3 American Cannabis Companies to Own BEFORE Legalization

By Michael Brush, Chief Analyst, Cabot Cannabis Investor
As the cannabis industry continues to evolve, it’s become clearer to investors that the big payday has yet to materialize and that we are still in the very early stages of a new and potentially massive market.

In Canada, marijuana is legal nationally, and has been since October 2018. In the U.S., of course, it’s still illegal federally but we have had some major legalization events.

In early 2014, Colorado went legal. The sector, of course, was very young then and the stocks were very low priced. But stock prices went up when it went legal ... then came right back down again soon after.

In 2018 we had a similar peak when California legalized, and again in late 2018 when Canada went legal. Keep in mind that those peaks came not on the vote, but on the actual opening of legal sales.

In the U.S., prior to the 2020 elections, many local efforts were stagnated and in limbo as the balance of power played out. However, marijuana legalization ended up on the ballot in five states, all of which approved it – four for recreational (Arizona, Montana, North Dakota and New Jersey) and one for medical (Mississippi).

Arizona was able to pull off fast openings in January 2021, and by year-end, the state’s medical and recreational markets saw more than a billion dollars in sales. Montana saw legal sales begin in January 2022. The North Dakota senate defied the will of the voters in that state, pushing legal recreational use into the future. And New Jersey saw the delays typical of highly bureaucratic and politicized states, but now has recreational dispensaries. In March 2021, New York state officials agreed to pass recreational marijuana legislation and they are open for business as well.

Meanwhile, at the U.S. federal level, hopes that the Democratic administration that took over in 2001 would move the needle on legalization have faded as other causes have taken priority. And what that means is that institutional investors are still reluctant to invest in U.S. cannabis companies.

Canadian stocks are the safer bet for institutional investors and have gotten a lot of attention on the New York Stock Exchange and the Nasdaq, but the Canadian marijuana industry has suffered from overproduction, with the result that numerous companies are now struggling to grow—and some are shrinking!

The U.S. cannabis companies have far more attractive fundamentals, as the state-by-state legalization process has actually allowed the market to open up more slowly and allowed the leading companies in the industry to grow more strategically than in the wide-open Canadian market.

Bottom line: These stocks are cheap now and will be expensive again when federal legalization finally arrives, so the best way to make money in the sector is to buy now. And these three fast-growing U.S. companies are among my favorites.
Trulieve Cannabis Corp. (TCNNF)

Trulieve is the most profitable seller of marijuana in the U.S., with a record of quarterly profits stretching back years, because the company focused its efforts on one state early on, instead of diluting its efforts in numerous states.

That state is Florida, where Trulieve is now the leading seller of medical marijuana, with over 120 stores and a market share of 50%. When Florida eventually legalizes recreational marijuana, Trulieve will had a huge lead on competitors.

Cannabis activists are trying to get recreational use on the Florida ballot in November 2024. A win would be huge for Trulieve. Approval could make Florida the largest legal U.S. cannabis market with 22 million residents and 130 million tourists a year.

Meanwhile, Trulieve has been expanding across the country via acquisitions. It is diversifying its presence into Pennsylvania, Maryland, and Massachusetts, among other states.

The company finished the year with $290 million in cash. It has a very large $648 million in debt, but the only near-term debt maturity is $130 million due in June 2024.

The company projects operating cash flow of $100 million this year. “U.S. cannabis has significant white space ahead, with many states yet to implement medical or adult use programs, and the growing appetite for substantive federal reform,” says CEO Kim Rivers.

It has a price to sales ratio of 0.9.
Curaleaf (CURLF)

Massachusetts-based Curaleaf was the industry leader last year. It operates 148 dispensaries and 29 grow sites in 19 states and its European operations. Here are three factors that support growth.

1. Curaleaf is an R&D powerhouse. A team of scientists is currently developing about 180 products.

2. Curaleaf is an industry consolidator. The company's executive chairman has a lot of experience rolling up fragmented and distressed industries. M&A is supported by a healthy balance sheet and good access to capital. Given how much the cannabis group has fallen in the past year, there are probably a lot of good bargains out there.

3. Curaleaf will benefit from progress on legalization in Germany and Europe. It has a majority stake in Germany’s Four 20 Pharma, a licensed producer and distributor of medical cannabis that has more than 10% market share in Germany.

Curaleaf International is the largest vertically integrated cannabis company in Europe. It has a lot of room to expand production, and it boasts import and distribution in the U.K., Germany, Italy, Switzerland, and Portugal.

I expect significant progress on legalization of recreational cannabis in Germany in 2023 and 2024. Recreational use legalization could open the floodgates to further legalization throughout Europe.

The company is founder-run, which can be a plus in investing. Curaleaf has a price/sales ratio of 1.77.
Chicago-based Green Thumb is our portfolio’s largest position. Green Thumb was the third-largest cannabis company in the U.S. last year, with operations in 15 markets. It has been the most profitable multistate operator of all the big ones – a sign of good management.

Green Thumb branded cannabis products include &Shine, Beboe, Dogwalkers, Doctor Solomon’s, Good Green, incredibles and RYTHM. The company operates a national retail cannabis stores called RISE. It has 77 retail stores in 15 U.S. markets.

Green Thumb is expanding its medical footprint in Florida through a lease agreement with the convenience store chain Circle K. This could be a big deal, since the Circle K chain has 600 locations in Florida. Ongoing market developments in Illinois and New Jersey could be strong catalysts for Green Thumb Industries.

Founder Ben Kovler is chairman and CEO. Research shows that founder-run companies often outperform. Kovler has a 26% stake in the business and holds nearly 59% of voting power. Green Thumb trades at a price to sales ratio of 1.9.
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