November 23 2022

Zacks Small-Cap Research

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Flora Growth (FLGC-NASDAQ)

FLGC: New Lab to Support Strategy; FGH Shareholders Favor Pending Transaction

Shareholders holding a majority of Franchise Global Health (FGH) shares have indicated that at a special shareholder meeting on December 13, 2022, they will vote in favor of the pending transaction for Flora Growth to acquire FGH. FLGC expects the deal to facilitate its strategy to supply medicinal-grade cannabis and related products globally and believes the acquisition will close by yearend 2022. FLGC also recently completed a new lab in Bogota, Flora Lab 4, to support its growth strategy.

Current Price (11/21/22)	$0.42
Valuation	**$4.50**

OUTLOOK

Flora expects the Franchise Global Health deal 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.

SUMMARY DATA

52-Week High	**$2.38**
52-Week Low	**$0.37**
One-Year Return (%)	**-81**
Beta	**N/A**
Average Daily Volume (sh)	**501,898**
Shares Outstanding (mil)	**77**
Market Capitalization ($mil)	**$32**
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)
2020	0A	0A	0A	0A	0A
2021	N A	1 A	N A	N A	9 A
2022	0E	15 A	12 E	12 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)
2020	-$0.00A	-$0.00 A	-$0.00A	-$0.00A	-0.47 A
2021	-$0.00A	-$0.13 A	-$0.00A	-$0.00A	-0.48 A
2022	-$0.00E	-$0.42 A	-$0.11 E	-$0.11 E	-0.64 E
2022	-$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 10

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KEY POINTS – PENDING TRANSACTION EXPECTED TO FACILITATE GROWTH STRATEGY

- Earlier this month, shareholders controlling a majority (73+%) of Franchise Global Health shares indicated that they favor Flora Growth's pending acquisition of Franchise Global Health and intend to vote for the transaction at a special meeting of shareholders on December 13, 2022. FLGC expects the deal to facilitate its strategy to supply medicinal-grade cannabis and related products globally and believes it will close by yearend 2022.

- The company expects the Franchise Global Health deal to be transformative, enabling the company 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, servicing 1,200 pharmacies in Germany. Germany is a key market for the industry, projected to reach $7.7 billion by 2028.

- Moreover, Franchise Global Health also has operations, and/or strategic partnerships and investments in St. Vincent and the Grenadines, Portugal and Denmark. FLGC management intends to leverage Franchise Global Health's distribution and logistics capabilities to further expand its CBD business in the greater European market.

- The acquisition is consistent with FLGC's strategy to leverage strategic M&A to enhance its product portfolio and accelerate growth. Other important recent acquisitions include Vessel Brand, High Roller Private Label, Masaya and JustCBD. These and other recent transactions have added new products and categories, expanding the company's product portfolio and potentially its revenue prospects.

- To support its growth strategy, FLGC completed a new laboratory in Bogota, Colombia, Flora Lab 4. Lab 4 is intended to be FLGC's center for R&D, manufacturing, and commercialization of phytocannabinoid-based prescription medicines and nutraceutical products to address a broad range of ailments and diseases. Initially, Lab 4 will support the treatment of specific ailments such as social anxiety and acne pending a regulatory inspection by INVIMA to complete certification.

- Overall, management estimates that it has a significant cost advantage by operating outdoor cannabis cultivation in Colombia, which it notes enables greater output per square foot of cultivation and lower production costs, which it estimates at around $0.06 per gram of dry cannabis flower versus estimated roughly $0.50 cents to $2.00 for producers in other markets.

COMPANY UPDATE: M&A DESIGNED TO EXPAND PRODUCT PORTFOLIO, DISTRIBUTION & PROSPECTS

Pending deal expected to accelerate FLGC's European expansion…

Flora Growth (Nasdaq: FLGC) signed an agreement to acquire Franchise Global Health (TSXV: FGH, not covered) 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.

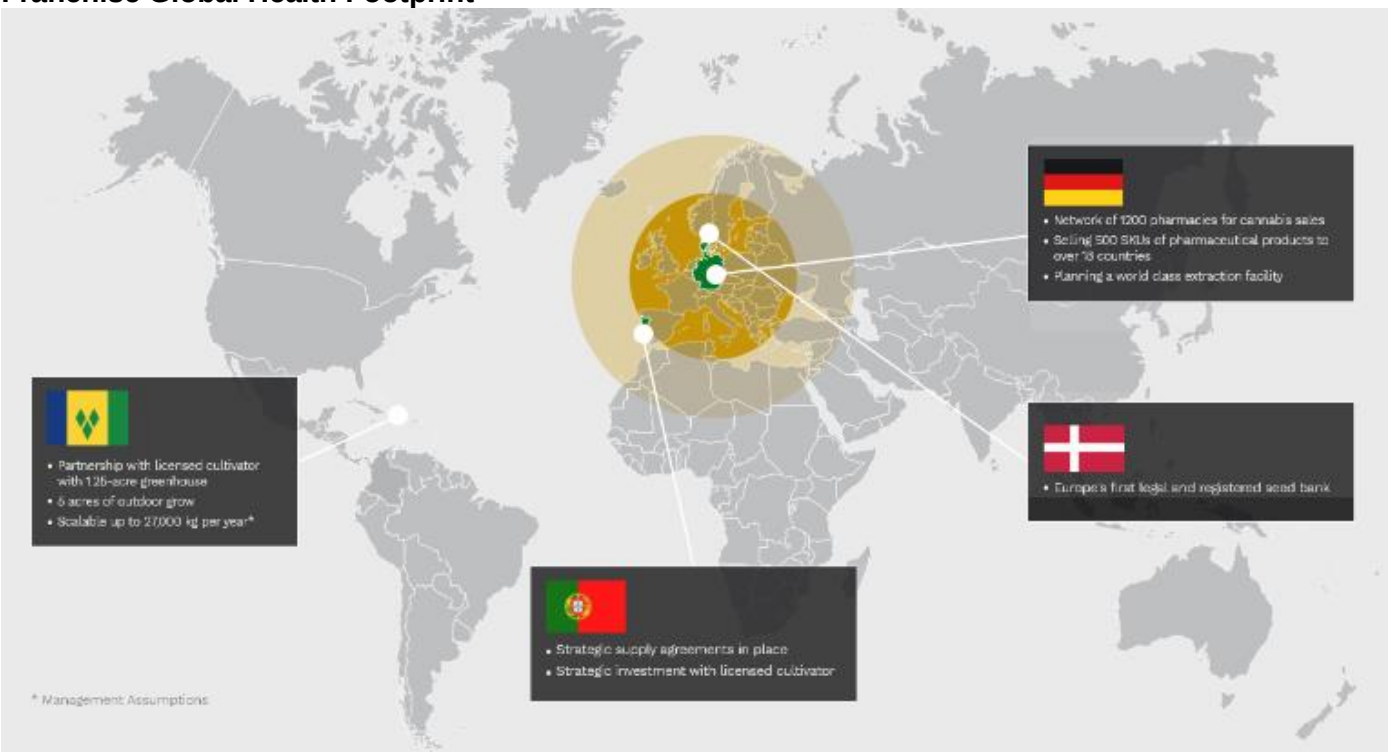
Flora Growth is an emerging cannabis company focused on cultivating, processing and supplying medicinal-grade cannabis and related products globally. The company expects the Franchise Global Health deal to be transformative, as it pursues an ambitious growth strategy to build an ecosystem to support 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).

… through Franchise Global's German …

Germany is a key market for the industry, according to Franchise Global Health'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.

Franchise Global Health Footprint



Source: FGH presentation

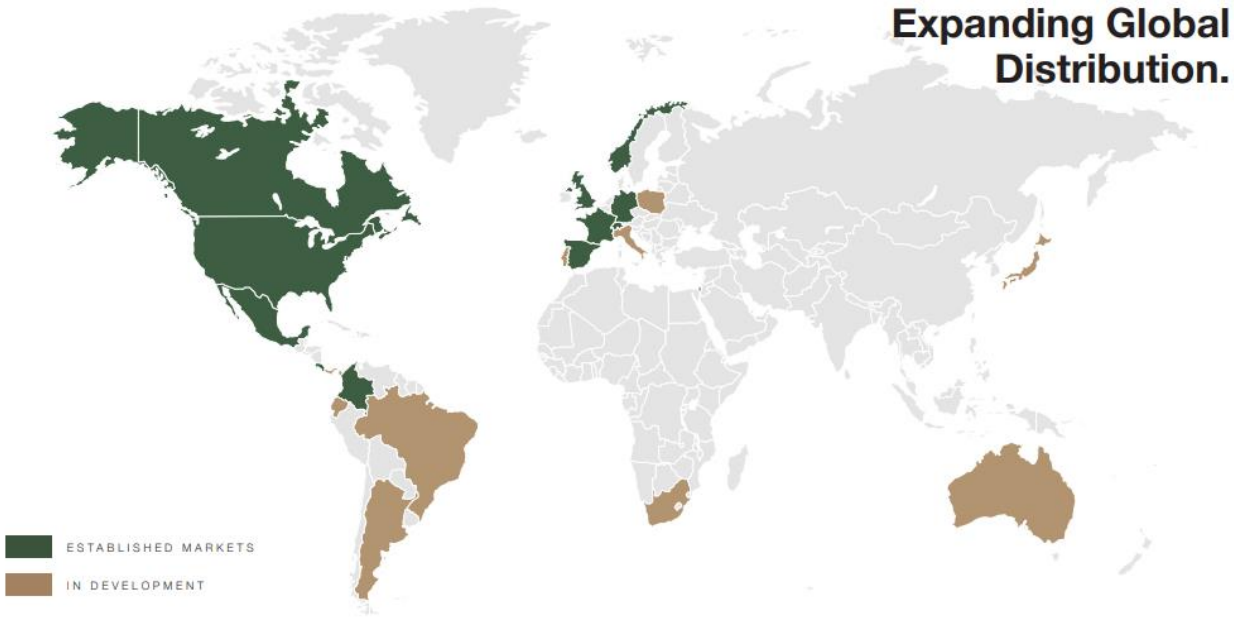
… and other operations

Moreover, Franchise Global Health also has operations, and/or strategic partnerships and investments in 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.

The company held $10.3 million in cash and equivalents as of June 30, 2022. 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.

Consistent with strategy to leverage M&A…

The acquisition is consistent with FLGC's strategy to leverage strategic M&A to enhance its product portfolio and accelerate growth. Flora's House of Brands includes wellness and lifestyle consumer packaged goods (CPG). The acquisition is also consistent with FLGC's strategy to maintain an ambitious marketing effort to cross -promote its growing product portfolio to enhance and accelerate growth. Flora's recent acquisitions of Vessel Brand and JustCBD enhance its U.S. presence and facilitate the company's global marketing strategies, while the pending FGH acquisition enhances FLGC's European presence. JustCBD is a leading consumer wellness brand, according to the company. The acquisition expanded Flora's footprint to about 14,000 retail stores in the U.S. Moreover, 2021 represented the first full year of revenues for the company, which anticipates accelerating revenue growth in 2022 as it activates the Wholesale and Life Sciences growth units, while simultaneously fueling expansion in the global House of Brands.



Source: Company presentation

Favorable regulatory backdrop & cost advantages…

The recent transactions have added new products and categories, expanding the company's product portfolio and potentially its revenue prospects. 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.

Other recent acquisitions include of Vessel Brand & Just Brands

In 1Q22, Flora acquired Just Brands and High Roller Private Label and believes these could complement other businesses and reach positive cash flow generation to subsidize the company's operations as it builds out its cannabis operations. Vessel Brand, Inc. (VBI), acquired in 2021, was a pivotal transaction for Flora Growth, as it provided access to a range of products and distribution points, as well as executive leadership. VBI markets cannabis and wellness consumer products. The company paid $30 million for VBI in a combined cash and shares deal. JustCBD generated $28 million and $7 million of revenues and EBITDA, respectively, in 2020 across multiple categories, including gummies, tinctures, vape cartridges, creams and pet wellness, among others. Flora recently formed a partnership for Vessel with Highsman, a cannabis lifestyle brand backed by former NFL running back Ricky Williams.

Flora leverages JustCBD's production facility in Fort Lauderdale, Florida and broad distribution across the U.S. Recently, JustCBD signed a deal with OTG Management, which operates airport restaurants and retail venues, to sell CBD products in OTG Management airports in the U.S. in Houston and Washington, DC. Initial products include JustCBD's night-time and regular gummies. According to the LA Times, fruit-flavored gummies are among the most popular cannabis products released since regulatory liberalization. Market research firm The Insight Partners pegs the projected growth of the global CBD gummies market from 2021 to 2028 at a CAGR of about 28%. Flora is optimistic that it can expand the products distributed and its presence at additional OTG locations. Flora expects future orders to extend to additional products and other airports in the U.S.

In addition to OTG airport locations, the company's retail presence includes its online presence on Macys.com, Walmart.com Mexico and Coppel. Flora has also opened a bricks-and-mortar location in Miami, Florida and recently announced that JustCBD has partnered with German-based Greenyard to open stores throughout Germany and the Czech Republic and to be distributed by Greenyard throughout Germany, the Czech Republic, Poland, Austria, Switzerland, Ukraine, Georgia and Estonia.

Life Sciences

Flora also acquired the brand Masaya, along with its patent-pending CBD formulations. Flora intends to distribute the brand and its formulations worldwide. Flora is also seeking approval from Colombia's regulatory authority for a patent-pending cannabinoid formulation for use as medicine. Flora believes it can clear clinical trials as early as yearend 2022. Flora's Life Sciences pillar is focused on providing scientific-based research related to the cannabis plant. The company creates education platforms and conducts research studies and clinical trials for the development of plant-based, medical-grade pharmaceuticals, phytotherapeutics, and dietary supplements. For example, Flora currently is conducting a study with the U.K. University of Manchester to assess the benefits of a proprietary CBD formulation on patients suffering from fibromyalgia and pain-related illnesses. The company anticipates launching commercial distribution of pharmaceutical-grade products based on proprietary research.

The company's commercial and wholesale portfolio of products includes a range of THC and CBD both dried flower and formulations designed to meet international and domestic standards as well as evolving legal market opportunities. Flora's strategy is to supply cannabis derivatives as it builds what it calls its three core growth pillars: commercial/wholesale, house of brands, and life sciences.

Following the acquisition of JustCBD earlier this year, given JustCBD's presence in Europe, the company has a pathway for distribution in the U.K. and EU. Flora leverages JustCBD's production facility in Fort Lauderdale, Florida and broad distribution across the U.S. Recently, JustCBD signed a deal with OTG Management, which operates airport restaurants and retail venues, to sell CBD products in OTG Management airports in the U.S. in Houston and Washington, DC. Initial products include JustCBD's night-time and regular gummies. According to the LA Times, fruit-flavored gummies are among the most popular cannabis products released since regulatory liberalization. Flora is optimistic that it can expand the products distributed and its presence at additional OTG locations. Flora expects future orders to extend to additional products and other airports in the U.S.

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 2022-233 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

- On November 10, 2022, FLGC The company announced that shareholders controlling the majority of FGH shares support the pending acquisition.
- The company announced the pending acquisition of FGH on October 24, 2022.
- The company reported 1H22 results on August 15, 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.
- On May 18, 2022, the company's Vessel Brand launched a collaboration with Ricky Williams' cannabis brand Highsman.
- Flora's JustCBD signed a deal with OTG Management to sell CBD products in Airports on April 7, 2022.
- On April 5, 2022, was named a Director to the US Hemp Roundtable non-profit organization.
- Flora Growth expanded its physical presence In Europe through JustCBD's partnership With Greenyard on March 24, 2022.
- On March 15, 2022, the company received the 2022 export quota for 43,600kg of high THC cannabis.
- Flora signed an agreement on March 14, 2022, to distribute Mind Naturals In the Hong Kong region.

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)

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

Source: Company reports & Zacks

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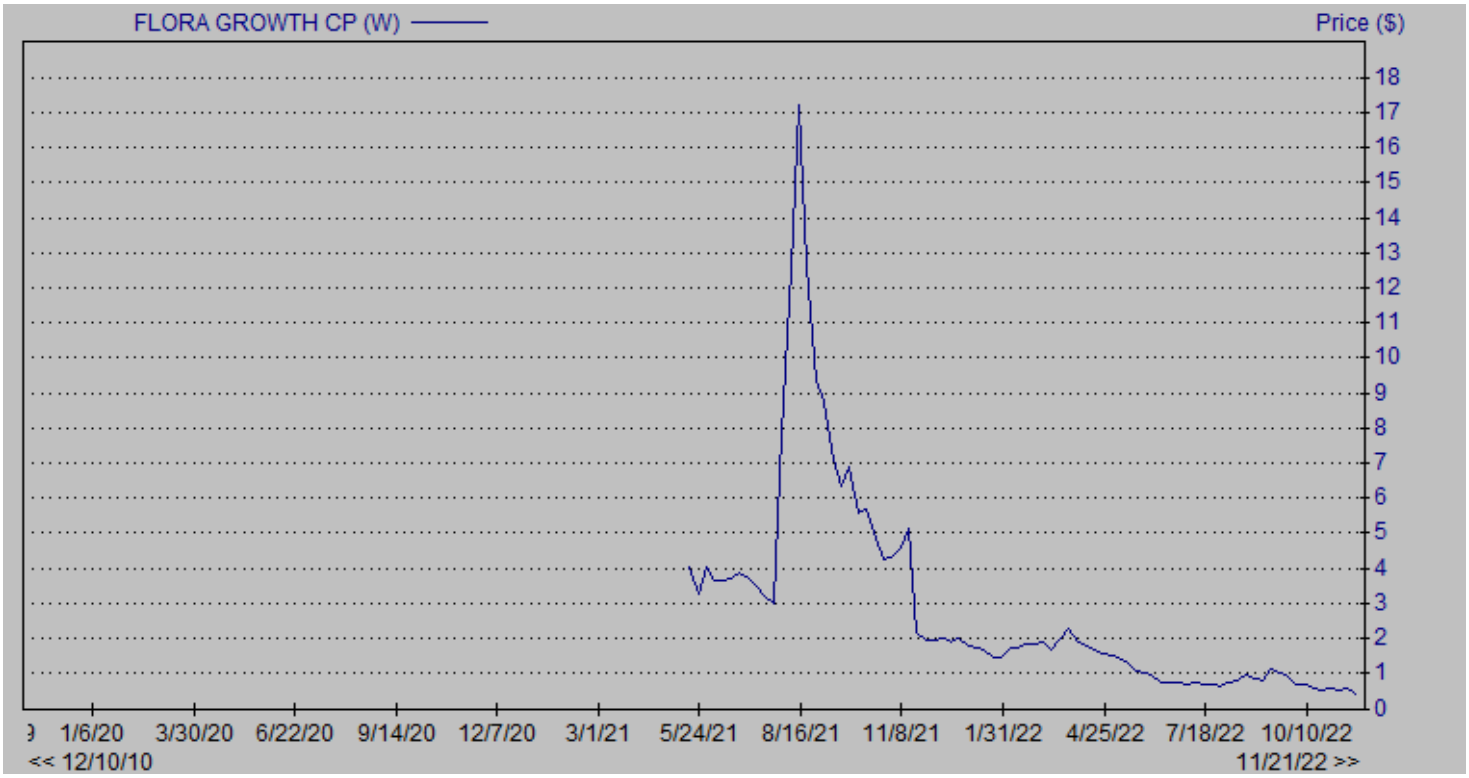
HISTORICAL STOCK PRICE



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