



WE SET THE NARRATIVE

TerrAscend Corp.

TSX: TSND

OTCQX: TSNDF

William (Bill) McNarland, CFA

Head of Research

TDR Research

June 12th, 2024

www.thedalesreport.com

bmcnarland@thedalesreport.com

TerrAscend Corp.

TerrAscend Corp.	TSX:TSND, OTCQX:TSNDF
Date	June 12th, 2024
Rating	Buy
Blended Pre and Post 280E Fair Value	\$3.76
Expected 1-Year Return	166%
Estimate 2024 FY Revenue	\$342M
Estimate 2024 FY GMP %	50.3%
Estimate 2024 FY EBITDA Margin %	18.5%
Estimated 2024 FY EBITDA	\$63.27M

Company Description

TerrAscend is a leading TSX-listed cannabis company with interests across the North American cannabis sector, including vertically integrated operations in Pennsylvania, New Jersey, Maryland, Michigan, and California and retail operations in Canada. TerrAscend operates The Apothecarium, Gage, and other dispensary retail locations as well as scaled cultivation, processing, and manufacturing facilities in its core markets.

Rating Methodology

After carefully evaluating a company's financial health, operational efficiency, and growth prospects through various analyses, we culminate our assessment by assigning a rating of "Buy," "Hold," or "Sell." This rating is determined based on the company's performance compared to its peers, alongside an examination of its valuation. A "Buy" rating suggests the company outperforms its competitors and is undervalued or poised for growth, indicating a good investment opportunity. A "Hold" rating implies the company is performing on par with industry standards, and its current valuation accurately reflects its market position and prospects, suggesting investors should maintain their positions without adding more. A "Sell" rating is given if the company underperforms relative to its peers or is overvalued, indicating a potential decline in value and advising investors to divest. This systematic approach helps investors make informed decisions by understanding a company's relative standing in its sector and potential for future performance.

Report Process

We have established a process for analyzing multi-state cannabis operators, which we will outline in this section before discussing specific details regarding TerrAscend.

Establish Benchmark Comparables

This section will explain how we came up with a benchmark for comparables.

Understanding the Industry and Future Catalysts

Next, we aim to independently validate the fundamental underlying macro drivers for the industry. We will predict the expected growth rates for all six companies in the benchmark.

Understanding the Company and Future Catalysts

We will then review the company's primary thesis and strategic plan and determine if we feel the growth thesis of the company is strong and the likelihood of management being able to execute on it.

Establish KPIs

We have set Key Performance Indicators (KPIs) to compare the company against a custom benchmark of other companies. Our analysis will include the three financial statements as metrics for valuation compared to the benchmark.

KPI Results

Next, we compare and rank the company against its peers across each category. The comparison will include a ranking of the average and median to provide an accurate picture of the company's performance. It is possible that in some categories, all the companies have performed well collectively, and scoring low could still be a good result, conversely with poor overall performance.

Valuation Analysis

Next, we will apply traditional discounted cash flow and comparative valuation methods.

Our Take

Ultimately, we will analyze all the information gathered and conclude whether we recommend the company as a Buy, Hold, or Sell. We will also provide our target valuation for the company.

Executive Summary

We are initiating coverage on TerrAscend with a “Buy” due to its strong financial performance and leading revenue growth compared to its peers. The company’s effective cost management and significant gross profit margin improvement support sustained profitability. Additionally, potential federal cannabis rescheduling could reduce tax burdens and open new market opportunities, driving future growth.

- **Blended Pre and Post 280E Fair Value:** \$3.76
- **Expected 1-Year Return:** 166%
- **Estimated 2024 FY Revenue:** \$342M
- **Estimated 2024 EBITDA:** \$63.27M

Strengths of TerrAscend Compared to Its Peers

TerrAscend leads in revenue growth, demonstrating its competitiveness and potential for profitability. The company’s strong and improving gross profit margins reflect effective cost control and operational efficiency. Its lower SG&A margin highlights superior cost efficiency and effective management of expenses, positively affecting net income. Compared to its peers, TerrAscend uses less leverage, indicating a conservative financial strategy and slower liability growth. In 2023, TerrAscend became the first U.S. plant-touching cannabis operator to list on the Toronto Stock Exchange (TSX), providing access to institutional investors previously restricted from non-major exchange-listed companies.

Weaknesses of TerrAscend Compared to Its Peers

TerrAscend’s current ratio is below the industry median and is a focus, with \$120M of debt maturing by Q4 2024. CFO Keith Stauffer noted in a May 9th, 2024, analyst call that the company is exploring various financing structures to secure the lowest possible cost of capital. When this is refinanced, the current ratio will return to normal.

Our Forecasts

We initiate our coverage with a “Buy” rating for TerrAscend, focusing on its robust financial health and significant growth potential. We employ three primary valuation methods—Discounted Cash Flow (DCF) growth, DCF revenue, and EV/Revenue—to offer a comprehensive estimate of the company’s value. These methods are adjusted for the anticipated benefits of eliminating 280E taxes. We estimate a fair value of \$3.76 per share, indicating a 166% upside from the current price. This valuation incorporates TerrAscend’s strong revenue and cash flow growth and considers potential positive impacts from expected regulatory changes in the cannabis industry.

Establish Benchmark Comparables

First, we examined the holdings of the AdvisorShares Pure US Cannabis MSOS ETF. It was determined that there were 21 holdings in the ETF. We eliminated Acreage Holdings, which has been acquired, but we will use their historical data for comparison. All but companies except Gold Flora are cannabis companies focused on multistate operations. Gold Flora is only focused on California, but we felt that leaving them in the comparison set was beneficial. TerrAscend has a limited focus in Canada, but its main focus is still in the US Multi-State cannabis market. Hence, it stayed in the benchmark.

The size of the companies became an issue for comparison, with market capitalizations ranging from \$35M to \$3.5B USD. We then split the 21 companies into two datasets, market capitalization above and below \$500M. Six companies were assigned to the larger market capitalization set and 15 to the benchmark of lower market capitalizations.

This benchmark has 14 active companies plus Acreage Holdings' historical data for 15 companies. The market capitalization range is more realistic, with the smallest now being \$34M USD and the largest being \$413. This presents a solid and diversified benchmark for comparing each company.

COMPARABLE COMPANY	US TICKER	FOCUS	MC USD \$M
4Front Ventures	FFNTF	Cannabis MSO	\$93
Acreage	ACRHF	N/A	N/A
Ascend Wellness	AAWH	Cannabis MSO	\$47
Ayr Wellness	AYRWF	Cannabis MSO	\$213
C21 Investments	CXXIF	Cannabis MSO	\$36
Gold Flora	GRAM	Cannabis MSO	\$56
Goodness Growth	GDNSF	Cannabis MSO	\$90
Grown Rouge	GRUSF	Cannabis MSO	\$144
Jushi	JUSHF	Cannabis MSO	\$117
MariMed	MRMD	Cannabis MSO	\$83
Medicine Man	SHWZ	Cannabis MSO	\$35
Planet13	PLNH	US Cannabis MSO	\$180
TerrAscend	TSNDF	Cannabis MSO	\$436
The Cannabist	CBSTF	Cannabis MSO	\$110
Vext Science	VEXTF	Cannabis MSO	\$43

Acreage Holdings is being acquired, but we use their historical data for comparison.

The main qualitative catalysts for cannabis that we noted are as follows:

- In the US, the population is becoming more favorable for the use of cannabis for both recreational and medical reasons. In the most updated survey by the Pew Research Center, dated March 26th, 2024, 88% of Americans feel that cannabis should be legal for medical or recreational use. This trend has been increasing each year, producing more demand each year for cannabis in the US.
- Additional US states have legalized cannabis at a state level for medicinal or recreational use. As of today, cannabis is legal in 38 of 50 states for medical use and in 24 states for recreational use. Each year, more US states transition into medical or recreational legal status.
- At the current time, cannabis is a Schedule 1 drug at the federal level. The President of the US announced on May 16th that his administration is progressing in rescheduling cannabis to Schedule III, allowing for medical use federally. Currently, the medical or recreational use of cannabis is allowed at the state level in 38 states, four out of five permanently inhabited U.S. territories, and the District of Columbia.
- This would enable potentially 12 additional states to open for the medical use of cannabis and likely encourage additional states to legalize recreational use.
- With the anticipated rescheduling of cannabis, companies should no longer be negatively penalized by 280E IRS tax penalties and could save an estimated \$2 billion in excessive tax in 2023.

The quantitative forecast for cannabis growth in the US varies widely, but when combined as an average, the growth rate is substantially higher than the outlook for the broad US GDP growth.

- Technavio predicts a combined recreational and medical cannabis CAGR growth of 24.03% between 2022 and 2027.
- MJBiz predicts a combined recreational and medical cannabis growth rate of 11.26%, which they note is an estimate for the high end of the scale.
- Fortune Business Insights estimates the global cannabis market size is projected to grow from \$57.18 billion in 2023 to \$444.34 billion by 2030, at a CAGR of 34.03% during the forecast period.
- BDSA forecasts the total global legal cannabis industry is predicted to reach \$36.7 billion in 2023 (with 80% of sales from U.S. markets), growing at a compound annual growth rate (CAGR) of 13% from 2022 to 2027.
- Statista is an outlier with much more modest predictions; the revenue for the cannabis market in the United States is anticipated to demonstrate an annual growth rate (CAGR 2024-2029) of 2.89%. But Statista does show intriguing data comparisons for the US in 2024. The tobacco (\$108), beer (\$112), wine (\$39), and spirits (\$103) market in the US is a combined \$362B, whereas the legal cannabis market is only \$43 Billion. This shows how much potential cannabis has for growth compared to the already established markets.

Based on the qualitative and quantitative points above, the US combined recreational and medical cannabis market has strong winds behind its growth rates compared to the expected Real GDP growth long term in the US, which is around 2% plus an inflation target of 2% for a combined growth rate long term of 4%.

TerrAscend was established in 2017 and has grown to be a leading cannabis multi-state operator in the North American market. Initially operating in Canada, the company shifted focus to the U.S. in 2018, entering California and Pennsylvania through acquisitions of The Apothecarium and Ilera Healthcare in 2019. The company continued its expansion into Michigan and Maryland by acquiring Gage Cannabis and multiple dispensaries.

In 2023, TerrAscend became the first U.S. plant-touching cannabis operator to list on the Toronto Stock Exchange (TSX), enhancing its industry leadership and compliance. This listing provides access to institutional investors who previously could not invest in non-major exchange-listed companies.

TerrAscend runs 38 dispensaries across five U.S. states—California, Pennsylvania, Michigan, Maryland, and New Jersey—and maintains a retail presence in Canada. Its vertically integrated business model encompasses seven U.S. cultivation and production facilities, ensuring stringent quality control and operational efficiency. Employing around 1,200 people, TerrAscend manages a broad distribution network serving its dispensaries and wholesale operations, supported by a portfolio of ten premium brands.

TerrAscend focuses on expanding in key markets such as New Jersey, Pennsylvania, Maryland, and Michigan. In New Jersey, a top market where it is one of the leading operators, the company manages three dispensaries under a vertically integrated model, serving approximately 9 million residents. In Pennsylvania, TerrAscend operates six medical dispensaries and large-scale cultivation and manufacturing facilities, preparing for adult-use legalization, which is anticipated to double the market size by 2028. This state's population of 12 million offers significant growth potential.

In Michigan, TerrAscend manages 20 locations encompassing cultivation, manufacturing, and retail, bolstered by exclusive brand partnerships to efficiently serve a population of 10 million. In Maryland, the company operates a state-of-the-art cultivation and manufacturing facility with four dispensaries, targeting a market of 6 million people. TerrAscend specializes in super-premium flower production in California, running five dispensaries to cater to the state's 40 million residents.

TerrAscend is targeting expansion in Ohio, similar to its successful entry into Maryland. With a population of 12 million, Ohio offers substantial growth potential, especially with impending adult-use cannabis legalization. The state's large population and regulatory changes present a significant customer base, akin to New Jersey's 9 million and Maryland's 6 million. TerrAscend plans to replicate its Michigan strategy in Ohio, utilizing existing infrastructure to integrate Ohio into its network efficiently. It is expected to drive significant business growth and solidify its position in the U.S. cannabis industry.

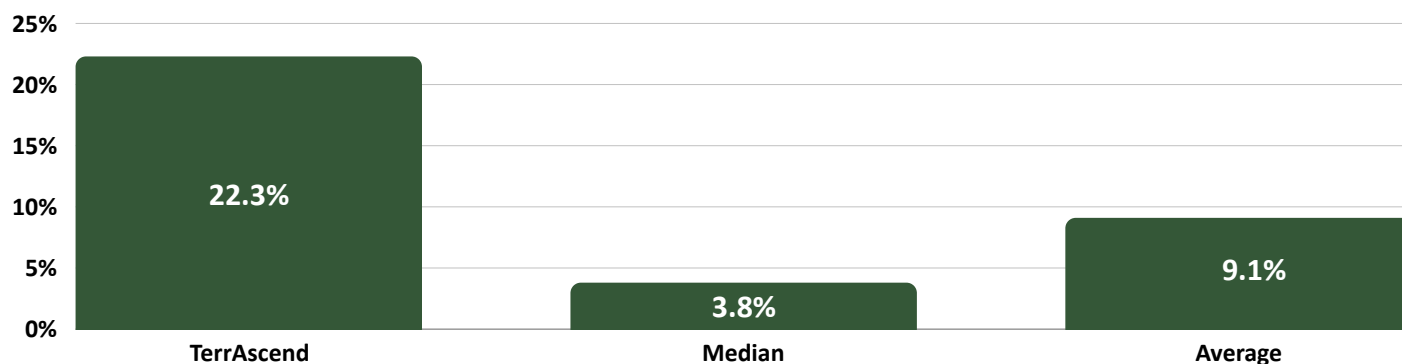
TerrAscend is positioned to capitalize on several catalysts, including possible regulatory changes like the federal rescheduling of cannabis in the U.S., which could lower tax liabilities and unlock new market opportunities. The company also plans to expand further into Ohio and other emerging markets, leveraging its established infrastructure and expertise to sustain growth and maintain its leadership in the cannabis industry.

We established Key Performance Indicators (KPIs) across three financial statements to evaluate a company's performance relative to its peers. We identified eight KPIs for the income statement to assess if the company is growing profitably. We looked at six KPIs for the balance sheet to determine the company's financial soundness. Finally, we considered four KPIs on the cash flow statement to ensure the company's cash flow aligns with its income statement performance. This comprehensive approach allows us to accurately gauge the company's overall financial health and growth potential.

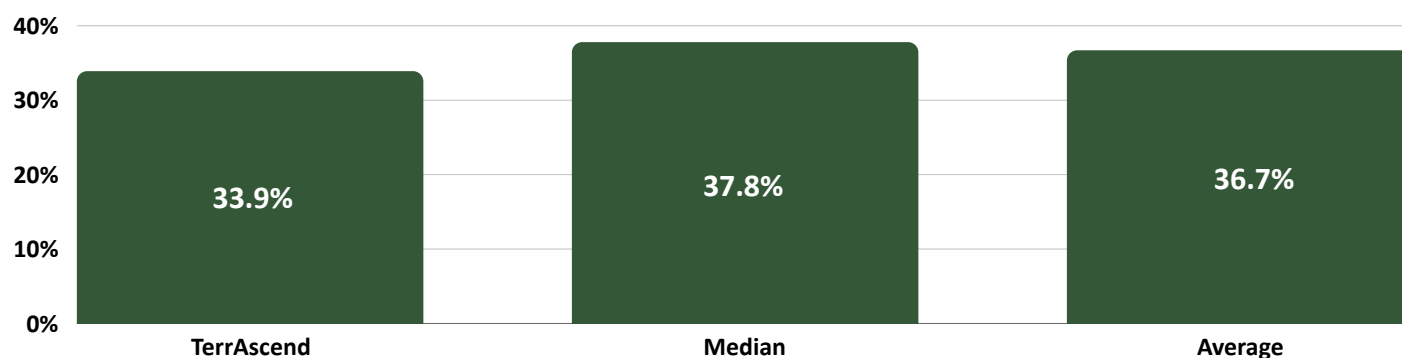
#	FINANCIAL STATEMENT	KPI
1	Income Statement	Revenue Growth LTM
2	Income Statement	Revenue Growth 3-Year CAGR
3	Income Statement	Gross Profit Margin LTM
4	Income Statement	Gross Profit Margin LTM Change
5	Income Statement	SG&A Margin LTM
6	Income Statement	SG&A Margin LTM Change
7	Income Statement	EBITDA Growth LTM
8	Income Statement	EBITDA Growth 3-Year CAGR
9	Balance Sheet	Current Ratio
10	Balance Sheet	Current Ratio LTM Change
11	Balance Sheet	Total Liabilities vs Assets
12	Balance Sheet	Total Liabilities vs Assets LTM Change
13	Balance Sheet	Credit Check (Altman Z)
14	Balance Sheet	Credit Check (Altman Z) LTM Change
15	Cash Flow	Levered Free Cash Flow Margin LTM
16	Cash Flow	Levered Free Cash Flow Margin Change LTM
17	Cash Flow	Levered Free Cash Flow Growth LTM
18	Cash Flow	Capital Expenditure Margin LTM

KPI	Income Statement – Revenue Growth
Why it is important?	Revenue growth is crucial because it indicates the company's ability to increase sales over time, reflecting market demand and operational effectiveness. It helps analysts assess the company's competitiveness and potential for future profitability. Consistent revenue growth often correlates with stock price increases, making it an attractive metric for investors and a crucial factor considering if the company is required to raise additional capital.
Peer Comparison	For KPI #1, TerrAscend's revenue growth over the last twelve months (LTM) is 22.3%, significantly outperforming the benchmark median of 3.8% and the average of 9.1%. This indicates that TerrAscend is growing its revenue much faster than its peers. For KPI #2, the company's 3-year compound annual growth rate (CAGR) for revenue is 33.9%, which is competitive with the benchmark median of 37.8% and the average of 36.7%.
Take Away / Conclusion	TerrAscend demonstrates benchmark-leading revenue growth. This underscores the company's competitiveness and potential for future profitability, typically leading to an increased stock price.

KPI #1 - Revenue Growth LTM



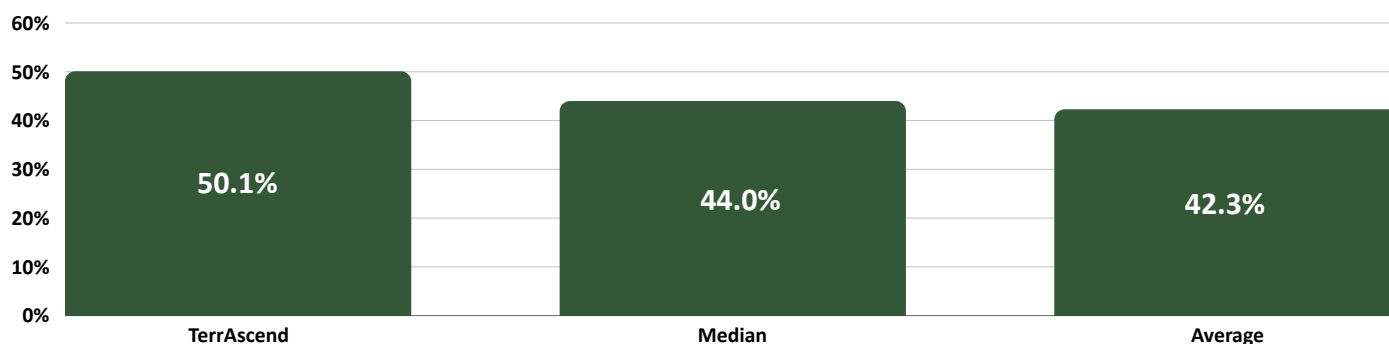
KPI #2 - Revenue Growth 3-Year CAGR



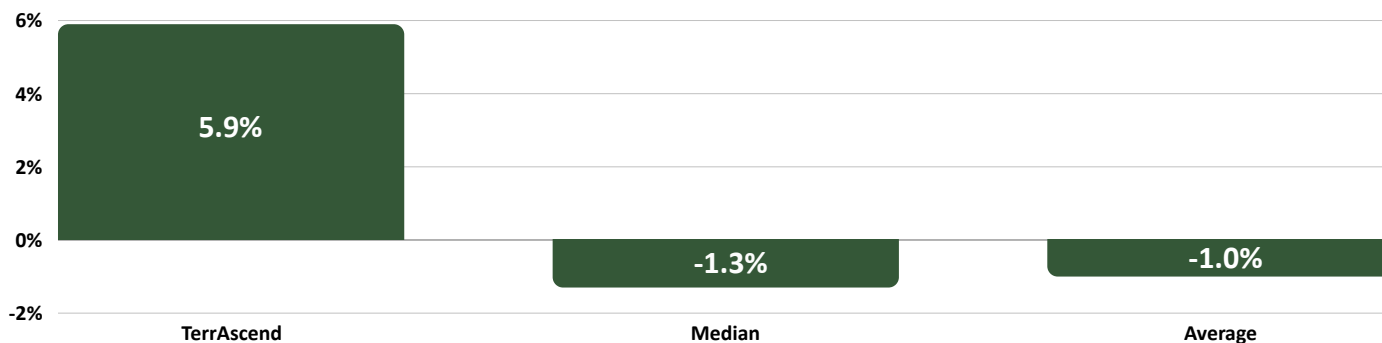
Source: S&P Capital IQ

KPI	Income Statement – Gross Profit Margin
Why it is important?	Gross profit margin is significant because it measures how efficiently a company produces its goods compared to its revenue. A higher gross profit margin indicates better cost management and profitability. Businesses with increasing gross profit margins are improving their cost control and product pricing, which should lead to higher profits and stronger financial health.
Peer Comparison	TerrAscend's gross profit margin for the last twelve months (LTM) is 50.1%, significantly higher than the benchmark median of 44.0% and the average of 42.3%. Additionally, TerrAscend's gross profit margin increased by 5.9% over the same period, while the benchmark median and average saw decreases of 1.3% and 1.0%, respectively.
Take Away / Conclusion	TerrAscend's higher and improving gross profit margins reflect effective cost control and operational efficiency, setting the company apart from its competitors. This strong performance is essential for long-term growth and shareholder value.

KPI #3 - Gross Profit Margin LTM



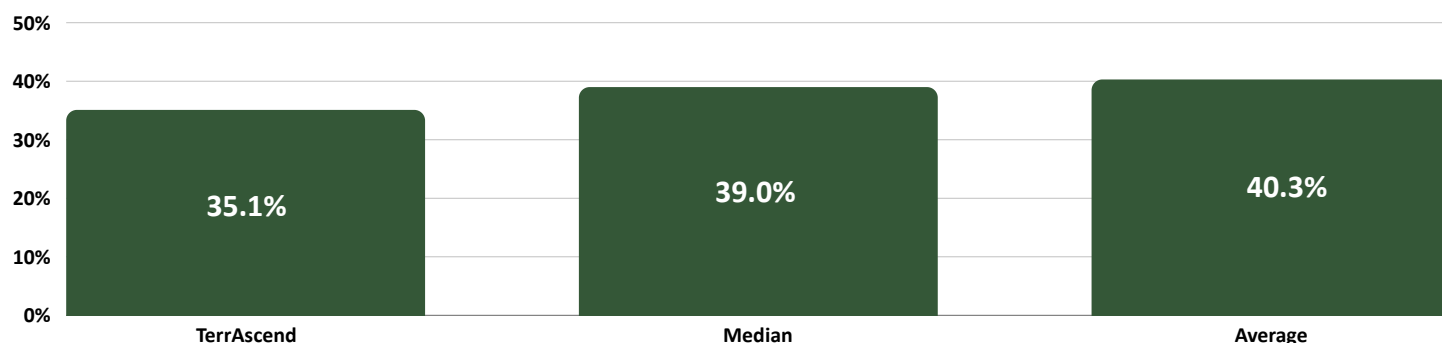
KPI #4 - Gross Profit Margin LTM Change



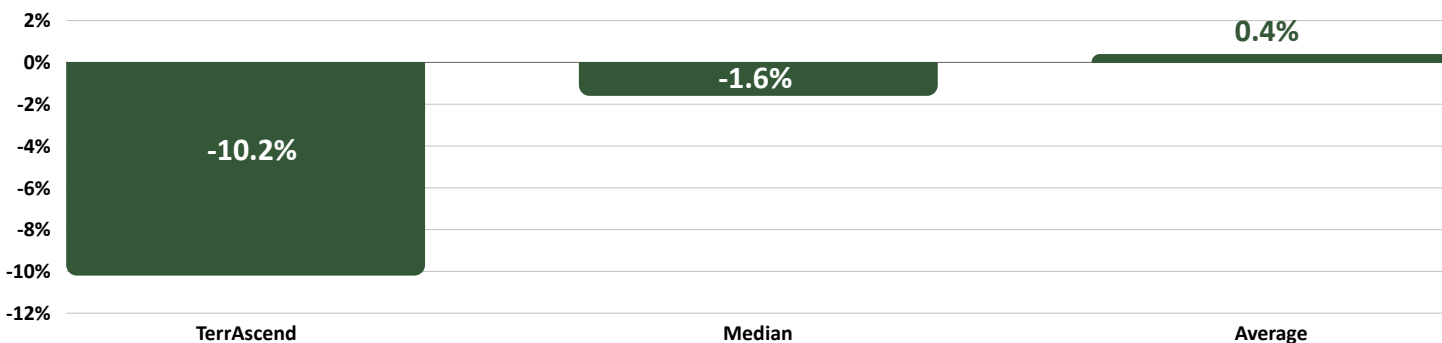
Source: S&P Capital IQ

KPI	Income Statement – SG&A Margin (Selling, General, and Administrative)
Why it is important?	SG&A (margin is important because it shows how well a company controls its operating expenses relative to its revenue. A lower SG&A margin indicates better cost efficiency and higher profitability. Businesses with a trend of decreasing SG&A margins demonstrate improved management and operational efficiency, leading to stronger financial performance and greater investor confidence.
Peer Comparison	TerrAscend's SG&A margin for the last twelve months (LTM) is 35.1%, which is lower than the benchmark median of 39.0% and the average of 40.3%. This indicates that TerrAscend is more efficient in managing its operating expenses than its peers. Additionally, TerrAscend's SG&A margin decreased by 10.2% over the same period, while the benchmark median decreased by 1.6%, and the average increased by 0.4%.
Take Away / Conclusion	TerrAscend's lower SG&A margin than its peers highlights its cost efficiency and effective management of operating expenses. These improvements significantly affect the company's net income.

KPI #5 - SG&A Margin LTM



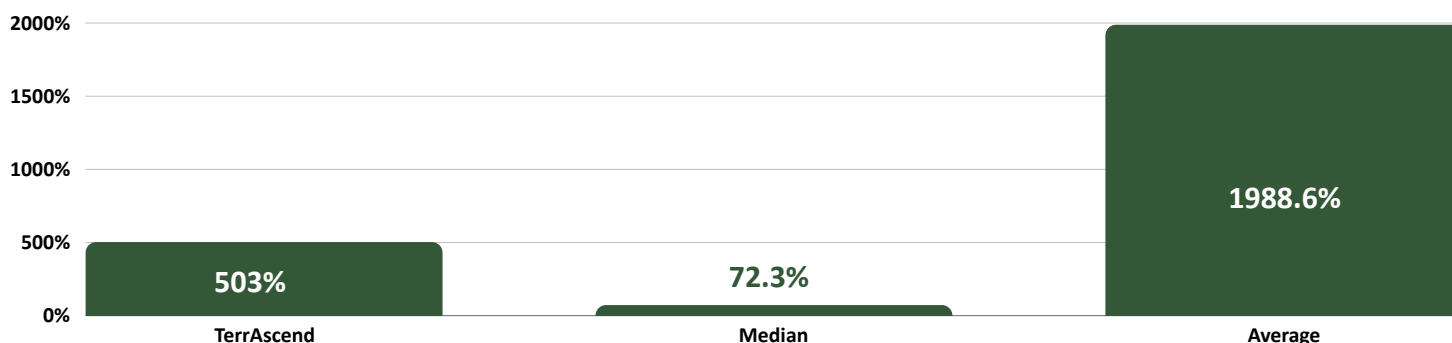
KPI #6 - SG&A LTM % Change



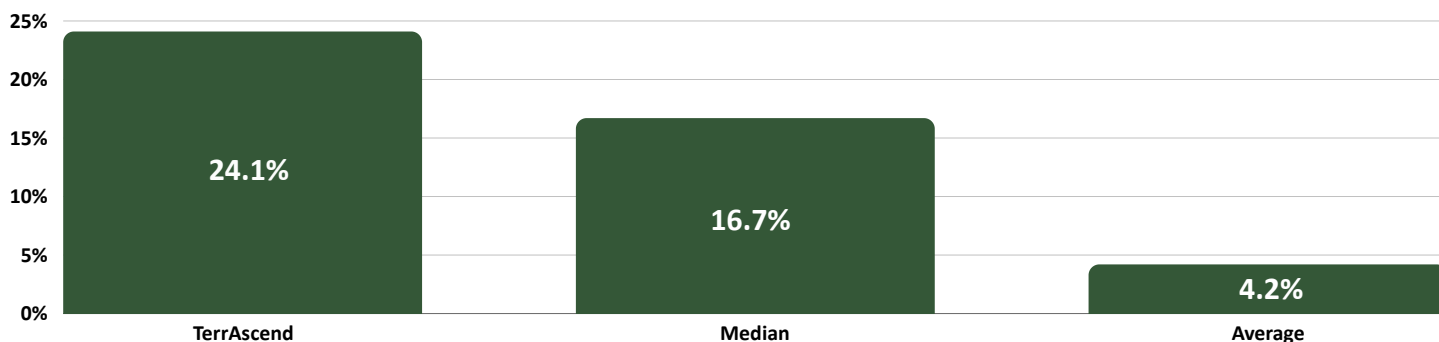
Source: S&P Capital IQ

KPI	Income Statement – EBITDA Growth
Why it is important?	EBITDA growth is crucial because it shows a company's ability to generate earnings before interest, taxes, depreciation, and amortization. It reflects operational efficiency and profitability. Companies with increasing EBITDA are often more attractive to investors as it indicates stronger financial health and potential for sustainable growth.
Peer Comparison	TerrAscend's EBITDA growth over the last twelve months (LTM) is 503%, significantly outperforming the benchmark median of 72.3% and the average of 198.6%. For the 3-year compound annual growth rate (CAGR), TerrAscend achieves 24.1%, which is higher than the benchmark median of 16.7% and the average of 4.2%.
Take Away / Conclusion	TerrAscend's substantial EBITDA growth shows its operational efficiency and effective management practices, setting it apart as a leader in profitability within the cannabis sector. This strong financial performance underpins its potential for sustained growth, which is highly correlated to future share price increases.

KPI# 7 - EBITDA Growth LTM



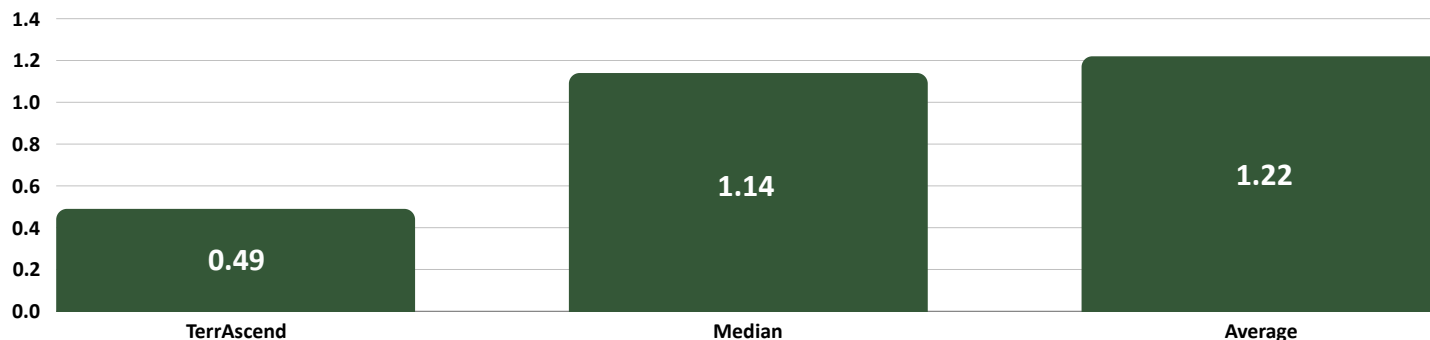
KPI #8 - EBITDA Growth 3-Year CAGR



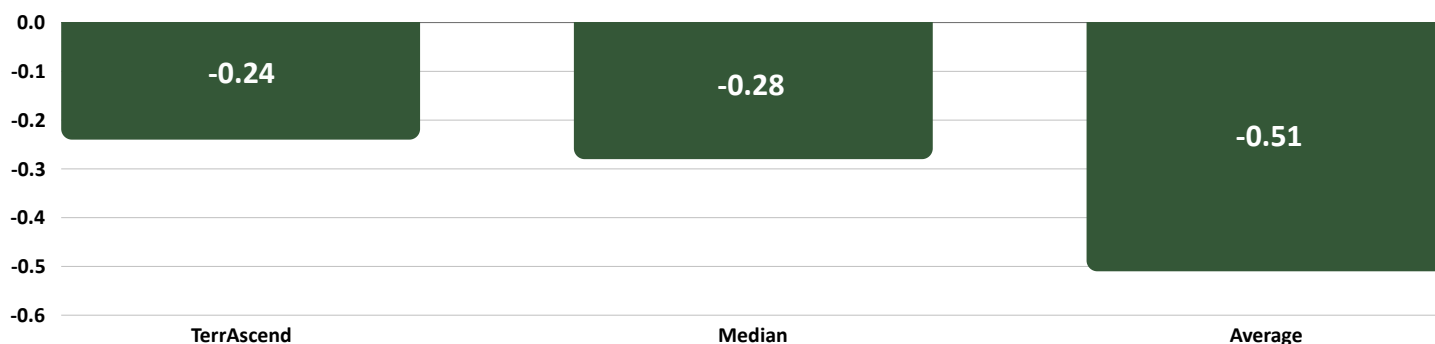
Source: S&P Capital IQ

KPI	Current Ratio
Why it is important?	The current ratio is important because it measures a company's ability to pay its short-term obligations with its short-term assets. A higher current ratio indicates better liquidity and financial health. Companies with a strong current ratio are better positioned to handle short-term liabilities and unexpected expenses, which enhances their stability and investor confidence.
Peer Comparison	TerrAscend's current ratio is 0.49, significantly lower than the benchmark median of 1.14 and the average of 1.22, indicating lower liquidity than its peers. Over the last twelve months, TerrAscend's current ratio has decreased by 0.24, a smaller decline than the benchmark median decrease of 0.28 and the average decrease of 0.51.
Take Away / Conclusion	TerrAscend's current ratio is lower than the industry median and average as they have \$120M of debt to renew by Q4 2024. Keith Stauffer, the companies CFO shared on the May 9th, 2024 analyst call the following: "We have received significant indications of interest from existing and new lenders for various structures. Our overarching goal is achieving the lowest cost of capital possible. We look forward to providing further updates on that front." Upon refinancing, the current ratio will return to normal.

KPI #9 - Current Ratio



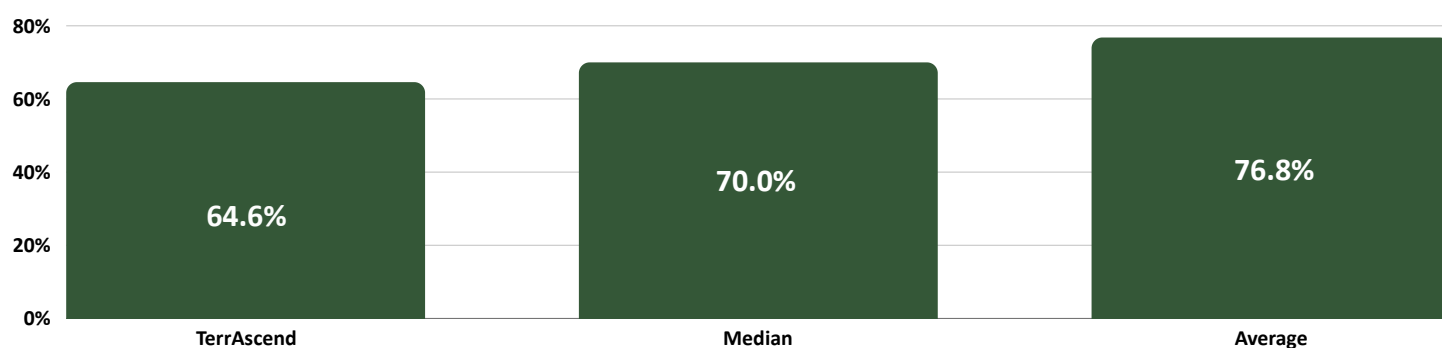
KPI #10 - Current Ratio LTM Change



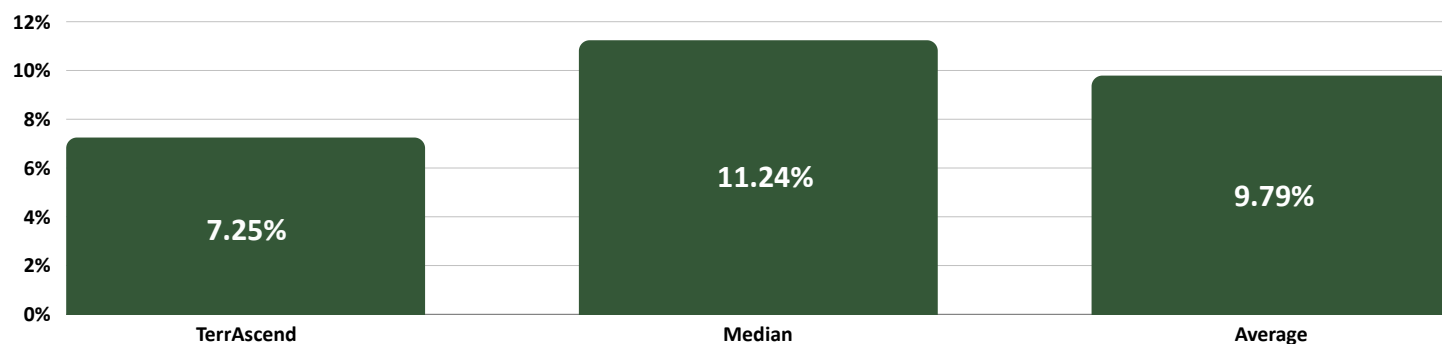
Source: S&P Capital IQ

KPI	Total Liabilities vs Assets
Why it is important?	The total liabilities vs. assets ratio is important because it measures a company's financial leverage and stability. A lower ratio indicates that the company has more assets than liabilities, suggesting stronger financial health and a lower risk of insolvency. Companies with decreasing ratios over time demonstrate improved financial management and greater long-term stability, making them more attractive to investors.
Peer Comparison	TerrAscend's total liabilities vs. assets ratio is 64.6%, lower than the benchmark median of 70.0% and the average of 76.8%. Additionally, TerrAscend's ratio has increased by 7.25% over the last twelve months, a smaller increase than the benchmark median increase of 11.24% and the average increase of 9.79%, indicating a slower growth in leverage.
Take Away / Conclusion	Compared to its peers in the benchmark, TerrAscend uses less leverage overall, indicating a conservative financial approach. The company's leverage has grown slower, which, when considered alongside the current ratio, suggests that TerrAscend will significantly reduce its financial risk upon refinancing its short-term debt later this year.

KPI #11 - Total Liabilities vs Assets



KPI #12 - Total Liabilities vs Assets LTM Change



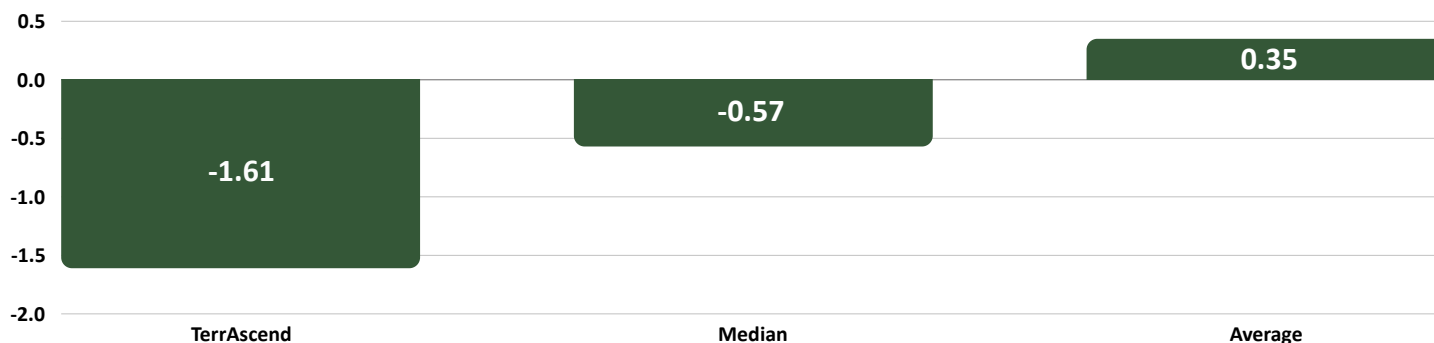
Source: S&P Capital IQ

KPI	Credit Check (Altman Z)
Why it is important?	The Altman Z-score is important because it predicts the likelihood of a company facing financial distress. It is calculated using five financial ratios: working capital to total assets, retained earnings to total assets, EBIT to total assets, market value of equity to total liabilities, and sales to total assets. A higher Altman Z-score indicates better financial health and a lower risk of bankruptcy. Companies with improving Altman Z-scores demonstrate enhanced financial stability and management effectiveness.
Peer Comparison	TerrAscend's Altman Z-score is -4.4, significantly lower than the benchmark median of -0.8 and the average of -0.2. It has decreased by 1.61, compared to the benchmark median decrease of 0.57 and the average increase of 0.35, suggesting a relative decline in financial stability.
Take Away / Conclusion	As noted in the previous two sections, TerrAscend has \$120M of debt to renew by Q4 2024. This need for refinancing has significantly affected its credit score. Upon successful refinancing, the credit rate will return to the range or be higher than the benchmark.

KPI #13 - Credit Check (Altman Z)



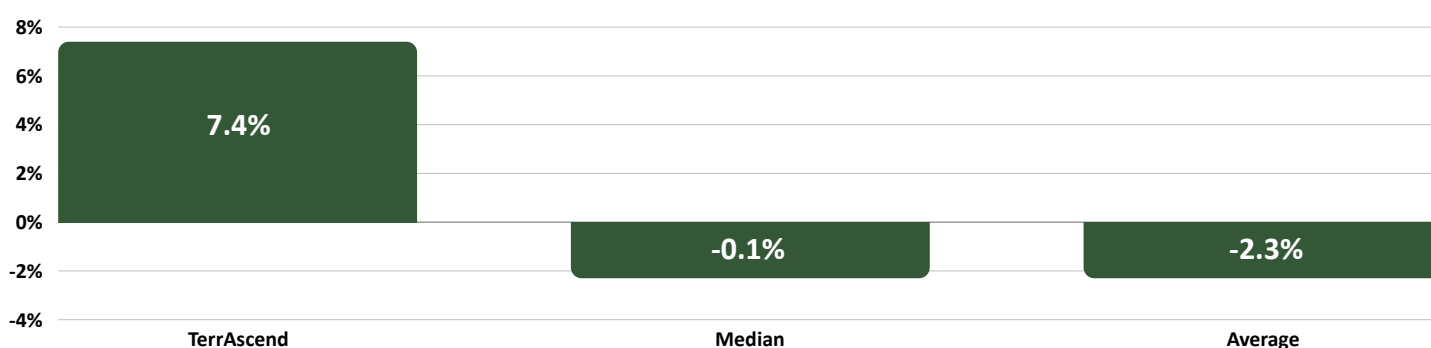
KPI #14 - Credit Check (Altman Z) LTM Change



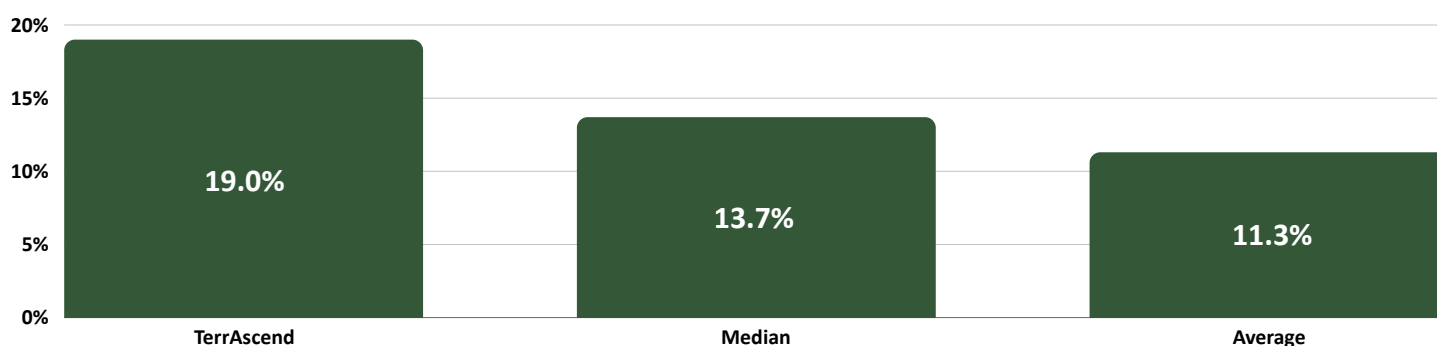
Source: S&P Capital IQ

KPI	Levered Free Cash Flow Margin
Why it is important?	Levered Free Cash Flow (LFCF) Margin is important because it measures the cash a company generates after accounting for financial obligations, indicating financial flexibility and health. It is calculated by subtracting capital expenditures and interest payments from operating cash flow and then dividing by revenue. A higher LFCF Margin shows that a company effectively manages its cash flow while meeting its debt obligations. Companies with increasing LFCF Margins are better positioned to invest in growth opportunities, pay dividends, and weather financial downturns.
Peer Comparison	TerrAscend's Levered Free Cash Flow (LFCF) Margin for the last twelve months (LTM) is 7.4%, which is significantly higher than the benchmark median of -0.1% and the average of -2.3%. Additionally, TerrAscend's LFCF Margin increased by 19.0% over the last twelve months, outperforming the benchmark median increase of 13.7% and the average increase of 11.3%.
Take Away / Conclusion	TerrAscend's higher Levered Free Cash Flow Margin and substantial improvement compared to peers highlight the company's strong cash flow management and financial health. This performance indicates that TerrAscend is well-positioned to invest in growth opportunities, CAPEX, pay dividends or buy back shares in the future, and weather financial downturns.

KPI #15 - Levered Free Cash Flow Margin LTM



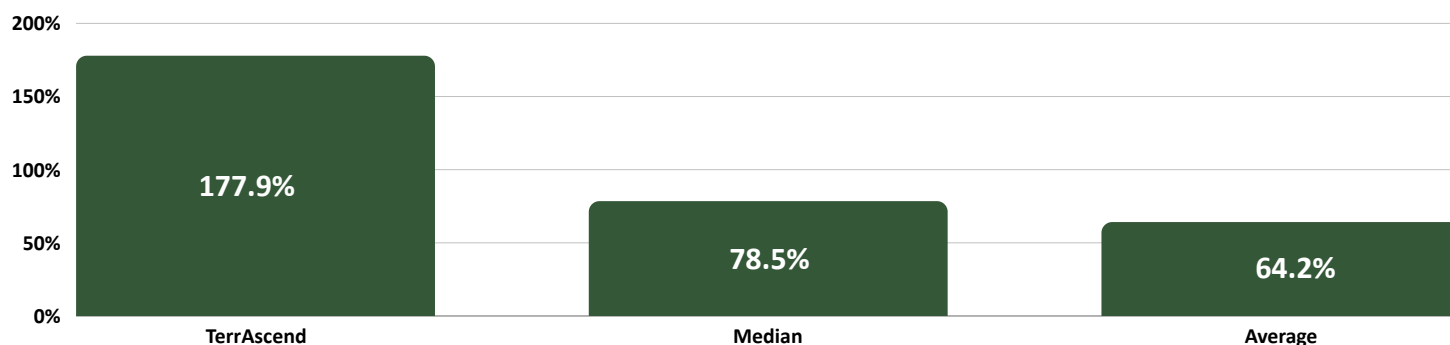
KPI #16 - Levered Free Cash Flow Margin Change LTM



Source: S&P Capital IQ

KPI	Levered Free Cash Flow Growth
Why it is important?	Levered Free Cash Flow (LFCF) Growth is significant because it measures the change in the cash a company generates after meeting its financial obligations over time. It reflects the company's ability to expand its financial flexibility and health. LFCF Growth is calculated by tracking the increase in free cash flow after accounting for interest payments and capital expenditures. A higher growth rate indicates improved financial management and operational efficiency. Companies with increasing LFCF Growth are better positioned to reinvest in their business, pay dividends, and handle economic downturns, making them more attractive to investors.
Peer Comparison	TerrAscend's Levered Free Cash Flow (LFCF) Growth for the last twelve months (LTM) is 177.9%, significantly higher than the benchmark median of 78.5% and the average of 64.2%.
Take Away / Conclusion	TerrAscend's impressive Levered Free Cash Flow Growth demonstrates its strong financial management and operational efficiency. This positions the company well to reinvest in its business, invest in CAPEX, and withstand economic challenges.

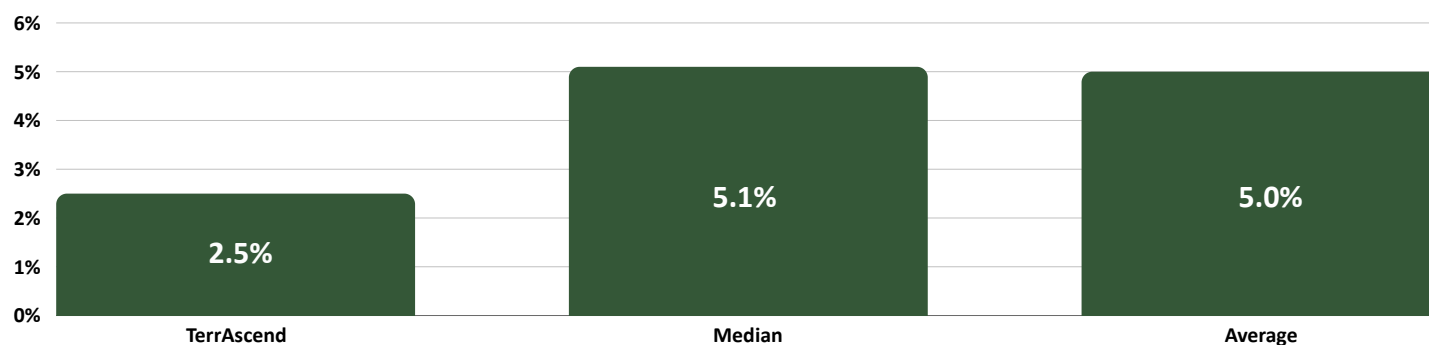
KPI #17 - Levered Free Cash Flow Growth LTM



Source: S&P Capital IQ

KPI	Capital Expenditures (CapEx) Margin
Why it is important?	Capital Expenditures Margin is important because it measures the proportion of revenue that a company is investing back into its business. It is calculated by dividing capital expenditures by total revenue. A higher CapEx Margin indicates that a company is investing significantly in its future growth and operational capacity. Companies with higher CapEx compared to their competitors may see future revenue increases as a result of these past investments.
Peer Comparison	TerrAscend's Capital Expenditures (CapEx) Margin for the last twelve months (LTM) is 2.5%, which is lower than the benchmark median of 5.1% and the benchmark average of 5.0%.
Take Away / Conclusion	TerrAscend's lower CapEx Margin compared to its peers typically suggests a more cautious investment strategy in future growth and operational capacity. In this case TerrAscend management has expressed that CapEx is lower in the last 12 months due to higher spending on CapEx in previous years. This is typical as companies shift to becoming more mature after their initial capital intensive growth phase.

KPI #18 - Capital Expenditures Margin



Source: S&P Capital IQ

Valuation Analysis

We use three primary valuation methods to determine a company's value: Discounted Cash Flow (DCF) growth, DCF revenue, and EV/revenue. Each method offers a different perspective on the company's financial health and potential. By blending these methods, we achieve a comprehensive and balanced valuation. This blended valuation helps ensure accuracy and reliability by smoothing out any anomalies or extremes from the individual methods. We then calculate the potential upside in the stock price by comparing this blended valuation to the current market price, providing insights into potential investment growth.

Discounted Cash Flow (DCF) Growth: This method estimates a company's value by projecting its future cash flows and discounting them to their present value using a discount rate. The sum of these discounted cash flows represents the estimated value of the company.

Discounted Cash Flow (DCF) Revenue: This method calculates a company's value by projecting its future revenue and estimating the resulting cash flows. These future cash flows are then discounted to their present value using a discount rate. The total of these discounted cash flows provides the estimated value of the company based on its expected revenue.

EV/Revenue Valuation: This method calculates a company's value by dividing its enterprise value (EV) by its annual revenue. Enterprise value is the total value of a company, including its market capitalization, debt, and cash. By comparing EV to revenue, this valuation metric assesses how much investors are willing to pay for each dollar of the company's revenue, providing insight into its market valuation relative to its sales.

After calculating the valuations using these three methods, we blend them into a single valuation price to get a comprehensive estimate. This blended valuation helps smooth out any anomalies or extremes from individual methods, providing a balanced perspective. Finally, we calculate the potential upside in the stock price by comparing the blended valuation to the current market price, indicating the potential for investment growth.

In addition, we adjusted the valuation to account for the benefits that would come from the elimination of 280E taxes. When assessing the impact of Section 280E on a company's stock price, several factors must be considered:

- The company's Earnings Before Tax (EBT), excluding unusual items in the last twelve months, was \$5.01 million.
- The combined federal and state corporate tax rates vary in the US, with a low of 23.5% in North Carolina and a high of 32.5% in New Jersey. For our calculations, we will apply a median rate of 28%.
- Regular taxes paid on the EBT would be approximately 28% of \$5.01 million or \$1.41 million. The company's income tax expense was \$20.46 million in the last twelve months, which could represent an overpayment of up to \$19.05 million.

Valuation Analysis

Based on these calculations, TerrAscend appears to have overpaid taxes by \$19.05 million in the last twelve months. The tax savings should be multiplied by a multiple of stock earnings. When writing this report, the S&P 500 trades at 28.17 times earnings. Divided by the outstanding shares (291.5 million), this results in an additional \$1.88 per share when multiplied by the 28.17 earnings multiple.

Consequently, this analysis suggests an added value of \$1.88 to TerrAscend fair value calculation.

Current Price	\$1.41
Pre 280E Discounted Cash Flow Growth Valuation	\$3.49
Pre 280E Discounted Cash Flow Revenue Valuation	\$2.94
Pre 280E EV / Revenue Valuation	\$2.02
Pre 280E Blended Fair Value	\$2.82
Post 280E Value Increase	\$1.88
Post 280E Fair Value - 1-Year Price Target	\$4.70
Fully Blended Fair Valuation	\$3.76
Expected 1-Year Return Pre 280 E	100%
Expected 1-Year Return Post 280 E	233%
Expected 1-Year Return Blended 280E	166%

These valuations suggest a potential return of 100% (Pre-280) or 233% (Post-280) changes if TerrAscend approaches its fair valuation price. A blend of the two valuations would produce a target of \$3.76 and a potential upside of 166%.

Our Take

We rate TerrAscend as a “Buy” due to its strong financial performance and leading revenue growth among its peers. The company's effective cost management and substantial gross profit margin improvement position it well for sustained profitability. Additionally, the potential for federal cannabis rescheduling could reduce tax liabilities and expand market opportunities, serving as a key catalyst for future growth.

Strengths of TerrAscend Compared to Its Peers

TerrAscend leads in revenue growth, highlighting its competitiveness and potential for profitability. The company's high and improving gross profit margins reflect strong cost control and operational efficiency. Its lower SG&A margin underscores cost efficiency and effective expense management, which positively impacts net income. Compared to its peers, TerrAscend uses less leverage, indicating a conservative financial approach and slower growth in liabilities.

Weaknesses of TerrAscend Compared to Its Peers

TerrAscend's current ratio is lower than the industry median, indicating potential challenges in meeting short-term financial obligations, especially with \$120M of debt due by Q4 2024. The company is focused on working on a refinance and feels it might achieve a lower cost of capital in the process. TerrAscend's lower CapEx Margin suggests a cautious approach to investing in future growth, which could limit long-term expansion and revenue potential. While this reflects prudent financial management, it also indicates that increased investment could support future growth.

Our Forecasts

We initiate TerrAscend with a “Buy” rating, emphasizing its strong financial performance and growth potential. We estimate a fair value of \$3.76 per share, suggesting a 166% upside from the current price. This valuation incorporates the company's revenue and cash flow growth strengths and anticipates the benefits of potential regulatory changes in the cannabis industry.

Important Disclaimers

The Dales Report (TDR) is a professional entity specializing in publishing comprehensive investment research reports on public and, to some extent, private companies. TDR offers investor-centric content and advanced digital distribution strategies, aiding companies in investor communication. Notably, TDR operates under the "publishers' exemption" and is not a registered investment adviser, broker/dealer, or provider of investment banking services. TDR's research is purely informational. The reports are not personalized financial advice; readers are encouraged to consult independent advisors. The Dales Report maintains strict impartiality, with its analysts and their households not holding personal or business ties to the covered companies, apart from providing digital content and possible ancillary services. TDR aims for ongoing coverage of the companies it reports and may be compensated for its research through a non-contingent, fixed monthly fee arrangement with its clients, steering clear of compensation models that might influence its reporting objectivity. In addition to research, TDR may offer and be compensated for ancillary services to covered companies but manages potential conflicts of interest to safeguard its reputation and the unbiased nature of its content. The analyses in TDR's reports are based on reliable public information, but it assumes no liability for any inaccuracies or the timeliness of the information.

All views of the analysts are purely opinions. You should not treat any opinions expressed by us or our as investment advice. The views in this report are solely intended to be informational and are not investment advice. For additional disclosures regarding our business relationship with TerrAscend, please see the link below:

<https://thedalessreport.com/disclosure/terrascend-corp/>

TDR

WE SET THE NARRATIVE

