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Equity Research

Cresco Labs, Inc.[7,11]

BUY

CL-CSE

January 23, 2020

Last: **C$8.54**
Target: **C$20.00**

FLASH: CL propels its liquidity position to amongst the strongest in the industry

- CL announced this morning a credit agreement for a senior secured term loan of up to $200m, with a first tranche of $100m expected to close by Jan. 30, 2020. The agreement provides for a mutual option to increase the size of the facility to its maximum of $200m. The loans carry a term length of 18 or 24 months (at the lenders' option) and feature an annual coupon of 12.7% or 13.2% respectively.
- CL intends to use the loan proceeds to support the company's expansion in IL, fund cash requirements to close and integrate pending acquisitions, and execute on other growth initiatives in key states.

Share Statistics

Shares o/s (mm, basic/f.d.)	366.1/392.4
52-week high/low	$18.37/$5.90
Market capitalization (mm)	$2,380
Projected return	134%

All figures in USD, unless otherwise stated.

Current Chart   Previous Research

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Impact: Positive – Strong US cannabis operators can secure necessary growth capital

- **Attractive cost of capital of ~13%.** We highlight this credit agreement features straight debt with no attached warrants, translating to an attractive cost of capital of ~13% for CL on this funding. Notably, this cost is in line with the most recent comparable debt financing (with similar structure and size) announced by a US MSO, and amongst the lowest in the industry seen to date. We estimate similar straight debt financings have offered capital costs in the range of 11%–15% (inclusive of attached warrants), while carrying somewhat longer terms to maturity (~3–5 years).
- **Pro-forma cash estimated at ~$275m, amongst strongest in industry.** Today's announcement presents CL's largest financing thus far, and propels the company's pro-forma liquidity position to match the strongest in the US cannabis industry currently. In the near term, we estimate CL should have access to ~$275m in available funds, including only the initial $100m drawdown from the secured term loan, and pro-forma for: 1) M&A in NY (Valley Ag), MA (Hope Heal Health), and CA (Origin House), 2) cash portions of sale-leaseback deals, and 3) proceeds from recent equity financings (Origin House, Tryke). This analysis does not include cash required for expansion, however we note ~$70m of CL's future CAPEX is fully paid for by its sale-leaseback partners.
- **No liquidity crunch for strong US operators.** CL's secured term loan presents the US cannabis industry's second large, favorably structured debt financing in as little as one month. In our view, this not only provides a strong endorsement of the healthiness in CL's business, but more importantly reinforces our view that strong US cannabis operators are not currently facing a liquidity crunch. We estimate that in aggregate since Oct. 2019, public US cannabis operators have now raised ~$900m–1b in new capital only from debt and sale-leaseback deals. Hence, we believe investor concerns over operators' near-term liquidity should be alleviated by the recent string of successful non-dilutive capital raises by several MSOs under coverage.

Recommendation: Maintain BUY rating and C$20.00 target

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