Cannabis Strategies Acquisition Corp
(Canadian NEO Exchange, CSA.A: C$21.50)
(Canadian NEO Exchange, CSA.WT: C$9.80)
(OTC, CBAQF: US$15.79)

Despite being one of the largest and most profitable publicly traded US Cannabis companies, Cannabis Strategies Acquisition Corp (CSA) trades for *seven* times 2019 estimated cash flow. CSA trades at a mind numbing 61% discount to its nearest cannabis comparable Trulieve (CSE: TRUL) because of its anonymity, temporary illiquidity and current status of being a SPAC.

Once the company closes on its acquisitions at the end of April, it will emerge from a quiet period and start to tell its story. The company plans to re-brand the corporate name and start aggressively growing. As investors realize how profitable and large this company really is, the magnitude of its discount will disappear as analysts, investors, and investment banks pick up coverage and shine a light on CSA.

Momentum investors will love a very focused and aggressive management team driving growth from a fountain of cash flow. If CSA traded at the multiple Trulieve trades at, the stock would be over C$55, if it traded at a similar multiple to a broader group of other cannabis publicly traded comps, CSA could be worth closer to C$100 per share.

Canadian SPAC Status Hides the Potential in CSA

CSA was set up as a SPAC (Special Purpose Acquisition Corporation) after raising C$125 million in December of 2017 to acquire privately held US cannabis companies. SPACs are essentially the inverse of a regular IPO, which involves a privately held company raising money to “go public” by offering new shares. A SPAC raises money first, then goes looking for privately held companies to acquire.

In October of 2018, CSA announced that it had found five companies to acquire:

1. *Sira Naturals* is a producer and seller of medical marijuana in Massachusetts. Sira is licensed to cultivate, process, dispense and sell medical and recreational marijuana. Now that Massachusetts has passed recreational use into law, Sira will soon be able to sell marijuana on a recreational basis. With prime locations in Cambridge and downtown Boston, Sira is uniquely situated to benefit from the passage of recreational marijuana.
2. *Washoe Wellness* is a cultivator, producer and distributor of cannabis in Nevada, specializing in premium products. Washoe is licensed to possess, cultivate, process, dispense and sell medical and recreational marijuana. Washoe is part of CSA’s strategy to vertically integrate operations in Nevada.
3. *Canopy NV* has two dispensaries in Reno, Nevada and is licensed to sell both medical and recreational marijuana.
4. *LivFree Wellness* operates three dispensaries in Nevada (Las Vegas, Reno and Henderson, NV). It is separately licensed to operate additional production and cultivation facilities.
5. *CannaPunch NV* is a manufacturer and distributor of branded cannabis-infused products in Nevada. The purchase allows CSA the rights to CannaPunch brands outside of Colorado. Brands include CannaPunch (beverages), Highly Edible (gummies), Dutch Girl (edible), Nordic Goddess

(topical salve) and Tumbleweed (oil and other extracts). CannaPunch is part of CSA's strategy to build out a branded business in the highly regulated Cannabis industry.

For these five acquisitions, CSA will pay C$92.5 million in cash, C$145.4 million in stock (7.6 million shares in CSA stock) and C$62.5 million in promissory notes for a total consideration of C$300.5 million.

After announcing the acquisitions, the company had to file a detailed prospectus on the acquisitions, go through regulatory hurdles and secure shareholder approval, which occurred on March 18th. An astonishing 99.9% of shareholders approved the acquisitions.

CSA has had to go through not only Canadian regulatory reviews and approvals, but also state and local reviews in Nevada and Massachusetts. The official close and funding of the acquisitions should happen at the end of April. At that point, the company will officially no longer be a SPAC, but an operating company with five divisions.

Strategy is to Cluster and Penetrate Limited License Markets Along with a Focus on Brands

CSA's focus is on states where cannabis licenses are limited and scarce. Its initial focus is on Nevada and Massachusetts. Nevada and Massachusetts both have strict regulatory limits as to how many cultivation and dispensary licenses are issued. This increases the barriers and causes these states to be much more valuable with higher profits than other states such as the state of Washington or Oregon, which have much more liberal licensing, which has caused a glut of marijuana and lower pricing. Marijuana cannot be sold across state lines and probably won't be allowed to anytime soon due to each state wanting to grow their own homegrown cannabis businesses and tax base.

Beyond the limited licenses, CSA is focused on vertical integration of cultivation, processing, distribution and sales to improve margins. Further, instead of just buying businesses and growing, CSA wants to grow in regional clusters, so the company is easier to manage. The company is much more likely to grow in states that are next to Nevada and Massachusetts than just random other states in the country. Just like vertical integration, CSA believes that regional market share will be an important driver of value as well.

The final piece of the CSA strategy revolves around brands and this is where CannaPunch is the company's opening salvo. CannaPunch as a brand is already seeing traction in sales, which is estimated to have been over C$7 million in revenue and over US$4 million in EBITDA in 2018. And CSA believes with increased distribution, CannaPunch's revenues will grow over three times in 2019.

CSA management believes that there is a lot of potential in building "highly regulated" brands in the emerging cannabis industry. With brands come high margins, customer loyalty and obviously more value to shareholders. CannaPunch brands can be offered not only in CSA's Nevada and Massachusetts markets, but other states as well.

With CSA's focus on branding, it's important to note that one of the company's directors, Chris Burggraeve, is a marketing and brand superstar. Chris was a former Coca-Cola and AB Inbev marketing executive and has transitioned to entering the cannabis space as an entrepreneur himself (https://www.businessinsider.com/cannabis-is-the-next-big-thing-according-to-former-coca-cola-exec-2018-10).

Company Plans to be Very Aggressive and Very Acquisitive

CSA plans to aggressively acquire new companies similar to how it acquired the original five companies. CSA very clearly believes this is a land grab and with strong cash flow and a stock currency to boot, CSA has a lot of options to acquire privately held companies looking for liquidity.

Future expansion is planned in California, Pennsylvania, New Jersey, New York, Michigan and Ohio. Expect to see a few acquisition announcements by the end of the year. These announcements should be accretive to cash flow and should drive investor awareness as the company grows.

2019 Forecast of $250 million in Revenue and $130 million of EBITDA and Growing

CSA estimates that their portfolio of companies on a pro forma basis produced C$95 million in revenue and C$30 million of EBITDA in 2018, but those numbers are going to skyrocket in 2019, thanks to growth, capital expansion plans and also due to Massachusetts voting to legalize recreational use in addition to medicinal use.

Below is the company's forecast from a filing made very quietly on SEDAR (the Canadian regulatory site) on March 18th.

Group Financial Overview

Anchor Portfolio

- Acquiring 5 businesses with positive 2018 Adjusted EBITDA[1] resulting in vertically integrated operations in Massachusetts and Nevada to serves as anchors for future expansion in the Western and Eastern US
- All Anchor businesses produced multiple years of audited financials, indicating quality of processes and controls
- Targeted 2018 Revenue and Adjusted EBITDA[1] of C$95-105m and C$30-35m
- Targeted 2019 Revenue and Adjusted EBITDA[1] of C$240-260m and C$130-140m

Selected 2018 – 2019 Targeted Consolidated Financials (in millions, C$)

	Target Revenue		Target Adjusted EBITDA[1]	
	2018	2019	2018	2019
Washoe (NV)	10 – 15	30 – 40	5 – 6	15 – 20
LivFree (NV)	40 – 45	50 – 60	10 – 13	20 – 30
Canopy (NV)	15 – 20	20 – 25	5 – 6	6 – 10
Sira (MA)	15 – 20	100 – 120	4 – 5	60 – 70
CannaPunch (NV)	7 – 10	20 – 25	4 – 5	10 – 15
Estimated Pro Forma Target Portfolio Combined	95 – 105	240 – 260	30 – 35	130 – 140

This Growth Comes Amidst a Cannabis Boom

CSA's growth comes amid a boom in the cannabis industry. 33 states have now approved medical use of cannabis and 10 states have approved adult recreational use. Analysts estimate that demand for medical and recreational of cannabis in the next seven years will grow 200% and that the market could be a $26 billion market by 2025.

Realizing there is a bonanza to be had, larger companies from outside the space are now getting into the industry. One highlight was Constellation Brands (NYSE: STZ) investing $4 billion into Canopy Growth (TSX:WEED), the first publicly traded cannabis company in North America. Canopy now sports a C$20 billion market cap.

Other smaller players such as Trulieve (CSE: TRUL), a similar company to CSA, have jumped into the spotlight as well and now sport C$2.2 billion market cap and sizable multiples.

And about to burst onto the scene is Cannabis Strategies Acquisition Corp, a company no one has ever heard of.

And Yet, No One Really Knows This Company Exists …For Now

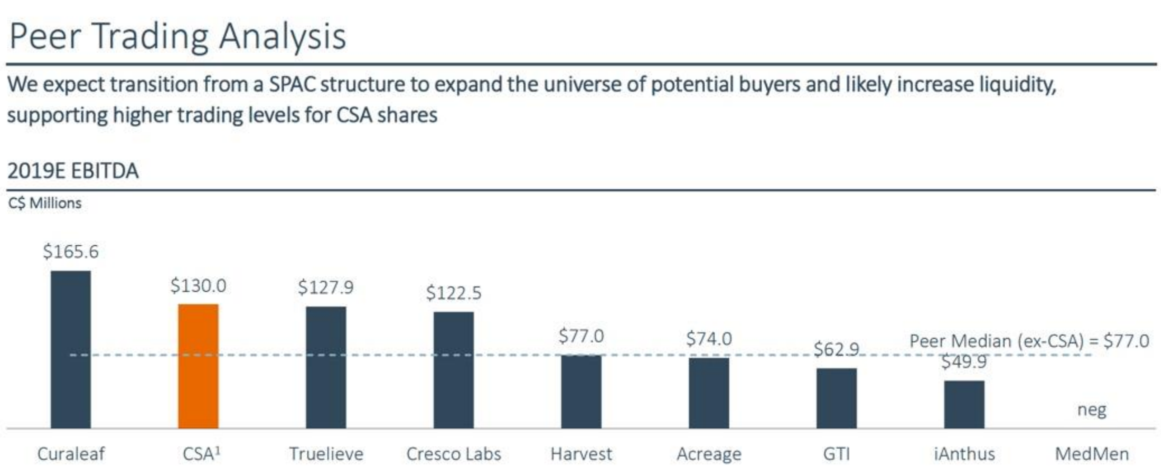
The most remarkable thing about CSA, is that very few investors know it exists.

CSA currently has no corporate website or investor relations function. In other words, it's almost as if the company doesn't exist in today's digital age.

A scan of Twitter, Seeking Alpha, the internet in general and other investor social media sites show that no one is discussing or mentioning the company despite a huge bull market in anything cannabis related. One reason may be that the company has purposely kept a very low profile. Hype, momentum and lavish attention have yet to rain down on CSA. But this may be about to change.

Once the acquisitions close, the company will start telling its story. A new re-branded corporate name, logo and investor relations effort are an easy start. What follows will be roadshows, conference appearances and a lot more PR, including an update to guidance and financials in May. In the next 60 days, there will be an explosion of news around CSA.

Consider the following graphic that shows it would be one of the largest and most profitable publicly traded cannabis companies. The closest comparable companies, Curaleaf (CSE: CURA) and Trulieve, have a valuation of around C$5 billion and C$2.2 billion respectively.



Little to No Analyst Coverage…Yet

There is only one analyst that covers CSA, a small Canadian firm called Northland Securities. This is bound to change quickly and considerably. Cannacord, a large Canadian brokerage, brought the company public, but was precluded from issuing coverage so as to not influence the SPAC vote. Now that the vote is done, expect Cannacord to issue coverage soon and others to follow suit.

Investment banks love acquisitive companies, because those companies generate fees from M&A activity, and equity and debt financings. CSA is about to become an investment bank's dream client. A company in a hot and emerging industry with an aggressive management team on the hunt for acquisitions. Expect analysts to issue bullish recommendations on CSA in the next three to six months.

Stock Liquidity is Constrained on the NEO Exchange for Now…

The only exchange that would let a Cannabis SPAC list in 2017, was a new Canadian exchange called the NEO Exchange. The exchange first launched in 2015 and is owned by Aequitas Innovations, a company backed by a number of large Canadian and international corporations including Mackenzie Investments, Barclays and Royal Bank of Canada.

As of right now, the stock does not have the best liquidity, but that may be a function of the fact that few investors know the company exists or of its bright prospects. Some investors are clamoring for an "up-listing" to a more liquid exchange like the Canadian Securities Exchange (CSE).

Another factor that should quickly change for the company is that while CSA is still a SPAC, the stock trades in the US, but in the "grey" market, which makes it hard and very illiquid for US investors to buy. When CSA "de-SPACs," they will list on the OTCQX and liquidity and access for US investors will substantially improve.

Any improvement to the liquidity will be a positive. And an improvement in liquidity could cause the stock to rise materially and erase the discount between its valuation and comparable publicly traded companies that are listed on more liquid exchanges.

Deceptive Market Cap, Institutional Size in Disguise

If you screen for CSA, due to its current SPAC structure and before the acquisitions close, the company shows a market capitalization of only C$289 million. But post-acquisitions, the company will instead have a fully diluted share count of 42.5 million shares, which means that its market cap is really C$914 million. The difference is quite large, and many institutional investors will not touch a small company around C$300 million in market capitalization but will warm to it as it approaches C$1 billion.

There is a big difference between a microcap and a small cap stock and who will invest in it. Very similar to the liquidity concern around the NEO exchange, the true size of CSA, its revenue and cash flow are important, but so is the size of its market cap.

Strong Management Team

The CEO is Jonathan Sandelman, a 30-year veteran of the banking and finance industry. Mr. Sandleman served as President of Bank of America Securities and was also the founder and CEO of multibillion asset manager, Sandelman Partners.

The executive vice chairman is Mark Smith who built a large network of Colorado dispensaries (Tumbleweed), a line of premier edible brands and leading manufacturing capabilities.

Jennifer Drake, the Chief Operating Officer, was a former managing director at Goldman Sachs with extensive M&A experience which will serve the company well as it plans to continue acquiring companies. Ms. Drake also has experience in working with complicated regulatory frameworks as well.

As discussed above Chris Burggraeve is a branding expert and the company also has Dr. David Shulkin on the board, who was the former secretary of the Department of Veterans Affairs under President Obama and President Trump.

One of the Most Profitable and Largest with Best in Class Margins is the Cheapest?

This comparison from CSA's presentation from March 18th is quite striking. And please note that many of these stocks are up over 25% from the levels cited in this deck. One example is that Curaleaf is now trading at C$12.76 per share, up almost 40% compared to the listed C$9.15 share price.

Peer Trading Statistics

At the peer TEV[1] / 2019E EBITDA multiple CSA shares would be trading at ~C$97.25[2], a ~410% premium to current levels

Trading Comps: CSE-Listed US Operators

(C$ millions, except per share amounts)

				CY19 Estimates		CY19E TEV Multiple		EBITDA Margin
Company	Stock Price	Mkt. Cap.	TEV[1]	Revenue	EBITDA	Revenue	EBITDA	CY19E
Curaleaf	$9.15	$4,411	$4,067	$464	$166	8.8x	24.6x	36%
Harvest	$10.45	$4,060	$3,894	$295	$77	13.2x	50.5x	26%
GTI	$18.01	$3,320	$3,298	$305	$63	10.8x	52.4x	21%
Cresco Labs	$12.13	$3,500	$3,297	$380	$123	8.7x	26.9x	32%
MedMen	$3.73	$2,466	$2,511	$429	neg	5.9x	neg	neg
Acreage	$22.72	$2,665	$2,262	$331	$74	6.8x	30.6x	22%
iAnthus	$7.02	$1,787	$1,767	$229	$50	7.7x	35.4x	22%
Truelieve	$16.18	$1,782	$1,762	$290	$128	6.1x	13.8x	44%
CSA[2]	**$19.09**	**$624**	**$649**	**$240**	**$130[4]**	**2.7x**	**5.0x**	**54%**
CSA at Peer EBITDA Mult[2,3]	***~$97.25***	***$3,951***	***$3,976***	***$240***	***$130[4]***	***16.6x***	***30.6x***	***54%***
Peer Mean (ex-CSA)		$2,999	$2,857	$340	$97	8.5x	33.5x	29%
Peer Median (ex-CSA)		$2,993	$2,904	$318	$77	8.2x	30.6x	26%

Why does CSA trade at a 61% Discount to Trulieve's Valuation?

Trulieve (CSE: TRUL) is a cultivation, distribution and dispensary company based in Florida, but that has expanded to California and Massachusetts. The company's guidance is similar to CSA's with 2019 revenue forecast at $290 million and EBITDA at $123 million.

Trulieve trades at 18.1 times its estimated 2019 cash flow estimate compared to less than 7 times for CSA. Why the difference?

The big differences are that Trulieve is broadly followed by investors, with a sleek name, website, investor relations and easily accessible presentation. The company also has several analysts that follow the company and it trades on the more liquid CSE.

But the most important thing is that until CSA de-SPACs (closes acquisitions), not many investors will realize just how big or profitable the company will be.

Valuation Sensitivity Analysis

Let's float down from our highs for a second and be a little more skeptical. What if we cut 30% off of CSA's low-end of 2019 EBITDA estimate? This could easily happen due to delays in Massachusetts implementing recreational sales. CSA would still earn C$91 million in EBITDA. It would still sell for a 45% discount to Trulieve's valuation.

But this analysis is still punitive to CSA because while the share count includes full conversion of its warrants, we have not factored in that the conversion would come with $188 million in cash ($11.50 X 16.35 million warrants). This would drive the enterprise valuation down to close to C$700 million and its EV/EBITDA valuation to six times cash flow, which is a ridiculous number.

Here is a sensitivity analysis considering varying EBITDA estimates and multiples:

2019 (All in Canadian dollars)	Current Multiple	Current Multiple 30% cut to EBITDA	Trulieve multiple 30% cut to EBITDA	Trulieve Valuation	Completely Stoned
Price per share	$ 21.50	$ 21.50	**$ 38.81**	**$ 55.45**	**$ 98.82**
2019 estimated EBITDA	$ 130	$ 91	$ 91	$ 130	$ 140
Multiple	7.0	10.0	18.1	18.1	30.0
Fully Diluted Market Cap	$ 914	$ 914	$ 1,650	$ 2,357	$ 4,200
S/O	42.5	42.5	42.5	42.5	42.5
Upside			81%	158%	360%

This seems really cheap for one of the few legal US cannabis companies operating at scale.

2020 Estimates Could Go Sky High

The upside potential gets even larger when looking to what the company may look like in 2020. The below analysis estimates how much the company could grow year over year off of 2019 EBITDA and how much in EBITDA it can add from new acquisitions and at different valuations.

			Growth Rate		
2020		5%	10%	20%	30%
		Low	Base	Trulieve	W. High
New EBITDA from acquisitions		$ 30	$ 50	$ 75	$ 100
Existing business		$ 91	$ 143	$ 156	$ 182
Total EBITDA		$ 121	$ 193	$ 231	$ 282
Multiple		12.5	15.0	18.1	25.0
Valuation		$ 1,513	$ 2,895	$ 4,187	$ 7,050
S/O		$ 50	$ 50	$ 50	$ 50
Price per share		**$ 30.25**	**$ 57.90**	**$ 83.75**	**$ 141.00**
Upside		41%	169%	290%	556%

Warrants as a Levered Play on CSA

Due to its SPAC structure, the company went public with common stock, warrants and rights. The warrants are a really interesting way to play the company, because they give investors a “levered” way to play the upside on the company.

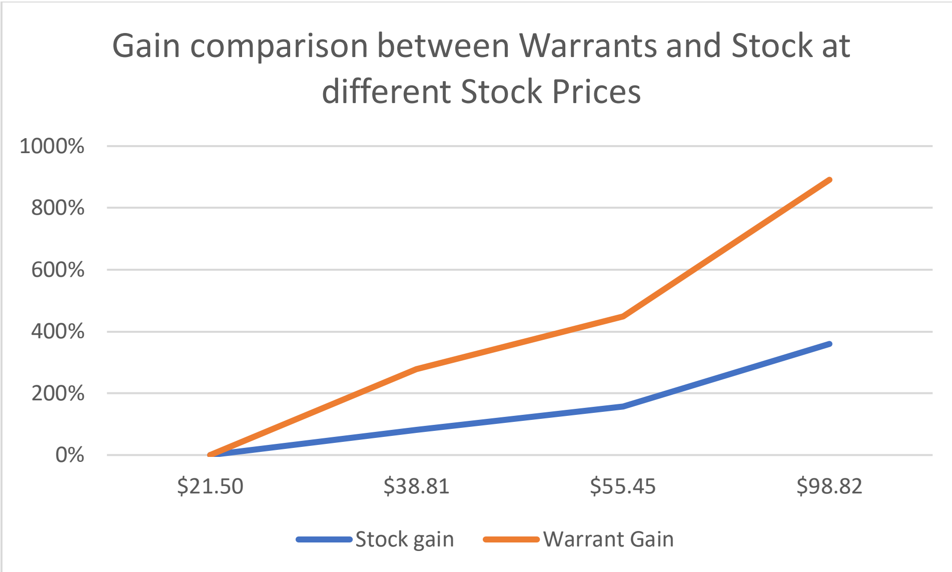
The warrants give investors the right to buy CSA at C$11.50 per share for five years and can be exercised 65 days after the acquisitions close into the stock. The warrants currently trade around C$9.80 per share and the stock trades at C$21.50 per share. The warrants trade at a C$0.20 per share discount to the intrinsic value (C$21.50 - C$11.50 = C$10.00). Here is a link to a quote of the warrants on the NEO:

https://www.aequitasneo.com/en/single-security/CSA-WT

The link for the US ticket is CNBQF, and quotes can be found here:

https://www.otcmarkets.com/stock/CNBQF/overview

The fun begins if the stock pops as expected. If the stock erases its Trulieve discount and trades to $55 per share, investors in the common will get a 158% return. However, the warrants “intrinsic value” would go up 348% (C$55.45 - C$11.50 = C$43.95. This would be up from C$10 per warrant).



The above chart is an illustration of how much higher the percentage gains are on the warrants if the stock hits some of the price targets mentioned earlier in the report.

Now there are some risks to investing in the warrants. For starters, they are even more illiquid than the common stock with sometimes very large bid/ask spreads. Second, management will probably force warrant holders to convert after the 65-day period is over, which is their right if the stock trades over C$18 per share for more than 20 days, which it has now done. Finally, there are initial restrictions placed upon the shares after they convert for US investors, which may cause the warrants to sell at a discount.

Even with those caveats, the warrants are a really interesting way to juice returns in an already undervalued stock.

Risks

There are many risks to investing in this stock, but here are the main ones:

1. Cannabis is still illegal at a federal level. While the mood and acceptance has swung in favor of approval, who really knows what will happen.
2. The industry is the Wild West and it is land grab.
3. States that are limited license states could change their regulatory requirements and make it easier to get a license, thereby lowering the value of those holding licenses.
4. CSA's estimates for 2019 and 2020 are very aggressive, much like the rest of the industry. They are likely to come down due to Massachusetts slowly implementing recreational sales. There is risk that these numbers come down much more than expected.
5. Regulatory and final approval for the acquisitions may take longer than expected and investors could see further delays before the company "de-SPACs."

Optionality of Marijuana Legislation

Even with those risks, the big elephant in the room is Federal legalization, which would be a boon to the industry. Consider that:

1. Every Democratic candidate for President approves legalizing marijuana
2. 62% of Americans now favor legalization
3. 25% of Americans now live in states with legal recreational use
4. The main opponent to cannabis on the federal level was former attorney general Jeff Sessions and he is no longer with the administration.
5. President Donald Trump has made favorable comments about legalization in the past and may try to co-opt the issue from Democrats ahead of the election
6. There is a potential banking law that would help facilitate transactions in the industry working its way through the house: https://www.rollcall.com/news/congress/a-pot-banking-bill-is-headed-to-house-markup-with-bipartisan-support
7. Many large institutional investors would pour into the industry if the stigma disappears

Summary

A relative unknown to investors, CSA is about to burst upon the cannabis investment scene as one of the largest and most profitable publicly-traded cannabis stocks around.

In the next 60 days there should be a stream of positive news:

1. Closing of acquisitions and official de-SPACing
2. Re-branding of the company with a new name
3. New analyst recommendations
4. Investor relations effort including corporate website, presentations and roadshows
5. New potential acquisitions
6. Up-listing to the OTCQX, improving US liquidity and a potential listing to more liquid CSE
7. Ton of reported cash flow

If CSA traded close to its nearest competitor, it would trade for over C$55 a share, representing a 158% gain. And if Federal legalization happens anytime soon, CSA could trade for close to C$100 per share, almost five times its current share price. Prepare for new highs.

Appendix for more information:

SEDAR (Canada's version of the SEC Edgar website for regulatory filings): check out the first investor presentation filing from March 18th, titled "Other."

Interview with CEO and COO: https://www.newcannabisventures.com/this-cannabis-spac-expects-dramatic-growth-from-its-100-million-revenue-profitable-base/

Here is some information on CSA's best comparable: Trulieve:

https://www.trulieve.com/investors

Trulieve Investor deck: https://www.trulieve.com/files/main/Trulieve-IR-Deck-March-2019.pdf