April 10, 2023

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Flora Growth (FLGC-NASDAQ)

FLGC: Company Optimistic About Growth of the Medical Cannabis Sector

FLGC believes that the recent certification of Flora Lab 4, which specializes in prescription cannabis formulations, is a positive. Flora Lab 4 intends to begin offering its cannabis formulations & services for third parties. Flora expects Lab 4, plus the acquisition of Franchise Global Health (FGH) and potential upcoming catalysts support its revenue guidance. FLGC views the FGH deal as transformative and expects it will enable FLGC to accelerate its growth in Germany and other European markets.

Current Price (3/17/23)	$0.24
Valuation	**$1.00**

OUTLOOK

Flora also plans to promote the development and growth of the medical cannabis sector. As of January 2023, Colombian health insurance providers will cover the cost of approved medical cannabis. In addition, management believes FGH can enable it to connect its Colombian-grown cannabis directly with German-based pharmaceutical and medical cannabis distribution via FGH's established a presence in the German pharmaceutical market servicing 1,200 pharmacies. FGH's operations in Germany generated revenue of roughly US$23.4 million in 1H22. Flora also expects organic growth in its House of Brands division, as it intends to develop new products and channels for Colombia and international markets.

SUMMARY DATA

52-Week High	**$1.78**
52-Week Low	**$0.19**
One-Year Return (%)	**-86**
Beta	**N/A**
Average Daily Volume (sh)	**2,085,810**
Shares Outstanding (mil)	**133**
Market Capitalization ($mil)	**$33**
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					0 A
2021		1 A			9 A
2022		15 A	11 A	12 A	37 A
2023					90 E

Per Share Data

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					-0.47 A
2021		-$0.13 A	-$0.08 A		-0.48 A
2022		-$0.42 A	-$0.10 A		-0.68 A
2023					-0.43 E

Quarters might not sum due to rounding & share counts

Disclosures on page 8

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

RECENT RESULTS: 2022 REVENUE GROWTH, CERTIFICATION FOR FLORA LAB 4

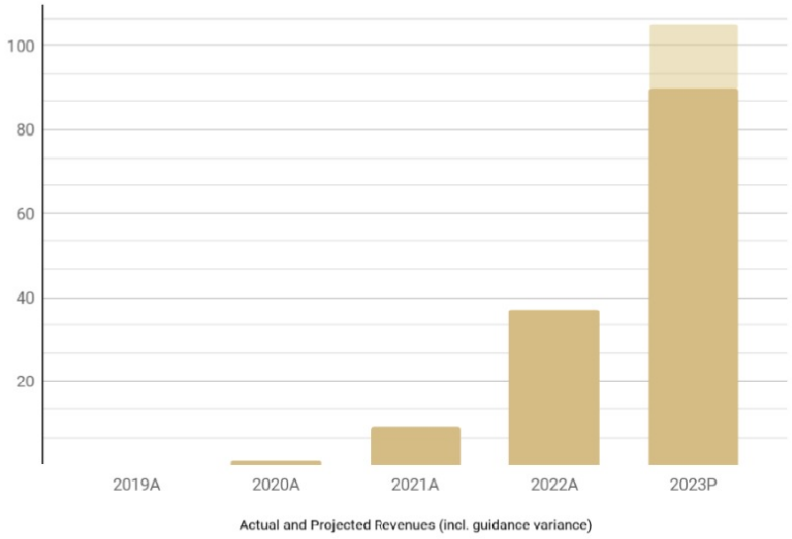
Flora Growth (Nasdaq: FLGC) reported 2022 revenue of $37.2 million, a more than four-fold increase compared to 2021, largely due to the integration of M&A transactions and operational growth, particularly in the House of Brands division. The company noted that 4Q22 revenue of $11.5 million represented a 7% sequential improvement, primarily fueled by organic growth. The company's 2022 gross margin improved to 39%, compared to 27% in 2021. Operating expense was $67.7 million in 2022 compared to $21.4 million. However, the 2022 metric included a non-cash goodwill impairment charge of $25.5 million. The company recorded an operating loss of $53.3 million in 2022 compared to an operating loss of $19.0 million in 2021 and a net loss of $52.6 million compared to a net loss of $21.4 million.

We expect the company's focus in 2023 to be on fully integrating Franchise Global Health (FGH) and leveraging cross-selling opportunities, although, as Flora continues to evaluate future M&A opportunities, we would not be surprised if the company further expanded its reach or product line via M&A.

Separately, Flora's recently completed Flora Lab 4 in Bogota, Colombia, which specializes in prescription cannabis formulations and has developed eight cannabis-based formulations in topical and ingestible formats, recently received INVIMA certification. Flora Lab 4 intends to begin offering its cannabis formulations as well as design, development and manufacturing services for third parties, and also to promote the development and growth of the medical cannabis sector. As of 2023, Colombian health insurance providers will cover the cost of approved medical cannabis.

2023 Guidance Reiterated

Revenue Results & 2023 Guidance



Source: Company website

In addition, the company reiterated 2023 revenue guidance of $90 million to $105 million. The revenue guidance incorporates Flora's new German-based business following the company's recent acquisition of Franchise Global Health (FGH). FGH's operations in Germany generated revenue of roughly CA$30.1 million (US$23.4 million) in 1H calendar 2022. In addition to the FGH acquisition, other factors that management expects support its expected growth include, among others:

- The launch of commercial cannabis exports to new international markets, including the U.S.
- The expansion of the CPG portfolio
- Expanded export quota of cannabis products from Colombia
- Flora Lab 4, which recently attained certification

Developing new product & channels for international markets…

Management expects the House of Brands division to account for roughly the same contributions to total revenue as the Commercial & Wholesale business and that the Pharmaceutical division will contribute up to 10% of total 2023 revenue. The House of Brands division expanded its customer base to about 500,000 consumers in 2022. The company is also optimistic regarding clinical trials with the University of Manchester on the use of cannabinoids with patients with fibromyalgia. Flora had cash of $9.5 million at year-end 2022, having raised gross proceeds of $5.0 million in December 2022 to advance its growth strategy.

Flora expects organic growth in its House of Brands division, as it intends to develop new products and channels for Colombia and international markets. For example, FLGC recently began distributing its House of Brands fruit juice, Mambe, through the Juan Valdez coffeehouse chain, which management notes is the largest coffeehouse chain in Colombia with more than 300 locations. Mambe will be available in 286 Juan Valdez stores.

… Including Franchise Global existing network…

FLGC's recent acquisition of FGH was funded through an all-stock transaction in which Flora issued 43.5 million shares (that are restricted for 90 days following the transaction). In addition to the integration of FGH's existing revenue base – FGH reported revenue of about CA$30.1million (US$23.4 million) for the six months ended June 30, 2022 – Flora Growth expects the FGH deal to be transformative. 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).



Source: Company reports

… which FLGC expects will accelerate its European expansion

Franchise Global Health has operations, and/or strategic partnerships and investments in Germany, 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. Germany is a key market for the industry, according to FGH'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.

Management also expects Vessel Brand and JustCBD and other recent acquisitions to be catalysts for growth, as well. These transactions have added new products and categories to the company's product portfolio and expanded its footprint. JustCBD, for example, is a leading consumer wellness brand (according to the company) that expanded Flora's footprint to about 14,000 retail stores in the U.S.

The FGH 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.

Company sees favorable conditions & regulatory backdrop as competitive advantages…

Separately, 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. Longer-term, the company is also optimistic about the regulatory framework for recreational cannabis in Colombia.

VALUATION

After significant appreciation following its 2021 midyear IPO as the company acquired brands and forged new agreements, FLGC share price fell steeply in 4Q21 as sector valuations came under pressure and reflecting expected dilution from the company's M&A and funding initiatives. Sector multiples subsequently declined further amid market volatility and economic uncertainty. Multiples of other cannabis companies such as Clever Leaves and Aurora Cannabis, among others, have declined to about 1x TTM revenue, down from about 6x earlier. We are revising our valuation to reflect this and the impact of FLGC's recent funding measures and M&A. Our $1.00 valuation implies a multiple of about 1.5x on forward projected revenue or about 1.3x if the company hits the high end of its 2023 revenue guidance. The premium implied in our valuation reflects the company's anticipated strong growth.

FLGC shares represent an option on management's ability to execute its growth and expansion strategy successfully, in our view. *if the company can execute its strategy successfully* and develop and expand its products and channels, we would anticipate multiple expansion over time. As the company grows revenue and attains operating leverage, we would expect the shares to begin to reflect the company's potential. 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. 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 April 4, 2023, Flora announced certification for Lab 4.
- Flora reported 2022 results on March 31, 2023.
- Flora began selling products in Juan Valdez coffeehouses on February 21, 2023.
- Flora initiated 2023 guidance on January 30, 2023.
- FLGC receives an additional 180-day extension from Nasdaq on January 6, 2023.
- FLGC provided an update on its international commercial cannabis export business on January 05, 2023.
- On December 27, 2022, FLGC closed the FGH acquisition.
- Flora Growth priced a $5.0 million offering on December 9, 2022.
- On May 23, 2022, Flora Growth acquired CBD Brand Masaya.

RISKS

We believe risks to FLGC achieving its goals, and to the valuation, include the following, among others.

- FLGC shares could be delisted from Nasdaq if they do not regain compliance with the minimum bid price rule by the deadline and Nasdaq does not offer another extension.
- FLGC shares could be impacted by concerns overhanging the cannabis sector.
- Flora might not gain market share as quickly as the company expects.
- 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.
- `The company faces regulatory risk.

PROJECTED FINANCIALS

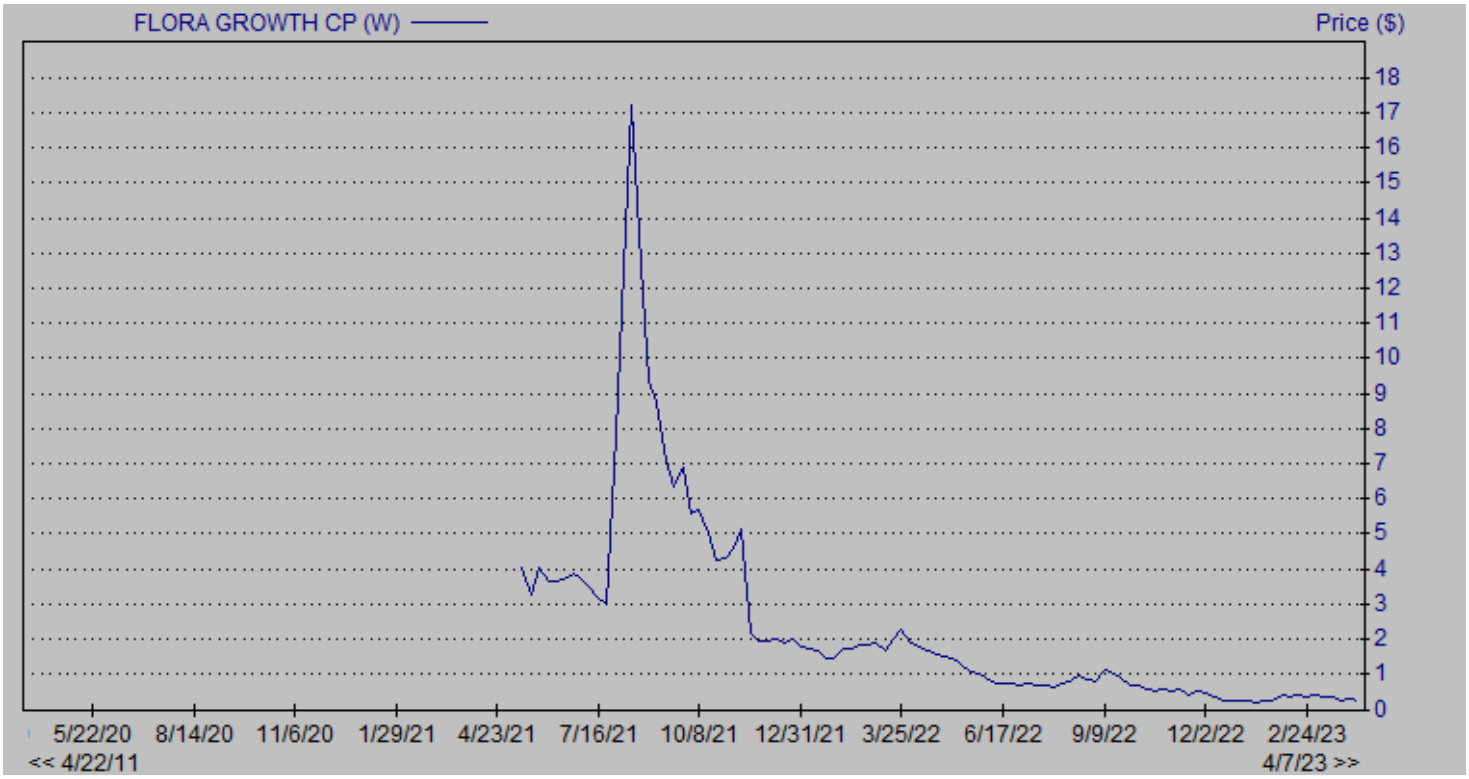
Flora Growth Income Statement & Projections ($ 000s)

	2020	1H21	3Q21A	2H21	2021	1H22A	3Q22A	2022A	2023E
Revenue	$106	$1,700	$2,093	$7,280	$8,980	$14,917	$10,765	$37,171	$90,000
Cost of sales	35		1,474		6,627	8,415	5,936	22,757	65,700
Gross profit before gain on fair value	71		619		2,353	6,502	4,829	14,414	
Unrealized gain on chgs fair value & other	-		-		72	44	142	-	
Gross Profit	71		619		2,425	6,546	4,971	14,414	24,300
Operating Expenses									
Consulting and management fees	4,752		1,905		7,324	5,243	3,237	11,342	
Professional fees	794		904		4,269	2,096	802	4,398	
General and administrative	1,400		610		4,507	2,429	1,186	4,495	
Travel expenses	428		140		603	601	288	1,055	
Share based compensation	4,901		393		1,340	2,855	139	3,404	
R&D	78		(20)		132	422	170	430	
Depreciation and amortization	113		67		765	1,712	985	2,629	
Bad debt expense	-				1,335	405	631	1,607	
Goodwill impairment	1,816				51	16,000	-	25,452	
Other expenses	73		232		1,050	5,897	2,541	12,909	-
Total operating expenses	14,355		4,231		21,376	37,660	9,979	67,721	82,098
Operating Loss	(14,284)		(3,612)		(18,951)	(31,114)	(5,008)	(53,307)	(57,798)
Interest expense	30		57		84	69	75	(56)	
Foreign exchange loss	20		(38)		79	200	128	323	
Unrealized loss, other	-		-		2,345	1,333	2,177	593	6,256
Net loss before income taxes	(14,334)		(3,631)		(21,459)	(32,716)	(7,388)	(54,167)	(57,948)
Income tax benefit	-				98			(1,538)	-
Flora Growth Corp.	(14,154)		(3,608)		(22,396)	(32,611)	(7,358)	(52,629)	(57,948)
Non-controlling interests	(164)		(23)		(112)	(105)	(30)	(214)	(115)
FX			463				(1,048)	(1,624)	
EPS / (loss per share)	($0.47)		($0.08)		($0.48)	($0.42)	($0.10)	($0.68)	($0.43)
Avg shares out	29,901		44,199		43,954	76,944	76,611	76,655	133,405

Source: Company reports & Zacks

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



© Copyright 2023, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.