

BUY
COMPANY UPDATE

Financial Summary		
Changes	Previous	Current
Rating	—	Buy
Target Price	C\$1.85	C\$2.00
FY20E EPS	—	C\$(0.17)
FY21E EPS	—	C\$(0.03)
FY20E Revenue	—	C\$122.4
FY21E Revenue	—	C\$204.6

Price (02/22/21):	C\$1.46
52-Week Range:	C\$2 - C\$0.26
Market Cap.(mm):	C\$309.2
Shr.O/S-Diluted (mm):	211.8
Enterprise Val. (mm):	C\$349.2
Avg Daily Vol (3 Mo):	2,469,908
Dividend / Yield:	C\$0.00 / 0.0%
Price: Intraday 2-22-21.	

Revenue	2019A	2020E	2021E
FY (Jan)	C\$51.1A	C\$122.4	C\$204.6
EV/Rev	6.8x	2.9x	1.7x
EBITDA	C\$(16.3)A	C\$(0.2)	C\$23.3
EV/EBITDA	NM	NM	15.0x
EPS	C\$(0.29)A	C\$(0.17)	C\$(0.03)
P/E	NM	NM	NM

Price Performance



Additional catalysts could follow American Acres partnership

Summary

FAF announced entry into the U.S. market this morning through a strategic licensing agreement and partnership with private company, American Acres. We see the agreement as enabling FAF to essentially build up its brand in the U.S. and potentially realizing rich data while doing so with the option to eventually acquire stores and realize the full unit economics.

The deal is also not exclusive, where FAF may look for other creative ways to gain U.S. exposure with a technology focus and leading to potential additional catalysts ahead. We already see several catalysts with new U.S. branded Fire and Flower store openings through American Acres, including Palm Springs (expected in 1H 2021). Combined with what we anticipate to be solid near-term results for FAF, valuation should re-rate higher at 1.6x, towards peers at 5x. Our new edged up target price of \$2.00 accounts for some of the expected progression in valuation.

Key Points

FAF American Acres announcement:

- FAF announced entry into the U.S. market through a strategic licensing agreement and partnership with private company, American Acres. We see the announcement as a positive catalyst and FAF valuation should re-rate as the news is digested.
- Under the agreement, FAF is providing its brand name and technology platform, Hifyre for dispensaries in California, Arizona and Nevada with the first branded store to be open in Palm Springs in 1H 2021. The licensing deal is on a royalty-free basis initially but FAF has the option to acquire American Acres at a discount to market value when permissible but without specific terms disclosed.
- We see the agreement as enabling FAF to essentially build up its brand in the U.S. and potentially realizing rich data while doing so with the option to eventually acquire stores and realize the full unit economics.
- FAF has demonstrated success with its technology platform, Hifyre in Canada and as evidence recently disclosed that Spark Perks reward members now exceed 200k compared to 60k prior.
- Domestically, FAF continues to hold the #1 market share in Canada, including the most exposure to the Ontario market (best sales/store economics) at ~25 locations currently and expected to show in good near-term results.
- FAF continues to trade at a discount to peers at 1.6x 2021 sales vs. 5x and we expect the catch-up trade to continue.

Rating: Our new \$2.00 target is based on 14x F2021e EBITDA, vs. \$1.85 prior and 13x. We maintain a Buy rating.

Investment Thesis

We see FAF as a leader in cannabis retail with significant growth potential as the relatively new industry evolves. Ontario is still in an infant stage of growth and represents one of the largest near-term growth markets for FAF, but consolidation opportunities remain across Canada and into new international markets. As new stores are added to FAF's network, the business is expected to see scale benefits with progression in EBITDA and cash flow. FAF currently operates a network of ~75 stores across Canada, and we see an opportunity for expansion to beyond 100 stores in the near term. FAF has the strategic and financial support to pursue these goals from Alimentation Couche-Tard (ATB, ~\$50b market cap), one of the world's largest retailers, and its FAF ownership recently increased from 10% to 15%. FAF valuation remains compelling and well below peers.

Target Price Methodology/Risks

Our C\$2.00 target price is based on 14x F2021 EBITDA.

Risks:

Competition. The private cannabis retail market in Canada is competitive in certain markets with a large number of players. The lottery structure present in some markets, in combination with many operators vying for licences, could also affect FAF's ability to obtain retail licences at reasonable prices to support growth.

Potential pitfalls from not sourcing directly from producers. In most provinces where private retail stores are permitted, the government-run agency typically sits between producers and retailers, acting as the sole purchaser from the producers and the only seller to the retailers. We expect the provincial governments to attempt to earn a margin on these transactions. A potential pitfall of this system is that with current oversupply, the provinces may not pass on all the benefits to the retailers.

Acquisition integration risk: FAF's growth strategy has, and will continue to, rely at least in part on acquiring other retailers or ancillary assets. Related risks include; i) the realisation of synergies with any companies acquired; ii) potential for overpaying for assets and not earning adequate returns on capital deployed, and iii) integration of operations.

Company Description

Fire & Flower is a leading retailer in the Canadian adult use cannabis market. Since federal legalisation, FAF has grown its footprint to ~69 stores spanning 4 provinces and 1 territory. While the business remains concentrated in Alberta (75% of its stores), the company is in the midst of an aggressive rollout with a specific focus of building exposure in Ontario and B.C and maintaining leadership in Alberta. Couche-Tard, FAF's strategic partner and largest shareholder, will continue to be instrumental in its expansion efforts by providing growth capital and access to a long list of grade A locations.

Fire & Flower Holdings Corp (TSX:FAF)

Income Statement		2019	Q1/20	Q2/20	Q3/20	Q4/20E	2020e	2021e
Revenue	\$mm	\$51	\$23	\$29	\$33	\$38	\$122	\$205
COGS	\$mm	\$32	\$16	\$19	\$22	\$24	\$80	\$130
Gross Profit	\$mm	\$19	\$8	\$10	\$12	\$14	\$43	\$74
Margin	%	36%	33%	35%	35%	36%	35%	36%
Adj. EBITDA	\$mm	(\$16)	(\$3)	(\$0)	\$1	\$2	(\$0)	\$23
Margin	%	n/a	n/a	n/a	n/a	n/a	n/a	11%
Adj. EPS	\$/sh	(\$0.29)	(\$0.04)	(\$0.07)	(\$0.04)	(\$0.03)	(\$0.17)	(\$0.03)
Cash flow Statement		2019	Q1/20	Q2/20	Q3/20	Q4/20E	2020e	2021e
Cash from Ops	\$mm	(\$21)	\$7	(\$2)	(\$1)	(\$1)	\$3	\$12
Cash from Investing	\$mm	(\$51)	\$0	(\$2)	(\$4)	(\$5)	(\$11)	(\$12)
Cash from Financing	\$mm	\$84	\$19	(\$25)	\$10	\$0	\$4	\$0
Balance Sheet		2019	Q1/20	Q2/20	Q3/20	Q4/20E	2020e	2021e
Cash & Equivalents	\$mm	\$23	\$49	\$20	\$25	\$19	\$19	\$19
Total Current Assets	\$mm	\$43	\$62	\$39	\$45	\$40	\$40	\$49
PP&E	\$mm	\$34	\$36	\$35	\$36	\$38	\$38	\$39
Intangibles	\$mm	\$36	\$39	\$39	\$39	\$39	\$39	\$39
Total Assets	\$mm	\$151	\$169	\$145	\$154	\$151	\$151	\$161
Accounts Payable	\$mm	\$13	\$22	\$17	\$17	\$20	\$20	\$31
Debentures	\$mm	\$38	\$28	\$33	\$16	\$16	\$16	\$16
Total Current Liabilities	\$mm	\$57	\$53	\$85	\$55	\$57	\$57	\$68
Debentures	\$mm	\$13	\$24	\$2	\$17	\$17	\$17	\$17
Lease liabilities	\$mm	\$34	\$32	\$34	\$34	\$34	\$34	\$34
Total Liabilities	\$mm	\$104	\$118	\$121	\$151	\$153	\$153	\$165
Share Capital	\$mm	\$106	\$121	\$124	\$136	\$137	\$137	\$139
Accumulated deficit	\$mm	(\$72)	(\$85)	(\$114)	(\$140)	(\$145)	(\$145)	(\$149)
Total Equity	\$mm	\$47	\$52	\$24	\$3	(\$2)	(\$2)	(\$4)

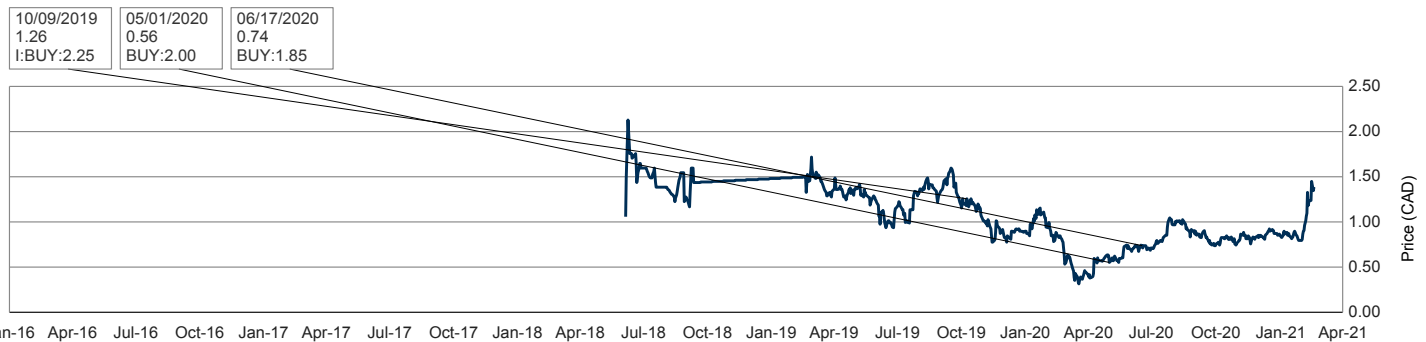
Source: Stifel GMP, Company disclosures

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Fire & Flower Holdings (FAF CN) as of February 19, 2021 (in CAD)



*Represents the value(s) that changed.

Buy=BUY; Speculative Buy=SBUY; Hold=HOLD; Sell=S; Discontinued=D; Suspended=SU; Initiation=I

For a price chart with our ratings and target price changes for FAF CN go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=FAF CN>

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The research analyst(s) responsible for the preparation of this report viewed the material operations of Fire & Flower Holdings.

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Buy - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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¹ This rating is only utilised by Stifel Canada.

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