

Greenlane Holdings, Inc.: The Initial Public Offering

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ABSTRACT

Julia Camryn, a junior analyst in a small-cap hedge fund, is asked to develop an investment thesis and equity valuation for the Initial Public Offering (IPO) of Greenlane Holdings, Inc. Greenlane is a leading distributor of vaping products and accessories with a strong market presence in Canada and the United States. The firm has tripled sales in the past three years and is positioned to benefit from substantial growth in the vaping, CBD, and cannabis markets. However, opinions vary widely on the potential of these markets. Julia must select an appropriate valuation method for the IPO and estimate the share price.

Learning objectives:

- Perform a discounted cash flow valuation (DCF) of an established company in a potentially high-growth industry.
- Practice relative valuation techniques using appropriate multiples and comparable firms.
- Evaluate the possible impact of changes in government regulation on firm valuation.

This case can be used in undergraduate or postgraduate finance courses with units on corporate finance or valuation.

Greenlane Holdings, Inc. filed for IPO 3/20/19 and went public 4/17/19 at \$17/share. 5,250,000 shares were offered by the company and another 750,000 registered shares were offered by shareholders. The offering raised \$102 million (6 million shares @ \$17).

INTRODUCTION

In April 2019, Dan Napoli called Julia Camryn into his office to discuss a promising upcoming IPO, Greenlane Holdings, Inc. Dan was a partner in a small-cap hedge fund based in Albany, NY and was excited by high growth opportunities in the vaping market. Julia was nearing the end of her first year as a junior analyst at the firm and was being asked to take on more responsibility with respect to evaluating potential additions to the firm's portfolio.

“Julia, I'd like you to evaluate the Greenlane Holdings IPO and estimate the real value of their shares. The firm has a great presence in the Canadian and US vaping market and seems positioned for considerable growth but I'm concerned with the negative press¹ that vaping has received recently. What valuation methods are most appropriate in this situation? Does Greenlane's offering price seem reasonable? What's the potential for growth in the stock price after the offering?”

GREENLANE HOLDINGS, INC.

Since its founding in 2005, Greenlane Holdings, Inc. has become a leading distributor of vaporization products and accessories in the US and Canada. Their customers include over 6,600 independent smoke shops and regional chain stores representing nearly 10,000 retail locations. In addition to the “brick & mortar” distribution, the firm operates two popular e-commerce websites: VaporNation.com and VapeWorld.com. These sites offer convenient, flexible shopping solutions directly to consumers for vaporization products and accessories. Last year, these sites averaged nearly 300,000 unique monthly visitors and 5,000 monthly transactions. Through its expansive North American distribution network and e-commerce presence, Greenlane offers a comprehensive selection of more than 5,000 stock keeping units (“SKUs”), including premium vaporizers and parts, cleaning products, grinders and storage containers, pipes, rolling papers and customized lines of premium specialty packaging.

The company, filed for Initial Public Offering (IPO) in late March seeking to raise \$100 million. The firm planned to use these funds for capital improvements to warehouses and information technology systems. Additionally, the funds could be used for possible investments in, and acquisitions of, complementary companies, products or technologies. The remaining balance would be used for working capital and other general corporate purposes including repaying existing debt. The offering includes 6 million shares of which 5,250,000 are from the company and 750,000 registered shares from existing shareholders. The preliminary valuation set the share price between \$15 and \$20.

COMPANY HISTORY

During the first quarter of 2019, Greenlane began distribution of premium products containing hemp-derived cannabidiol (“CBD”). Greenlane also works with hundreds of licensed cannabis cultivators, processors and dispensaries.

The firm has achieved considerable revenue growth by distributing both the leading brands from established manufacturers in addition to innovative products from promising new manufacturers. Greenlane plans to develop a portfolio of its own proprietary brands aimed at generating higher margins and create long-term value.

Growing consumer interest in vaping tobacco products combined with liberalization of cannabis restrictions could create tremendous growth opportunities for Greenlane. However, health concerns and regulatory backlash represent considerable risk.

INDUSTRY OVERVIEW

Tobacco Products/ E-Cigarettes

The e-cigarette market was valued at \$11.5 billion in 2018 and is anticipated to register a CAGR of 21.6% during 2019-2024. The growth in the e-cigarette is driven by shifting consumer preferences and the perception that vaping carries fewer risks than traditional tobacco smoking. E-

cigarettes reduce cancer risk by avoiding over 4,000 chemicals present in tobacco smoke. Additionally, e-cigarettes emit less toxic material and are less risky to smokers having asthma problems. However, there have been several widely reported instances of e-cigarettes malfunctioning and causing burns and other injuries. The market for online distribution is expected to generate the highest CAGR in the next five years, positioning Greenlane to benefit significantly from their market leading web presence.

CBD

CBD, a non-psychoactive cannabinoid found in cannabis, has had a surge in popularity over the past couple of years. Advocates claim CBD reduces anxiety, improves well-being and effectively treats PTSD, MS and epilepsy without getting the user high. Apart from the expanding cannabis market, the Brightfield Group, the hemp-CBD market alone could hit \$22 billion by 2022.

CBD products are commonly available in vape shops, an important distribution channel for Greenlane. The industry was estimated to generate \$600 million in 2018, and could increase 40 times in the next four years. This growth is, in part, supported by the 2018 Farm Bill which separated “hemp/CBD” from its controlled substance cousin marijuana.

Cannabis

Canadian cannabis companies have recently attracted investment from Constellation Brands, Molson Coors, and Coca-Cola, contributing to greater expectations on the market potential. This potential multiplies if US liberalization continues. Julia gathered the following EV/EBITDA multiples for Canadian cannabis firms as a possible metric for valuing Greenlane’s cannabis business.

Table 1: Canadian Cannabis Companies: Enterprise Value to EBITDA multiples

Company	Forward EV/EBITDA multiple
Aphria (APHQF)	20.7x
Aurora Cannabis	99.0x
CannTrust (TRST)	20.4x
Canopy Growth (CGC)	62.2x
Cronos Group (CRON)	66.5x
HEXO (HEXO)	63.2x
Organigram (OGRMF)	22.8x
Supreme Cannabis (FIRE)	67.4x

Source: CapitalIQ

VALUATION

To determine the value of Greenlane in comparison to the anticipated price range, Julia had to perform a valuation of the firm’s equity. Given the uncertainty surrounding the offering, she decided to complete both a fundamental valuation using a discounted cash flow and a relative

valuation using multiples from a set of comparable firms (Exhibit 5). She made further assumptions concerning weighted average cost of capital inputs (Exhibit 7).

MAKING A RECOMMENDATION

Once Julia had collected the necessary information, she had some difficult decisions to make. Although Greenlane had established a strong position in the e-cigarettes and accessories market, public opinion and regulatory scrutiny may be turning against this market in the US. At the same time, relaxation of rules against CBD and cannabis could open rapidly growing and lucrative new markets for Greenlane's products. Furthermore, the entry of much larger competitors in these markets may make Greenlane an attractive acquisition target in the future. Did these potential high returns offset the risks enough for her to recommend investing in the firm?

References

S&P Capital IQ. (2019). Multiple companies, Retrieved March 22, 2019, from S&P Capital IQ database.

Cigarette Market Size, Share: Industry Analysis Report, 2024. (n.d.). Retrieved March 25, 2019, from <https://www.psmarketresearch.com/market-analysis/e-cigarette-market>.

Garber-Paul, E. (2018, November 15). Exclusive: New Report Predicts CBD Market Will Hit \$22 Billion by 2022. Retrieved April 2, 2019, from <https://www.rollingstone.com/culture/culture-news/new-study-cbd-market-22-billion-2022-722852/>.

Exhibit 1: Greenlane Holdings, Inc., Balance Sheet

Balance Sheet			
Balance Sheet as of:			
	Dec-31-2016	Dec-31-2017	Dec-31-2018
ASSETS			
Current Assets			
Cash & ST Investments	1.7	2.1	7.3
Accounts Receivable	1.3	3.8	8.2
Inventory	5.6	14.2	29.5
Other Current Assets	1.4	3.3	12.0
Total Current Assets	10.0	23.3	57.1
Gross Property, Plant & Equipment	-	1.2	12.6
Accumulated Depreciation	-	(0.6)	(1.0)
Net Property, Plant & Equipment	0.4	0.6	11.6
Long-term Investments	0.9	0.9	0.1
Goodwill	3.2	3.2	5.4
Other Intangibles	1.6	1.6	3.7
Deferred Charges, LT	-	0.1	0.1
Other Long-Term Assets	-	-	-
Total Assets	16.0	29.6	78.0
LIABILITIES			
Accounts Payable	4.6	15.5	20.2
Accrued Expenses	1.0	2.0	4.2
Short-term Borrowings	-	0.6	-
Curr. Port. of LT Debt	0.6	0.0	0.2
Curr. Port. of Cap. Leases	0.1	0.1	0.1
Curr. Income Taxes Payable	0.1	0.2	0.7
Unearned Revenue, Current	-	0.7	3.1
Other Current Liabilities	0.0	0.4	2.0
Total Current Liabilities	6.4	19.5	30.4
Long-Term Debt	2.0	0.6	48.4
Capital Leases	0.1	0.1	0.2
Other Non-Current Liabilities	-	-	10.0
Total Liabilities	8.6	20.2	89.1
Common Stock	6.4	6.4	(10.8)
Additional Paid In Capital	-	-	-
Retained Earnings	1.2	3.2	-
Treasury Stock	-	-	-
Comprehensive Inc. and Other	(0.2)	(0.2)	(0.3)
Total Common Equity	7.4	9.4	(11.1)
Total Equity	7.4	9.4	(11.1)
Total Liabilities And Equity	16.0	29.6	78.0

Exhibit 2: Greenlane Holdings, Inc., Income Statement

<i>In Millions USD, except per share items.</i>			
source: Capital IQ & Proprietary Data			
Income Statement			
For the Fiscal Period Ending	12 months Dec-31-2016	12 months Dec-31-2017	12 months Dec-31-2018
Total Revenue	66.7	88.3	178.9
Cost Of Goods Sold	51.7	67.7	143.2
Gross Profit	15.0	20.6	35.7
Selling General & Admin Exp.	14.3	17.1	35.7
R & D Exp.	-	-	-
Depreciation & Amort.	0.6	0.8	1.5
Other Operating Exp., Total	14.8	17.9	37.2
Operating Income	0.1	2.7	(1.5)
Interest Expense	(0.2)	(0.3)	(3.2)
Income/(Loss) from Affiliates	0.2	0.0	(0.2)
Other Non-Operating Inc. (Exp.)	0.0	0.0	0.3
EBT Excl. Unusual Items	0.2	2.5	(4.5)
Other Unusual Items	-	-	(1.0)
EBT Incl. Unusual Items	0.2	2.5	(5.6)
Income Tax Expense	0.1	0.2	0.3
Net Income	0.1	2.3	(5.9)

Exhibit 3: Greenlane Holdings, Inc., Statement of Cash Flows

Balance Sheet			
Balance Sheet as of:	Dec-31-2016	Dec-31-2017	Dec-31-2018
ASSETS			
Current Assets			
Cash & ST Investments	1.7	2.1	7.3
Accounts Receivable	1.3	3.8	8.2
Inventory	5.6	14.2	29.5
Other Current Assets	1.4	3.3	12.0
Total Current Assets	10.0	23.3	57.1
Gross Property, Plant & Equipment	-	1.2	12.6
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Net Property, Plant & Equipment	0.4	0.6	11.6
Long-term Investments	0.9	0.9	0.1
Goodwill	3.2	3.2	5.4
Other Intangibles	1.6	1.6	3.7
Deferred Charges, LT	-	0.1	0.1
Other Long-Term Assets	-	-	-
Total Assets	16.0	29.6	78.0
LIABILITIES			
Accounts Payable	4.6	15.5	20.2
Accrued Expenses	1.0	2.0	4.2
Short-term Borrowings	-	0.6	-
Curr. Port. of LT Debt	0.6	0.0	0.2
Curr. Port. of Cap. Leases	0.1	0.1	0.1
Curr. Income Taxes Payable	0.1	0.2	0.7
Unearned Revenue, Current	-	0.7	3.1
Other Current Liabilities	0.0	0.4	2.0
Total Current Liabilities	6.4	19.5	30.4
Long-Term Debt	2.0	0.6	48.4
Capital Leases	0.1	0.1	0.2
Other Non-Current Liabilities	-	-	10.0
Total Liabilities	8.6	20.2	89.1
Common Stock	6.4	6.4	(10.8)
Additional Paid In Capital	-	-	-
Retained Earnings	1.2	3.2	-
Treasury Stock	-	-	-
Comprehensive Inc. and Other	(0.2)	(0.2)	(0.3)
Total Common Equity	7.4	9.4	(11.1)
Total Equity	7.4	9.4	(11.1)
Total Liabilities And Equity	16.0	29.6	78.0

Exhibit 4: Greenlane Preliminary Prospectus Information

The information in this preliminary prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS (Subject to Completion)

Dated March 20, 2019

Shares

Greenlane Holdings, Inc.
Class A Common Stock

This is the initial public offering of our Class A common stock. We are selling _____ shares of our Class A common stock, and the selling stockholders named in this prospectus are selling _____ shares of our Class A common stock. We currently expect the initial public offering price to be between \$ _____ and \$ _____ per share of our Class A common stock. We will not receive any proceeds from the sale of shares by the selling stockholders.

Prior to this offering, there has been no public market for our Class A common stock. We have applied to list our Class A common stock on The Nasdaq Global Market (Nasdaq) under the symbol "GNLN."

Following this offering, we will have three classes of authorized common stock. Each share of our Class A common stock, our Class B common stock and our Class C common stock will have one vote per share. Adam Schoenfeld, our Chief Strategy Officer, and an affiliated entity of Mr. Schoenfeld and Aaron LoCasco, our Chief Executive Officer, will beneficially own all of our issued and outstanding Class C common stock after this offering and will hold in the aggregate approximately _____ % of the combined voting power of our outstanding capital stock after this offering. As a result, Messrs. LoCasco and Schoenfeld will be able to control any action requiring the general approval of our stockholders, including the election of our board of directors, the adoption of amendments to our certificate of incorporation and bylaws and the approval of any merger or sale of substantially all of our assets.

We are an "emerging growth company" as that term is used in the Jumpstart our Business Startups Act of 2012, and as such, have elected to comply with certain reduced public company reporting requirements for this prospectus and future filings. See "Prospectus Summary — JOBS Act" and "Risk Factors — Risks Related to this Offering and Ownership of Our Class A Common Stock." We will also be a "controlled company" under the corporate governance rules for Nasdaq-listed companies and will be exempt from certain corporate governance requirements of the Nasdaq Marketplace Rules. See "Prospectus Summary — Controlled Company" and "Risk Factors — Risks Relating to this Offering and Ownership of Our Class A Common Stock."

Investing in our Class A common stock involves risks. See "Risk Factors" beginning on page 24.

	<i>Per Share</i>	<i>Total</i>
Initial Public Offering Price	\$ _____	\$ _____
Underwriting Discounts and Commissions	\$ _____	\$ _____
Proceeds to Us (before expenses)⁽¹⁾	\$ _____	\$ _____
Proceeds to the Selling Stockholders	\$ _____	\$ _____

(1) See "Underwriting".

The selling stockholders have granted the underwriters an option to purchase up to _____ additional shares of our Class A common stock within 30 days of the closing date of this offering to cover any over-allotments, if any, and for market stabilization purposes. See "Underwriting".

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on or about _____, 2019 through the book-entry facilities of The Depository Trust Company.

Cowen

Canaccord Genuity

Prospectus dated _____, 2019

Exhibit 5: Greenlane Holdings, Inc., Comparable Firms & Multiples

Company Comp Set		Last Twelve Months (LTM-latest)				
Company Name	TEV/Total Revenues	TEV/EBITDA	TEV/EBIT	P/E	P/TangBV	
NewBridge Global Ventures, Inc. (OTCPK:NBGV)	NM	NM	NM	NM	9.7x	
Universal Corporation (NYSE:UVV)	0.9x	8.2x	9.8x	14.2x	1.2x	
Pyxus International, Inc. (NYSE:PYX)	0.8x	11.5x	15.9x	NM	2.2x	
Turning Point Brands, Inc. (NYSE:TPB)	3.4x	16.4x	17.2x	36.0x	NM	
CBD Unlimited, Inc. (OTCPK:EDXC)	-	NM	NM	NM	NM	
Curaleaf Holdings, Inc. (CNSX:CURA)	53.4x	NM	NM	NM	9.6x	
FSD Pharma Inc. (CNSX:HUGE)	NM	-	NM	NM	4.6x	
GTEC Holdings Ltd. (TSXV:GTEC)	NM	NM	NM	NM	4.0x	
James E. Wagner Cultivation Corporation (TSXV:JWCA)	128.7x	NM	NM	NM	5.1x	
Summary Statistics						
	TEV/Total Revenues	TEV/EBITDA	TEV/EBIT	P/E	P/TangBV	
High	128.7x	16.4x	17.2x	36.0x	9.7x	
Low	0.8x	8.2x	9.8x	14.2x	1.2x	
Mean	37.4x	12.0x	14.3x	25.1x	5.2x	
Median	3.4x	11.5x	15.9x	25.1x	4.6x	
Company Comp Set		Next Twelve Months (NTM)				
Company Name	NTM TEV/Total Revenue	NTM TEV/EBITDA	NTM P/E			
NewBridge Global Ventures, Inc. (OTCPK:NBGV)	-	-	-			
Universal Corporation (NYSE:UVV)	-	-	-			
Pyxus International, Inc. (NYSE:PYX)	0.78x	7.85x	-			
Turning Point Brands, Inc. (NYSE:TPB)	2.85x	15.35x	24.01x			
CBD Unlimited, Inc. (OTCPK:EDXC)	-	-	-			
Curaleaf Holdings, Inc. (CNSX:CURA)	11.57x	33.48x	101.24x			
FSD Pharma Inc. (CNSX:HUGE)	-	-	-			
GTEC Holdings Ltd. (TSXV:GTEC)	-	-	-			
James E. Wagner Cultivation Corporation (TSXV:JWCA)	2.46x	60.15x	NM			
Summary Statistics						
	NTM TEV/Total Revenue	NTM TEV/EBITDA	NTM P/E			
High	11.57x	60.15x	101.24x			
Low	0.78x	7.85x	24.01x			
Mean	4.41x	29.21x	62.63x			
Median	2.65x	24.41x	62.63x			

Exhibit 6: Greenlane Holdings, Inc. forecast assumptions

	2019	2020	2021	2022	2023
Revenue growth					

CAPEX = 2% of sales

LT GDP growth = 3%

Exhibit 7: Weighted Average Cost of Capital Assumptions

Risk-free rate	2.5%
Equity Market Risk Premium	5.5%
Equity Beta	1.25
Pre-tax cost of debt	5.0%
Tax Rate	25%

¹ This case was developed in the finance capstone course at Siena College during the spring 2019 semester. Greenlane Holdings went public in April 2019, prior to the highly negative press coverage of vaping-related illnesses and deaths in summer 2019.