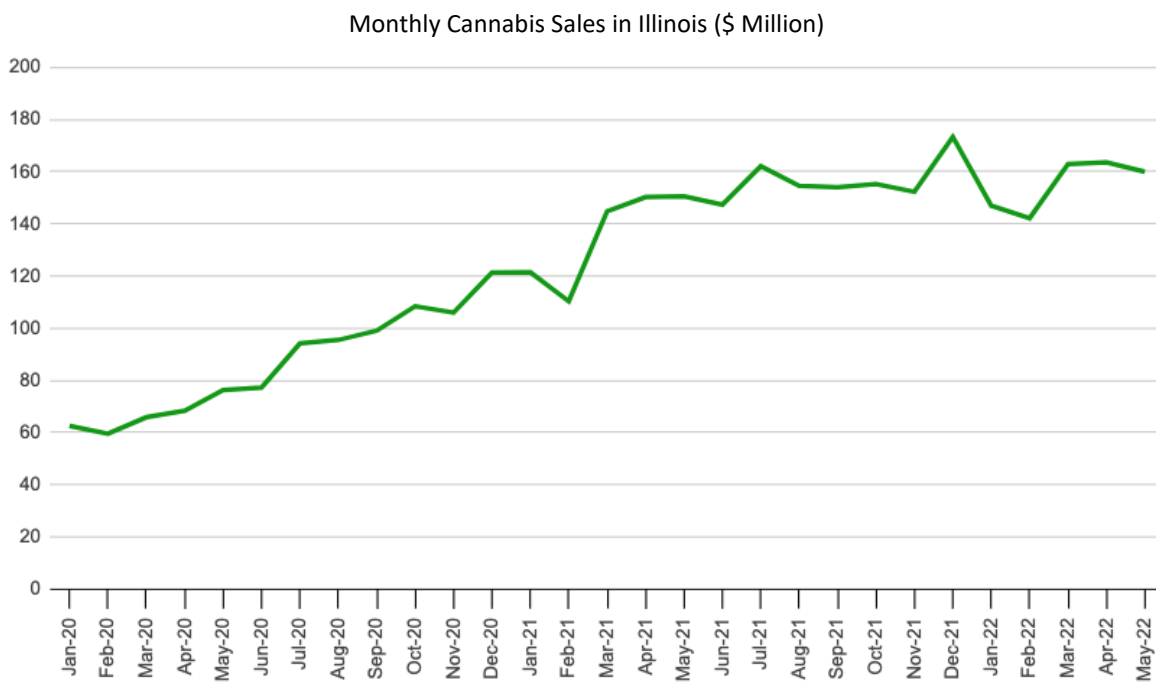
Chicago Licenses Mark Entry into Attractive Illinois Market

Key Takeaways:

- Expansion to limited license states continues with award of two Chicago dispensary licenses.
- Strategy to establish operations in limited license states like IL is value accretive for shareholders as limited license states are expected to grow at 3x the rate of their open license peers through 2025, and offer better pricing, margins, and a business moat for incumbents like BAMM.
- The license awards and BAMM's preparedness put the company in a strong position to benefit from growing cannabis sales in Illinois (2025e sales = ~\$3.4 billion). At full scale, BAMM's Chicago operations have the potential of doubling the company's current revenue run rate.
- We believe BAMM is a re-rating candidate given its 1) successful expansion to limited license states, 2) healthy balance sheet, and 2) cheap valuation relative to peers.
- Strategy of expansion to limited license states continues with award of two Chicago dispensary licenses.** On July 27, BAMM announced that two of its subsidiaries, NMG IL 1, LLC and NMG IL 4, LLC have been awarded conditional dispensary licenses in the Chicago area. NMG IL 1 and NMG IL 4 conditional licenses were awarded for BLS Region #5 (Chicago-Naperville-Elgin) where 119 conditional licenses are available. The licenses give BAMM access to the Chicago area which had a population of 9.6 million (2020 census). More importantly, it marks BAMM's entry into its sixth state (NV, CA, MI, OH, and AR being the other ones) and continues the successful execution of its strategy to expand into limited license states.
 - Body and Mind has the option to indirectly acquire all of the membership interests in each of NMG IL 1 and NMG IL 4 pursuant to a convertible credit facility between its subsidiary, DEP Nevada, Inc. and each of NMG IL 1 and NMG IL 4, and membership interest purchase agreements between DEP and the members of NMG IL 1 and NMG IL 4, subject to obtaining all required local and state regulatory authorization.
- We believe BAMM's strategy to establish operations in limited license states holds immense long-term value creation potential for the company and its shareholders.** Our analysis shows that limited license state markets in the U.S. are expected to grow their sales at a 39% average CAGR between 2021 and 2025 vs. the 13% average CAGR of open license states. Limited licenses result in higher entry barriers for new operators, creating a moat for incumbents like BAMM and driving their sales and value of their licenses higher. As a result, limited license states are expected to grow much faster than their open license peers and command a 58.3% share of the U.S. market in 2025 vs. 44.3% in 2021.
 - Limited license states like Illinois also offer better economics and margins for operators like BAMM due to higher pricing.** Our analysis shows that the average cannabis price in limited license markets stands at \$295/oz vs. \$274/oz for open license states. North Dakota, Virginia, and Illinois are the top three limited-license markets with average cannabis prices of \$354/oz, \$326/oz, and \$324/oz, respectively.

- The license awards and BAMB’s preparedness put the company in a strong position to benefit from growing cannabis sales in Illinois. We believe that at full scale, BAMB’s Chicago operations have the potential of doubling the company’s current revenue run rate of ~\$32 million.** Total cannabis sales in Illinois grew 72% y/y to \$1.78 billion in 2021, driven by fast-growing adult-use sales. After a slight moderation in early 2022 (January and February), sales momentum has picked up pace again with May sales coming in at \$159.9 million, up 6.2% y/y and closer to the December 2021 high. Growth momentum is also visible in latest tax numbers shared by Governor JB Pritzker – tax collection from adult-use cannabis sales grew 50% y/y to \$445 million in FY22 (12-mo period ending June 2022). Longer-term, sales are expected to compound at a 17.3% CAGR between 2021 and 2025 and reach ~\$3.4 billion by 2025, with adult-use sales growing at 21.6% during this period. This will make Illinois the fourth largest state by sales in 2025, behind only CA, NY, and FL, and underscores the importance of BAMB’s entry into this market. Our discussion with management indicates that they have done a lot of research studying the market and liaising with local decision makers and are well prepared to execute in this limited license state. We expect one of their dispensary locations to be up and running quickly, and at full scale, we believe Chicago operations have the potential of doubling the company’s current revenue run rate of ~\$32 million.

Chart 1: Cannabis Sales in Illinois Grew 72% y/y to ~\$1.8 billion in 2021 and Are on Track to Reach ~\$3.4 billion by 2025



Source: Intro-act, Illinois Department of Financial and Professional Regulation (IDFPR), New Cannabis Ventures

- We believe BAMB is a re-rating candidate given its 1) successful expansion to limited license states, 2) healthy balance sheet, and 2) cheap valuation relative to peers. As growth accelerates, we expect the price-value mismatch to narrow.** BAMB has a healthy balance sheet (cash balance at 3QFY22 end = \$3.7 million) and valuable assets in limited license jurisdictions. Despite this, it is currently trading at an enterprise value of ~\$16 million. And while management has not issued any formal guidance, an annualized revenue run rate of ~\$32 million (based on 3QFY22’s \$7.88 million topline) suggests that BAMB is trading at 0.5x NTM sales. This is a significant discount to the average 2.2x EV/NTM Sales multiple of U.S. MSOs. We expect this price value gap to narrow as organic growth continues, and the company uses its strong balance sheet to make additional accretive investments.

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