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Flora Growth

(FLGC-NASDAQ)

FLGC: Recent Results Underscore Benefits of M&A in Growth Strategy

FLGC's 3Q22 results benefited from the integrations of recently acquired companies. Total revenue of \$10.8M was up more than five-fold compared to \$2.1M in 3Q21, driven largely by the integrations of JustCBD and Vessel into Flora's House of Brands division. FLGC reiterated 2022 revenue guidance of \$35M to \$45M.

OUTLOOK

Franchise Global Health plans to hold a special shareholder meeting on December 13, 2022, regarding the pending acquisition by FLGC. FLGC expects the deal, if consummated, to be transformative, enabling it to leverage Franchise Global's established presence in the German pharmaceutical market, servicing 1,200 pharmacies, and its operations and/or strategic partnerships in other important markets to further expand its business in the greater European market.

Current Price (12/1/22) \$0.50
Valuation \$4.50

SUMMARY DATA

52-Week High \$2.38
52-Week Low \$0.37
One-Year Return (%) -75
Beta N/A
Average Daily Volume (sh) 516,512

Shares Outstanding (mil) 77
Market Capitalization (\$mil) \$38
Short Interest Ratio (days) N/A
Institutional Ownership (%) N/A
Insider Ownership (%) * 8

Annual Cash Dividend N/A
Dividend Yield (%) N/A

5-Yr. Historical Growth Rates
Sales (%) N/A
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/A
P/E using 2022 Estimate N/A
P/E using 2023 Estimate N/A

Risk Level High
Type of Stock Small-Value

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2021		1 A			0 A 9 A
2022		15 A	11 A	13 E	39 E
2023	14 E	16 E	22 E	23 E	75 E

Per Share Data

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021		-\$0.13 A	-\$0.08 A		-0.48 A
2022		-\$0.42 A	-\$0.10 A	-\$0.11 E	-0.64 E
2023	-\$0.09 E	-\$0.09 E	-\$0.09 E	-\$0.09 E	-0.36 E

Quarters might not sum due to rounding & share counts

Disclosures on page 8

COMPANY UPDATE: 3Q22 RESULTS BENEFIT FROM RECENT M&A

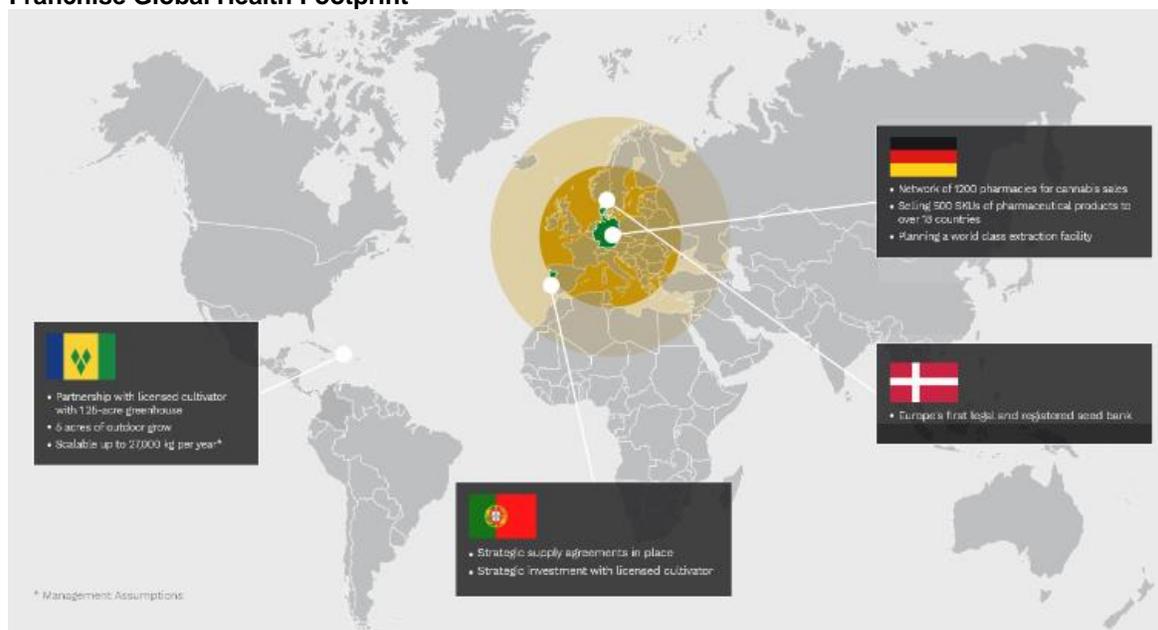
Flora Growth (Nasdaq: FLGC) recently reported 3Q22 results last week and reiterated 2022 revenue guidance of \$35 million to \$45 million. The results benefited from the integrations of companies acquired recently. Specifically, total revenue came in at \$10.8 million, which represented a greater than five-fold increase from \$2.1 million in 3Q21. The year-over-year advance was driven by the integrations of JustCBD and Vessel into Flora's House of Brands division following their 2021 acquisitions. FLGC's gross profit and gross margin increased to roughly \$5.0 million and 46.2%, respectively, compared to \$619k and 29.6% in 3Q21. FLGC reported a net loss of \$7.4 million compared to a net loss of \$3.6 million in 3Q 2021.

FGH special shareholder meeting coming up ...

Separately, Franchise Global Health (TSXV: FGH, not covered) plans to hold a special shareholder meeting regarding the pending acquisition by FLGC scheduled for [December 13, 2022](#). FLGC recently signed an agreement to acquire FGH in an all-stock transaction that places a roughly CA\$40.0 million valuation on Franchise Global Health. Flora intends to issue 36 million to 43 million shares to finance the acquisition. The shares will be restricted for 90 days following the consummation of the transaction. The company expects the deal to close by yearend 2022.

Flora Growth is an emerging cannabis company focused on cultivating, processing and supplying medicinal-grade cannabis and related products globally. The company expects the Franchise Global Health deal to be transformative, as it pursues an ambitious growth strategy to build an ecosystem to support multiple consumer categories of cannabis, plant-based wellness merchandise and lifestyle brands. Flora expects Franchise Global Health can enable it to connect its Colombian-grown cannabis directly with German-based pharmaceutical and medical cannabis distribution. Franchise Global Health already has established a presence in the German pharmaceutical market through its wholly owned subsidiaries ACA Muller and Phatebo. Franchise Global Health's German businesses operate primarily in the export pharmaceutical and medical cannabis import and distribution markets, servicing 1,200 pharmacies in Germany via its subsidiaries (see below).

Franchise Global Health Footprint



Source: FGH [presentation](#)

...pending deal expected to accelerate European expansion via Franchise Global existing network

Franchise Global Health has operations, and/or strategic partnerships and investments in Germany, St. Vincent and the Grenadines, Portugal and Denmark. FLGC management intends to leverage Franchise Global Health's distribution and logistics capabilities in Europe to further expand its CBD business in the greater European market. Germany is a key market for the industry, according to FGH's CEO. Management cites estimates that the German medical market is projected to reach \$7.7 billion by 2028, and pending regulatory changes look to legalize recreational use. According to the company, Franchise Global Health's German segment is profitable, generating revenues of CA\$30.1 million, gross profit of CA\$2.1 million and net income of CA\$0.4 million in 1H 2022. Franchise Global Health expects the deal will help address supply issues that it believes constrained its growth prospects.

The acquisition also expands the company's IP portfolio. FGH has developed 41 registered cannabis strains in Colombia and the first registered cannabis seed bank in Copenhagen, Denmark housing 286 strains, among other assets. The company expects to achieve annualized cost synergies of at least \$3.0 million within the first year following consummation of the transaction.

Other recent M&A transactions have facilitated growth & strengthened management team

The pending FGH acquisition is consistent with FLGC's strategy to leverage strategic M&A to enhance its product portfolio and accelerate growth, including recent acquisitions of [Vessel Brand](#) and [JustCBD](#). These and other recent transactions have added new products and categories, expanding the company's product portfolio and potentially its revenue prospects. The pending FGH acquisition enhances FLGC's European presence, as other recent acquisitions have strengthened the company's presence in additional key markets. JustCBD, for example, is a leading consumer wellness brand (according to the company) that expanded Flora's footprint to about 14,000 retail stores in the U.S.

Favorable conditions, regulatory backdrop & cost advantages...

Separately, Flora believes it benefits from favorable conditions at its Colombia facility and a favorable regulatory tailwind in Colombia. These include climate and weather that enable outdoor cultivation throughout the year and translate into five crop harvests per annum, compared to about one to two in many other markets. The company operates a roughly 16k sq ft greenhouse at has the capacity to produce 23,000 root cuttings per week, with construction of another 16k sq ft of greenhouse planned to double production capacity by year-end 2022. The location of the facilities also includes ready access to water and electricity with the goal of growing utilizing organic methods.

Management estimates that it has a significant cost advantage over competitors located in other markets. One factor behind the company's decision to locate its production facility in Colombia was that management believes outdoor cannabis cultivation in Colombia enables greater output per square foot of cultivation, noted above, as well as skilled agricultural labor force that translates into significantly lower costs compared to the U.S. and other markets. Colombia's high altitude also translates into lower levels of pesticides required. Moreover, it is also less expensive to obtain and maintain licenses in Colombia. Flora believes that its production costs, which it estimates at around \$0.06 per gram of dry cannabis flower, are lower than the estimated roughly \$0.50 cents to \$2.00 producers in other markets incur. Flora believes its production costs are also lower than that of Colombian peers as Flora believes it is the only public company with GACP approval for all-outdoor cultivation of both CBD and THC.

VALUATION

We believe it is difficult to compare Flora Growth to most other publically-traded companies noted earlier, given the early stage of its operations at this point. Nevertheless, the shares trade at a discount to the group on a P/Revenue basis; as revenue continues to ramp, we would expect that gap to narrow. The company has provided 2022 guidance of \$35 million to \$45 million, as noted. FLGC shares trade at only 1.4x and 0.6x our respective 2022E and 2023E revenue projections compared to a range of higher multiples for peers. As Flora Growth continues to boost awareness of its strategy and operations continue to develop and expand, we would anticipate multiple expansion *if the company can execute its strategy successfully*. We also note that if revenue ramps faster than we currently anticipate, our 2022-23 revenue projections could prove conservative. We illustrate a 2023 accelerated growth case as an example.

FLGC shares represent an option on management's ability to continue to execute its growth and expansion strategy, in our view, as the company capitalizes on the expected continued consumer adoption of medical cannabis products and related merchandise. We expect the shares to begin to reflect the company's opportunities over time, as FLGC reaches a growing number of milestones. For instance, as the company satisfies its export quota and expands its global distribution footprint, we would expect the shares to begin to mirror these expansion steps. Similarly, as the company grows revenue and Flora gains operating leverage, we would also expect the shares to begin to reflect these potential benefits.

Even at about \$4.50 – which still represents a nearly 80% discount to their 52-week high – the shares would still trade at a discount to the company's expected growth. As the company maintains its growth strategy, we would expect FLGC to narrow the gap between its shares and those of peers over time, if management successfully executes its initiatives. We also note recent consolidation in the sector supports the potential for share price appreciation. Separately, Flora authorized the repurchase of up to \$5 million of its shares, with the lower share count reflected in our model and valuation.

Any delay or failure in successful execution of the strategy could cause the share price to decline and represents a potential risk to our valuation, but we believe FLGC shares represent an option on management's ability to continue to execute its growth strategy successfully. We believe the risk / reward ratio could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon.

RECENT NEWS

- FLGC announced 3Q22 results on November 28, 2022.
- On November 10, 2022, FLGC announced that FGH shareholders controlling the majority of FGH shares support the pending acquisition.
- The company announced the pending acquisition of FGH on October 24, 2022.
- On August 02, 2022, FLGC announced a JV with the largest indigenous tribe in Colombia.
- On July 11, 2022, Flora Growth named Elshad Garayev CFO.
- On May 23, 2022, Flora Growth acquired CBD Brand Masaya.

RISKS

We believe risks to FLGC achieving its goals, and to the valuation, include the following, among others.

- FLGC shares could be impacted by concerns overhanging the cannabis sector.
- Among the biggest risks, in the company's view, is that the Flora does not gain market share as quickly as the company expects, which leads to slower than anticipated revenue ramp.
- The company might not gain traction through its new distribution channels as quickly as it expects.
- The company could incur unanticipated costs associated with its initiatives.
- Competition could increase.
- The company might need to raise capital to support its strategy that might be dilutive to current shareholders.
- Regulatory risk.

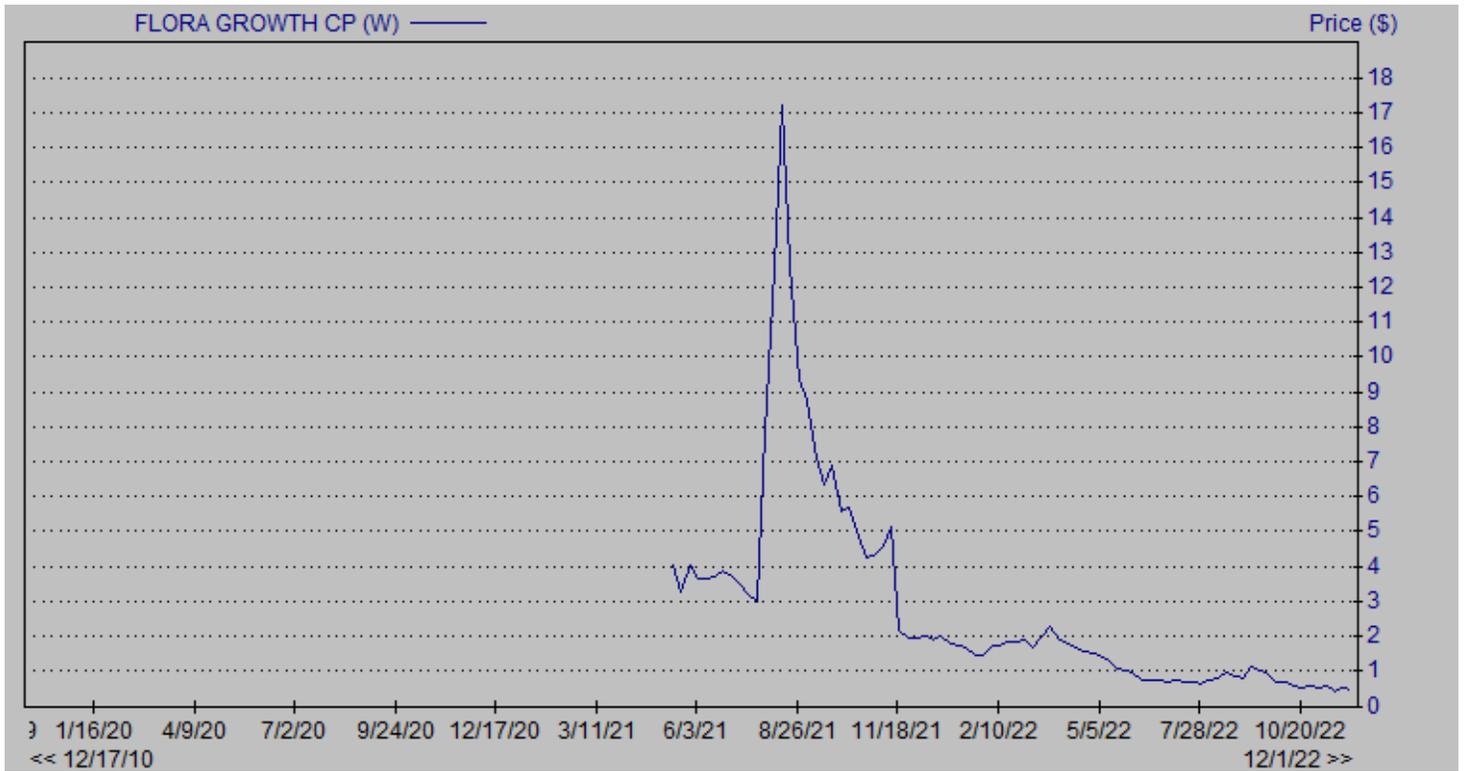
PROJECTED FINANCIALS

Flora Growth Income Statement & Projections (\$ 000s)

	2020	1H21	3Q21A	2H21	2021	1H22	1H22A	3Q22A	2H22E	2022E	Scenarios 2023E	
Revenue	\$106	\$1,700	\$2,093	\$7,280	\$8,980	\$10,200	\$14,917	\$10,765	\$23,800	\$38,717	\$75,000	\$90,000
Cost of sales	35		1,474		6,627	7,446	8,415	5,936	17,374	25,789	54,750	65,700
Gross profit before gain on fair value	71		619		2,353		6,502	4,829				
Unrealized gain on chgs fair value & other	-		-		72		44	142				
Gross Profit	71		619		2,425	2,754	6,546	4,971	6,426	12,972	20,250	24,300
			29.6%					46.2%				
Operating Expenses												
Consulting and management fees	4,752		1,905		7,324		5,243	3,237				
Professional fees	794		904		4,269		2,096	802				
General and administrative	1,400		610		4,507		2,429	1,186				
Travel expenses	428		140		603		601	288				
Share based compensation	4,901		393		1,340		2,855	139				
R&D	78		(20)		132		422	170				
Depreciation and amortization	113		67		765		1,712	985				
Bad debt expense	-				1,335		405	631				
Goodwill impairment	1,816				51		16,000	-				
Other expenses	73		232		1,050		5,897	2,541				
Total operating expenses	14,355		4,231		21,376	18,461	37,660	9,979	23,153	60,813	42,239	43,929
Operating Loss	(14,284)		(3,612)		(18,951)	(15,707)	(31,114)	(5,008)	(16,727)	(47,841)	(21,989)	(19,629)
Interest expense	30		57		84		69	75				
Foreign exchange loss	20		(38)		79		200	128				
Unrealized loss on fair value of investments	-		-		2,345		1,333	2,177				
Net loss before income taxes	(14,334)		(3,631)		(21,459)	(15,782)	(32,716)	(7,388)	(16,802)	(49,518)	(22,139)	(19,779)
Income tax benefit	-				98		-	-				
Flora Growth Corp.	(14,154)		(3,608)		(22,396)	(15,782)	(32,611)	(7,358)	(16,802)		(22,139)	(19,779)
Non-controlling interests	(164)		(23)		(112)	(52)	(105)	(30)	(63)		(114)	(114)
FX			463					(1,048)				
EPS / (loss per share)	(\$0.47)		(\$0.08)		(\$0.48)		(\$0.42)	(\$0.10)	(\$0.22)	(\$0.64)	(\$0.36)	(\$0.32)
Avg shares out	29,901		44,199		43,954		76,944	76,611	76,944		61,214	61,214

Source: Company reports & Zacks

HISTORICAL STOCK PRICE



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