

U.S. Marijuana Sector Takes the Lead

In our view, the single most important factor driving valuations in the North American marijuana sector is the growing usage of cannabis products in the United States. This last quarter highlighted the stark difference between the Canadian and U.S. marijuana sectors, with the Horizons U.S. Marijuana Index ETF (“HMUS”) delivering a 45.66% return for the six months ending September 30, 2020 versus a -0.09% return over the same period, for the Horizons Marijuana Life Sciences Index ETF (“HMMJ”), which cannot hold U.S.-based marijuana cultivators and distributors.

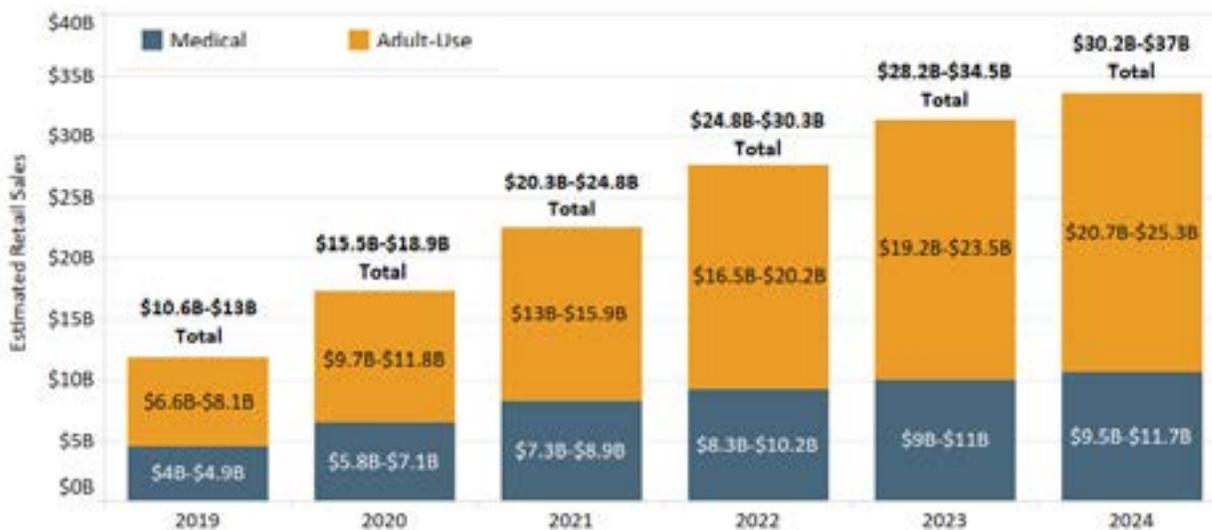
Why the divergence? The U.S. marijuana market continues to grow at a breakneck pace even though both medical and recreational marijuana use remains illegal at the federal level. However, full recreational marijuana use is now [legal in 11 U.S. states](#), and companies that orient themselves as multi-state operators (“MSOs”) — meaning they run growing

and distribution businesses in legal states without operating federally — have been able to generate strong revenue growth.

This chart below from MJBiz Daily going back to June 30, 2020, the most recent data available, shows the massive revenue growth that has been generated in states with significant recreational usage, particularly during the COVID-19 crisis, as more people are home and presumably recreational usage has increased with less social obligations. MJBiz predicts the U.S. market will reach between US\$30 billion to US\$37 billion by 2025.

Over the longer term, BDSA, another leading marijuana analytics provider, predicts global cannabis sales will reach US\$47.2 billion by 2025, a compounded annual growth rate (“CAGR”) of 22%, with the bulk of this growth coming from the U.S. market, which they expect to reach US\$34.5 billion by 2025, a CAGR of 18%.

U.S. CANNABIS RETAIL SALES ESTIMATES: 2019-2024



Source: MJBiz Daily, as at June 30, 2020.



HORIZONS ETFs
by Mirae Asset

Innovation is our capital. Make it yours.

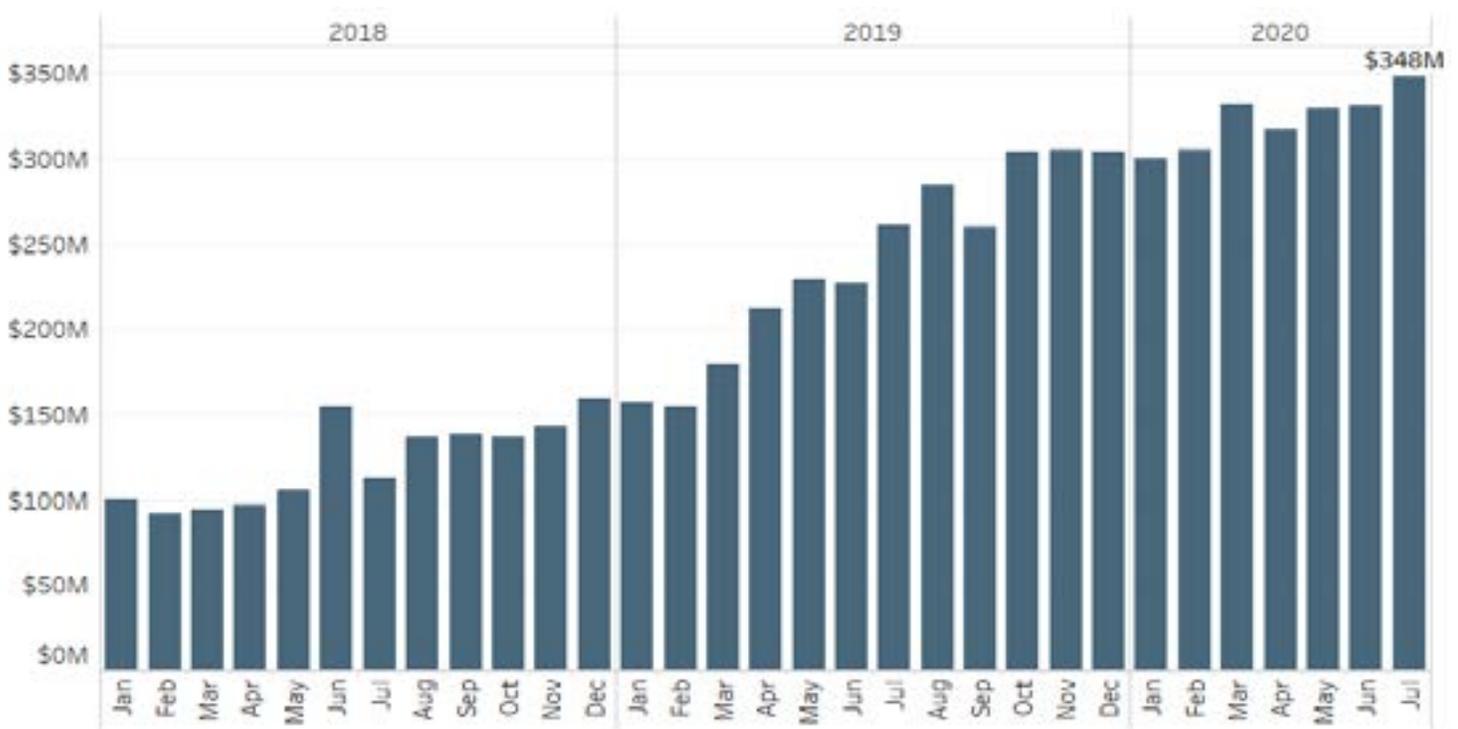
HorizonsETFs.com

U.S. Marijuana Sector Takes the Lead

The point is, the growth of the global cannabis market is effectively largely dependent on the growth of the U.S. market. Many states where use is legal deemed dispensaries and cannabis storefronts essential services during the COVID-19 pandemic, and there has been a corresponding spike in sales throughout the period.

The most important and largest state cannabis market in the U.S., California, highlights this. The most recent state level sales data from July 2020 shows the state hit a record level of sales, almost US\$100 million more over the monthly sales total of July 2019.

ADULT-USE CANNABIS SALES IN CALIFORNIA



Source: MJBiz Daily as at August 13, 2020 (Most recent sales data from California).
<https://mjbizdaily.com/california-has-not-experienced-marijuana-business-failures-in-2020/>

Let's compare this chart to a similar one from Canada, and the importance of the U.S. market becomes even clearer. Canada is also on pace for record cannabis sales, hitting its all-time sales record during the month of July as well, but the entire country's adult-use marijuana sales is less than that within the state of California.

Source: Statistics Canada.
*Adult-use sales began Oct. 17, 2018.

DATA

THE MOST RECENT STATE LEVEL SALES DATA FROM JULY 2020 SHOWS THE STATE HIT A RECORD LEVEL OF SALES, ALMOST US\$100 MILLION MORE OVER THE MONTHLY SALES TOTAL OF JULY 2019.

U.S. Marijuana Sector Takes the Lead

ADULT-USE CANNABIS SALES BY MONTH IN CANADA



LIMITED PRODUCERS TRAPPED IN CANADA

This highlights the conundrum of the Canadian licensed producers. By engaging in Canada's federally legal distribution businesses, they can get stock listings on the larger stock exchanges, most notably the TMX, NASDAQ and NYSE, which has provided ample injections of funding through the capital markets, but also severely limits their ability to enter the U.S. market.

This means that dollars are heavily diverted towards the big Canadian names, which are investable for U.S. investors. They have access to a much larger swath of foreign investment. Investors have started to take notice.

For example, Curaleaf, a U.S. based corporation on its way to US\$1 billion in annual revenues this year*, and is currently producing comparable revenue to Canopy Growth, a Canadian based corporation, while trading at a much lower overall valuation. According to Bloomberg, Curaleaf has US \$5.01 billion dollar market capitalization compared to US\$6.7 billion for Canopy Growth.

Again, this is likely due to market access, and despite the smaller amount of investor dollars able to chase U.S. names — essentially Canadian retail investors and U.S. retail investors in the over-the-counter market — at some point, the revenue-generating potential of the U.S. names cannot be ignored, which is likely why the sector saw strong returns over the last six months. The big difference between Curaleaf and Canopy, apart from Curaleaf being exclusively focused on U.S. marijuana distribution, is that Curaleaf does not have a listing on a major U.S. exchange, it is prohibited from doing so as it is operating a business that is still considered illegal from a U.S. Federal perspective. Canopy on the other hand has listings in both Toronto on the TSX and in the U.S. on the New York Stock Exchange. This dramatically increases its potential access to a larger swath of investors.

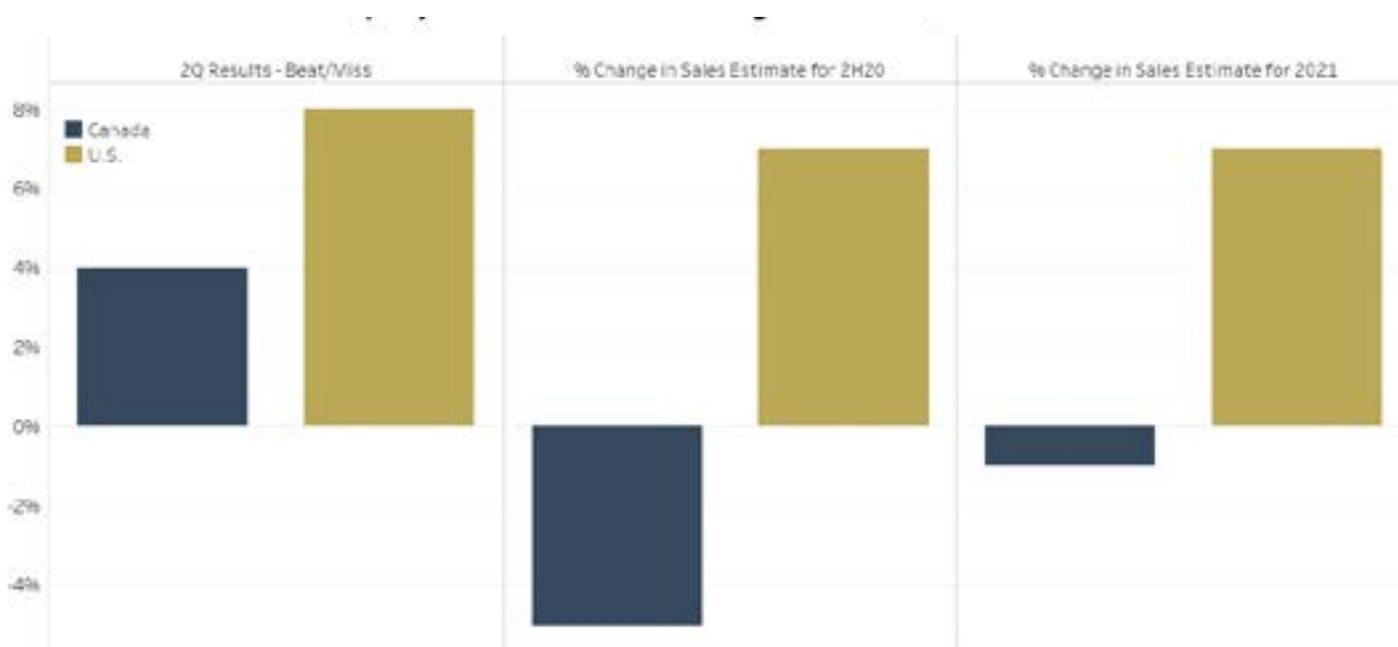
*Source: <https://www.marketwatch.com/story/cannabis-retailer-curaleaf-reports-revenue-miss-widening-losses-2019-08-27>

U.S. Marijuana Sector Takes the Lead

Fundamentals on the U.S. names appear to be relatively strong, with sales estimates being revised upwards for the MSOs relative to the sales estimates of the Canadian LPs (“Licenced Producers”).

According to MJBiz, of the larger public cannabis stocks that reported second-quarter earnings in July and August, the U.S.-focused public stocks have increased an average of 15% since reporting Q2 earnings, while the Canada-focused public stocks have dropped an average of 8%.

CANNABIS COMPANY SALES ESTIMATES: CHANGES AFTER 2Q 2020 FINANCIAL RESULTS



Source: MJBiz as at August 19, 2020. <https://mjbizdaily.com/american-marijuana-companies-outperform-canadas-to-erase-discount-in-second-quarter-earnings-season/>

VALUATIONS

The ability for MSOs to grow earnings relative to declines in Canadian LPs is also being reflected in valuations. Using a Price-to-Earnings (P/E) ratio for these stocks can be difficult because many of the names have negative earnings, so it is probably more useful to track sales growth and the Price-to-Book (P/B) ratio of the issuers.

Below you can see that annual sales growth and P/B for both HMMJ and HMUS and their top ten holdings, as at September 30, 2020. In both cases, sales growth continues to be strong for both strategies, but if you compare the growth specifically of the U.S. MSOs to the Canadian LPs, the MSOs are generating much higher growth rates. This is starting to be reflected in a higher P/B on HMUS, but it could be argued this is supported by presumably higher growth potential of the U.S. names.

ACCORDING TO MJBIZ, OF THE LARGER PUBLIC CANNABIS STOCKS THAT REPORTED SECOND-QUARTER EARNINGS IN JULY AND AUGUST

U.S. Marijuana Sector Takes the Lead

Name	Ticker	Weight	Sales Growth		P/B	
			2020-06-30	2020-09-30	2020-06-30	2020-09-30
HMMJ	HMMJ	--	280.48%	136.25%	0.58	1.56
CANOPY GROWTH CORP	WEED	13.65%	76.18%	43.93%	1.57	1.43
INNOVATIVE INDUSTRIAL PROPERTI	IIPR	13.28%	212.93%	209.34%	1.78	2.42
GW PHARMACEUTICALS PLC	GWPH US	12.98%	708.82%	276.88%	--	--
APHRIA INC	APHA CN	12.33%	331.05%	129.15%	0.85	0.93
CRONOS GROUP INC	CRON CN	11.98%	128.04%	76.27%	1.66	1.41
SCOTTS MIRACLE-GRO CO/THE	SMG US	11.54%	17.15%	20.92%	9.45	8.55
TILRAY INC	TLRY US	3.76%	235.92%	112.18%	3.84	4.65
CHARLOTTES WEB HOLDINGS INC	CWEB CN	3.29%	73.72%	36.10%	0.95	1.38
VILLAGE FARMS INTL INC	VFF CN	2.35%	-4.99%	-0.43%	2.63	2.46
AURORA CANNABIS INC	ACB CN	2.11%	81.83%	13.59%	0.04	0.33

Name	Ticker	Weight	Sales Growth		P/B	
			2020-06-30	2020-09-30	2020-06-30	2020-09-30
HMUS	HMUS CN	--	369.99%	140.72%	1.74	2.25
CRESCO LABS INC	CL CN	10.93%	725.74%	367.61%	1.36	2.77
CURALEAF HOLDINGS INC	CURA CN	10.91%	151.33%	118.44%	4.34	7.61
COLUMBIA CARE INC	CCHW CN	10.30%	111.18%	92.32%	2.13	4.24
TRULIEVE CANNABIS CORP	TRUL CN	10.07%	117.82%	120.35%	4.78	8.87
GREEN THUMB INDUSTRIES INC	GTII CN	9.50%	266.28%	231.00%	1.40	3.21
TUSCAN HOLDINGS CORP	THCB US	6.36%	--	--	1.25	1.28
CHARLOTTES WEB HOLDINGS INC	CWEB CN	5.91%	73.72%	36.10%	1.10	1.38
TERRASCEND CORP	TER CN	5.52%	390.86%	245.75%	3.47	7.19
PLANET 13 HOLDINGS INC	PLTH CN	4.27%	123.22%	44.53%	3.37	8.27
AYR STRATEGIES INC	AYR/A CN	3.69%	--	--	--	1.23

Source: Bloomberg, as at September 30, 2020

If some sort of federal legalization or decriminalization is pursued in the U.S., which could be likely under a Joe Biden/Kamala Harris administration based on recent campaign and policy statements, then we could see even further accelerations of valuations, if the MSOs can gain access to a larger pool of investors and direct investment.

U.S. Marijuana Sector Takes the Lead

In the meantime, HMUS is the only ETF focused on exposure to this sector that can provide diversified exposure across all of these names. Similar to the broader story, there will be winners and losers in the U.S. sector, but as the sector grows in aggregate, HMUS could potentially gain meaningful growth from that overall market development.

While the growth in the U.S. market would likely be reflected more acutely in HMUS, HMMJ could also benefit from further legalization in the U.S. for a couple of reasons:

- 1) HMMJ can add U.S. MSOs that partake in cannabis cultivation and production (which are currently included in its underlying index but not within HMMJ's holdings) if/when federal legalization is allowed
- 2) Large holdings in HMMJ, such as Canopy Growth, have potential exposure to the U.S. marketplace. For example, Canopy would be able to fully acquire Acreage Holdings, a large MSO, upon any announcement of U.S. federal legalization, based on existing agreements.

The fortunes of the U.S. Marijuana sector will likely be the key determinant of the fortunes of the marijuana market globally, and the next few months will be crucial to see what type of industry roadmap is set out, particularly if it is under a Democrat-led administration.

	1 MONTH (%)	3 MONTH (%)	6 MONTH (%)	YTD (%)	1 YEAR (%)	3 YEAR (%)	SINCE INCEPTION* (%)
Horizons Marijuana Life Sciences Index ETF	-12.74	-13.57	-0.09	-28.42	-45.73	-8.28	-8.26
Horizons US Marijuana Index ETF	-13.81	17.66	45.66	-15.17	-22.6	--	-47.88

Source: Bloomberg as at September 30, 2020. *Performance since ETF inception of HMMJ on April 04, 2017, and HMUS as at April 17, 2019 for the period ending September 30, 2020.

The indicated rates of return are the historical annual compounded total returns, including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.



Commissions, management fees and expenses all may be associated with an investment in exchange traded products managed by Horizons ETFs Management (Canada) Inc. (the "Horizons Exchange Traded Products"). The Horizons Exchange Traded Products are not guaranteed, their values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the Horizons Exchange Traded Products. **Please read the relevant prospectus before investing.**

The views/opinions expressed herein may not necessarily be the views of Horizons ETFs Management (Canada) Inc. All comments, opinions and views expressed are of a general nature and should not be considered as advice to purchase or to sell mentioned securities. Before making any investment decision, please consult your investment advisor or advisors.

HMUS is expected to invest in the Marijuana industry in certain U.S. states that have legalized marijuana for therapeutic or adult-use, which is currently illegal under U.S. federal law. HMUS will passively invest in companies involved in the marijuana industry in the U.S. where local state law regulates and permits such activities, as well as in companies involved in the Canadian legal Marijuana industry. Neither HMMJ nor HMUS will be directly engaged in the manufacture, importation, possession, use, sale or distribution of marijuana in either Canada or the U.S. **Please read the full risk disclosure in the respective prospectus before investing.**

HMMJ will not knowingly invest in any constituent issuers that have exposure to the medical or recreational marijuana market in the United States, unless or until it becomes legal. HMMJ will not be directly engaged in the manufacture, possession, use, sale or distribution of marijuana in either Canada or the U.S. **Please read the full risk disclosure in the prospectus before investing.**