# AYR STRATEGIES INC.

CSE:AYR.A | OTCQX:AYRSF

August 19, 2019

# SAFE HARBOR

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No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This document does not provide full disclosure of all material facts relating to the securities described herein. Investors should read the Final Prospectus and the Circular and any amendments for disclosure of those facts, especially risk factors relating to the securities. This presentation has been prepared in connection with the qualifying transaction of Ayr Strategies Inc. ("AYR" or the "Company") that closed on May 24, 2019.

## Forward-Looking Statements

Certain information in this presentation may constitute "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information may relate to AYR, Mercer Park CB L.P. (the "Sponsor"), Mercer Park, L.P. ("Mercer Park") or their respective affiliates' future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividends, plans and objectives of AYR, the Sponsor or their respective affiliates, as the case may be. Particularly, statements regarding future results, performance, achievements, prospects or opportunities of AYR, the Sponsor or their respective affiliates are forward-looking statements. The forward-looking information in this presentation is based on certain assumptions, including, without limitation, the receipt of all required regulatory approvals and the expected timing related thereto, AYR's future objectives and strategies to achieve those objectives, as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Generally, forward-looking information can be identified by use of words such as "outlook", "target", "objective", "may", "could", "would", "will", "expect", "intend", "estimate", "forecasts", "project", "seek", "anticipate", "believes", "should", "plans" or "continue", and other similar terminology.

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## Cautionary Note Regarding United States Securities Laws

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## Definition and Reconciliation of Non-GAAP Measures

The target businesses of AYR's qualifying transaction report certain non-International Financial Reporting Standards ("IFRS") measures that are used to evaluate the performance of such businesses and the performance of their respective segments, as well as to manage their capital structure. As non-IFRS measures generally do not have a standardized meaning, they may not be comparable to similar measures presented by other issuers. Securities regulators require such measures to be clearly defined and reconciled with their most directly comparable IFRS measure.

## Adjusted EBITDA

Adjusted EBITDA represents income (loss) from operations, as reported, before interest, tax, and adjusted to exclude extraordinary items, non-recurring items, other non-cash items, including stock-based compensation expense, depreciation, and the non-cash effects of accounting for biological assets and inventories, and further adjusted to remove acquisition related costs.

Please see the Appendix for an illustration of AYR's calculation of Adjusted EBITDA and reconciliation to IFRS figures.

## Assumptions

In developing the financial targets set forth in the forgoing presentation, Ayr has made the following assumptions and relied on the following factors and considerations:

- The targets are based on discussions with the management teams of the Target Businesses and their historical results, particularly in respect of 2019 year to date results.
- The targets are subject to the completion of in place cultivation and product facility expansion and improvement plans anticipated to come online in 2019 and 2020, and the relocation of one dispensary.
- Revenue growth assumptions at established recreational dispensaries depend on a variety of factors, including among other things, location and degree of seasoning as a recreational dispensary, and average to 7% growth year over year from 2019 to 2020.
- Revenue growth assumptions for dispensaries and wholesale activities in markets transitioning from medical status to recreational status are based on anticipated production capacity available from a vertically-integrated supply chain, with capacity not taken up in dispensary sales available for wholesale. These assumptions include current production levels at cultivation and production facilities, plus production capacity in process of construction and planning, starting from target completion dates. Prices are projected forward at recently realized medical and recreational wholesale and retail prices.
- Cost of goods sold, before taking into account the impact of value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of Adjusted EBITDA), have been projected based on estimated costs of production and capacity available from a vertically-integrated supply chain. Cost of goods sold relating to inventory purchased from third parties have been projected in line with historical levels.
- Selling, general and administrative expenses at the state level are assumed to increase in dollar terms year over year, but to decrease as a percentage of revenues due to inherent scalability of selling, general and administrative expenses. Additionally, total selling, general and administrative expenses include an allocation for corporate overhead and public company costs.
- A currency exchange rate of US$1 = C$1.333 has been assumed.

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# AYR AT A GLANCE

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A vertically integrated, cannabis multi-state operator (MSO) with a presence in western and eastern U.S.

$145M AEBITDA[1]

$315M Revenue[1]

*(In C$)*

## Western Portfolio
Nevada

| | |
|---|---|
| 5 | Recreational Dispensaries |
| 3 | Cultivation Facilities (1 operational, 2 licensed), 14,000 $ft^2$ canopy today, build up to 50,000 $ft^2$ |
| 2 | Extraction/Production Facilities |

## Eastern Portfolio
Massachusetts

| | |
|---|---|
| 3 | Medical Dispensaries (3 Recreational licenses, pending local municipality approvals) |
| 1 | Cultivation Facility with 13,000 $ft^2$ canopy today, build up to 100,000 $ft^2$ |
| 1 | Extraction/Production Facilities |

1) Reflects midpoint of 2020 company outlook, issued and effective on August 14, 2019 only.

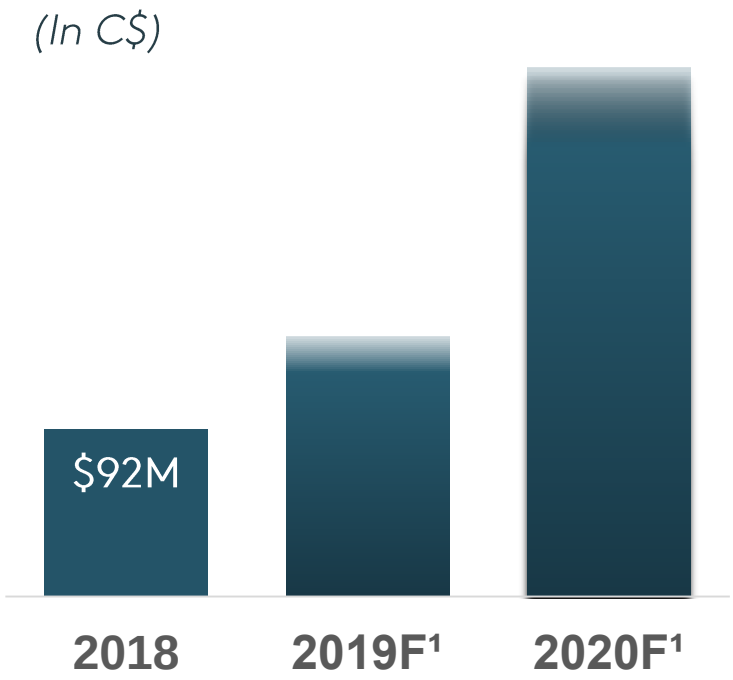
# STRONG FINANCIAL PROFILE

## Institutionalization of Cannabis to Drive Accelerated Growth & Profitability

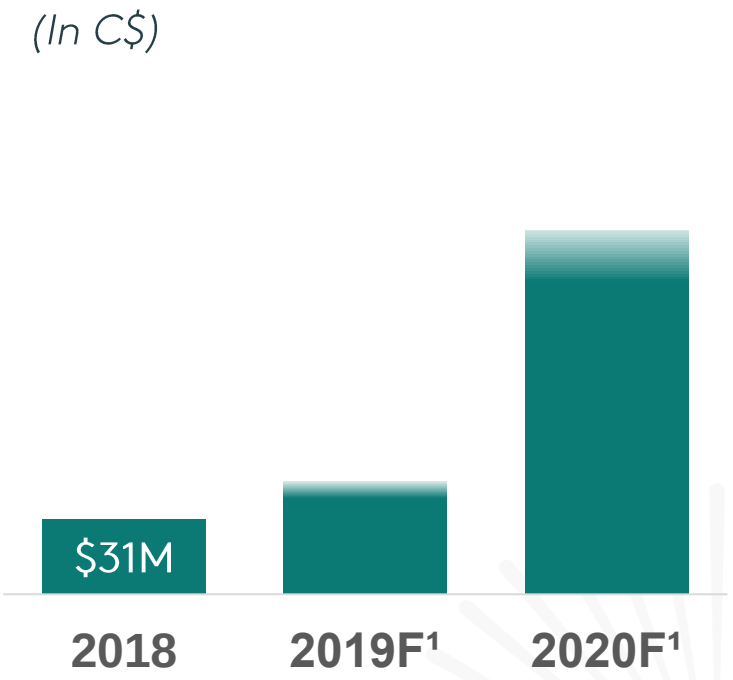
2019F[1]:
- Revenue: C$150-$170M
- AEBITDA: C$40-$50M

2020F[1]:
- Revenue: C$305-$325M
- AEBITDA: C$140-$150M

### Revenue




### Adj. EBITDA




1) Company outlook issued and effective on August 14, 2019 only. 2019F based on annualized May 25, 2019 – December 31, 2019 results (post qualifying transaction close period).

# STRONG FINANCIAL PROFILE

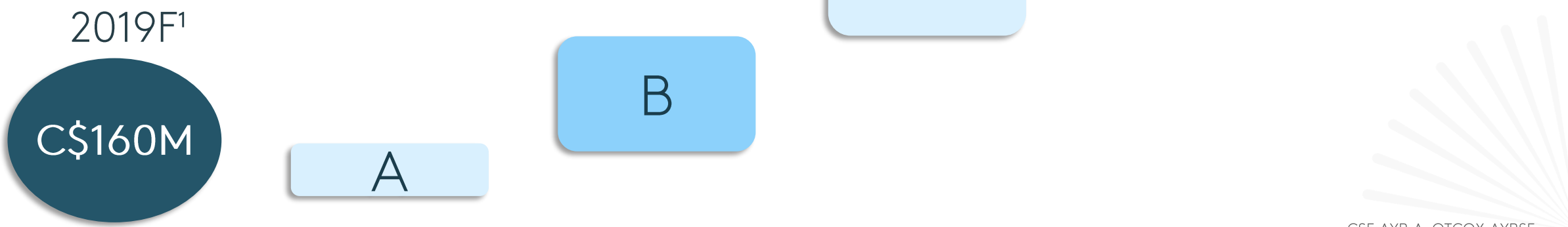
## Revenue Bridge

A. c. 5% :: Modest growth in NV dispensary sales and wholesale cannabis infused product

B. c. 20% :: NV wholesale sales grow as annual flower capacity increases from 5.5k lbs to 11k lbs with 17k $ft^2$ of increased cultivation capacity; annual oil capacity increases from 250k gr to 700k gr with equipment purchases

C. c. 25% :: MA dispensary sales increase on Recreational Approval (1st store May; 2 additional stores September)

D. c. 50% :: MA wholesale sales grow as annual flower capacity increases from 5k lbs to 12k lbs (oil from 225k gr to 575k gr) with 19k $ft^2$ of increased cultivation capacity




1) Reflects midpoint of company outlook, issued and effective on August 14, 2019 only.

# STRONG FINANCIAL PROFILE

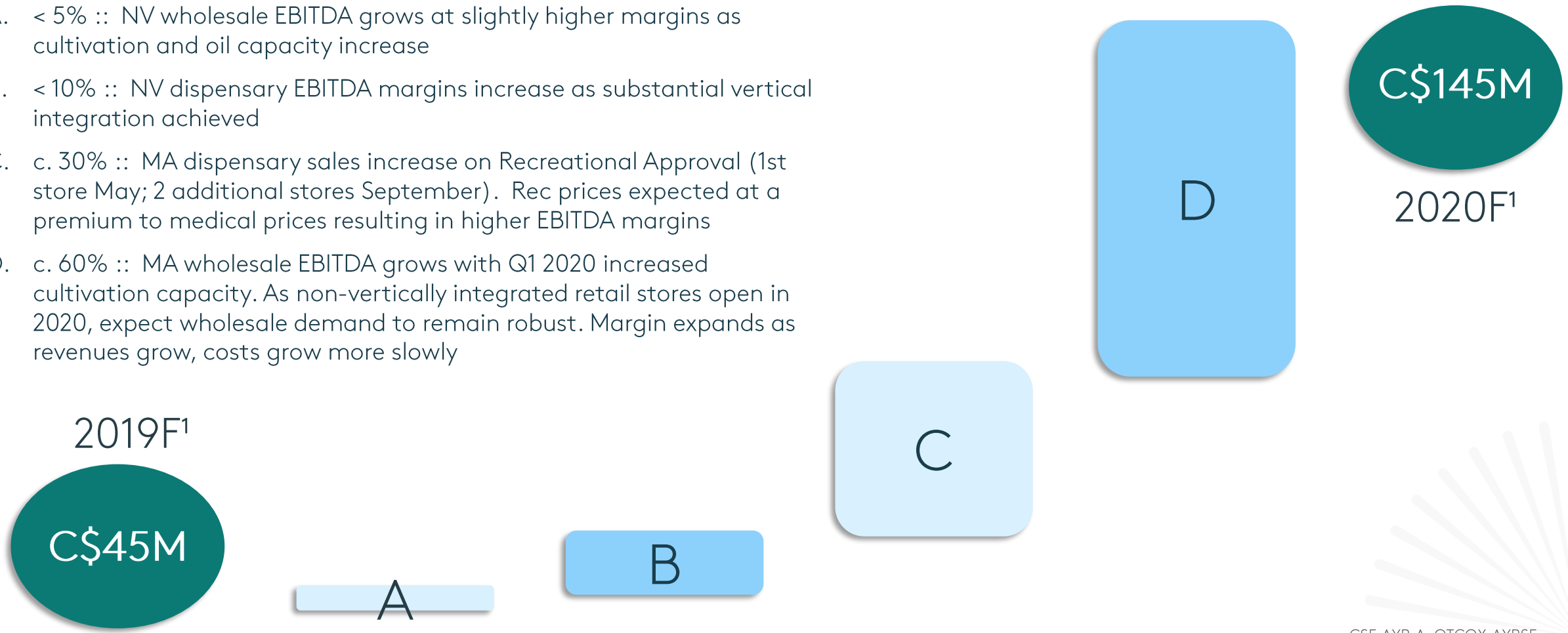
## Adj. EBITDA Bridge

A. < 5% :: NV wholesale EBITDA grows at slightly higher margins as cultivation and oil capacity increase

B. < 10% :: NV dispensary EBITDA margins increase as substantial vertical integration achieved

C. c. 30% :: MA dispensary sales increase on Recreational Approval (1st store May; 2 additional stores September). Rec prices expected at a premium to medical prices resulting in higher EBITDA margins

D. c. 60% :: MA wholesale EBITDA grows with Q1 2020 increased cultivation capacity. As non-vertically integrated retail stores open in 2020, expect wholesale demand to remain robust. Margin expands as revenues grow, costs grow more slowly




1) Reflects midpoint of company outlook, issued and effective on August 14, 2019 only.

# BRIDGE DETAIL: DRIVERS OF TOP LINE GROWTH

## Dispensary Sales

### Nevada

| | 2019 Model Average | 2020 |
|---|---|---|
| Daily Transactions | 600 | 10–12% Growth |
| Avg. Sale | $58 | |

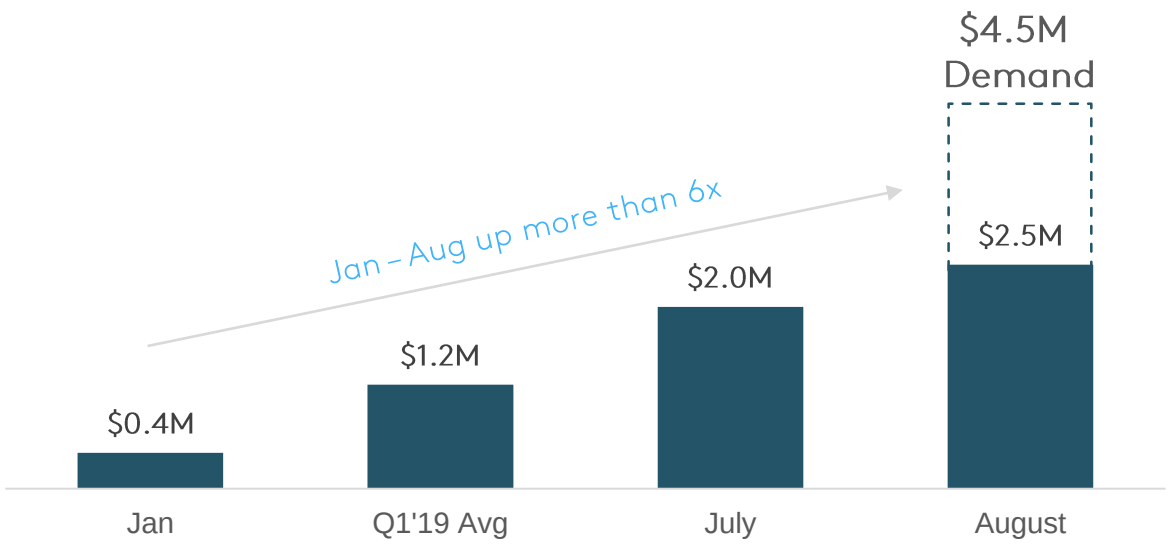
### Massachusetts

| | 2019-2020 Medical Model | 2020 Recreational Model | Notes |
|---|---|---|---|
| Daily Transactions | 100 | 500 | 1 store recreational 5/2020 |
| Avg. Sale | $105 | $125 | 2 additional stores recreational 9/2020 |

# BRIDGE DETAIL: DRIVERS OF TOP LINE GROWTH

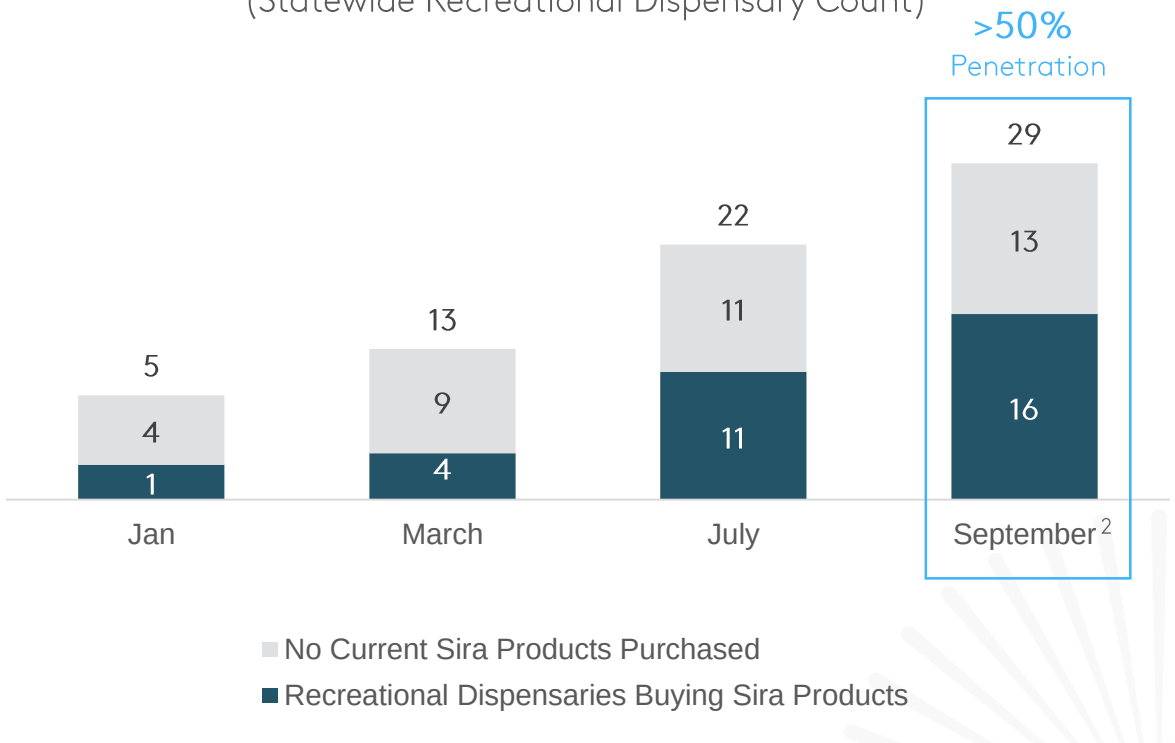
## Wholesale Sales[1]

### MA Wholesale Monthly Sales




### MA Wholesale Penetration

(Statewide Recreational Dispensary Count)




1) No wholesale bridge details for Nevada as virtually all forecasted Nevada growth is in the retail channel.
2) Reflects secured agreements for retail dispensaries expected to be open September 2019.

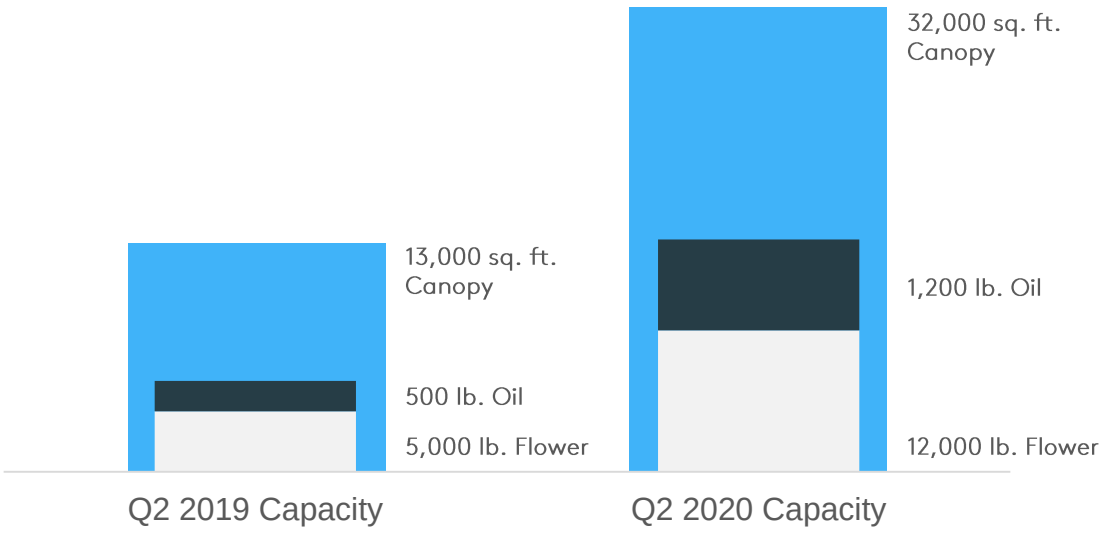
# BRIDGE DETAIL: AYR CULTIVATION EXPANSION TO MEET EXISTING DEMAND

## Massachusetts

Increasing capacity to meet wholesale & retail demand

Plants Growing: Q4 2019

First Flower Sales: Q1 2020

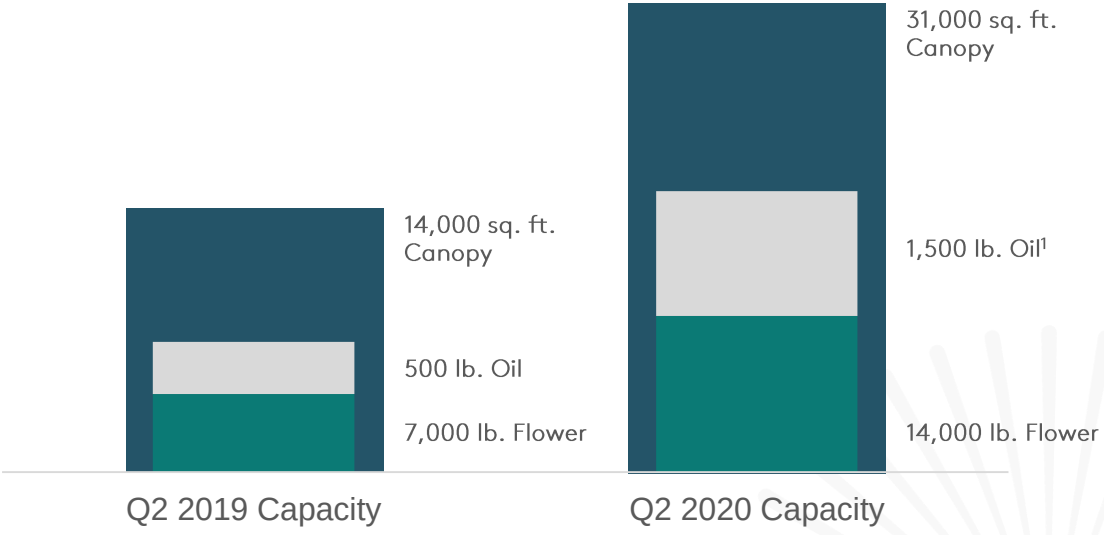



## Nevada

Increasing capacity to meet demand from Ayr retail stores – >50% internally sourced by Q3 2020

Plants Growing: Q1 2020

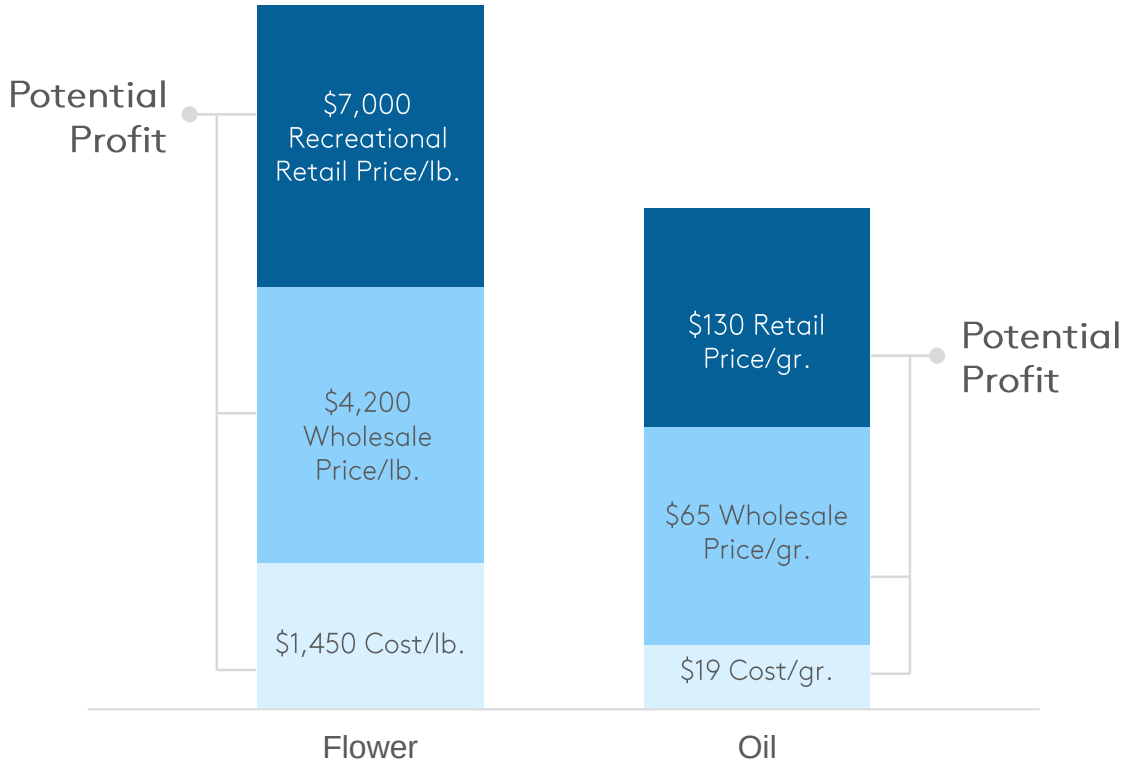
First Flower Sales: Q2 2020



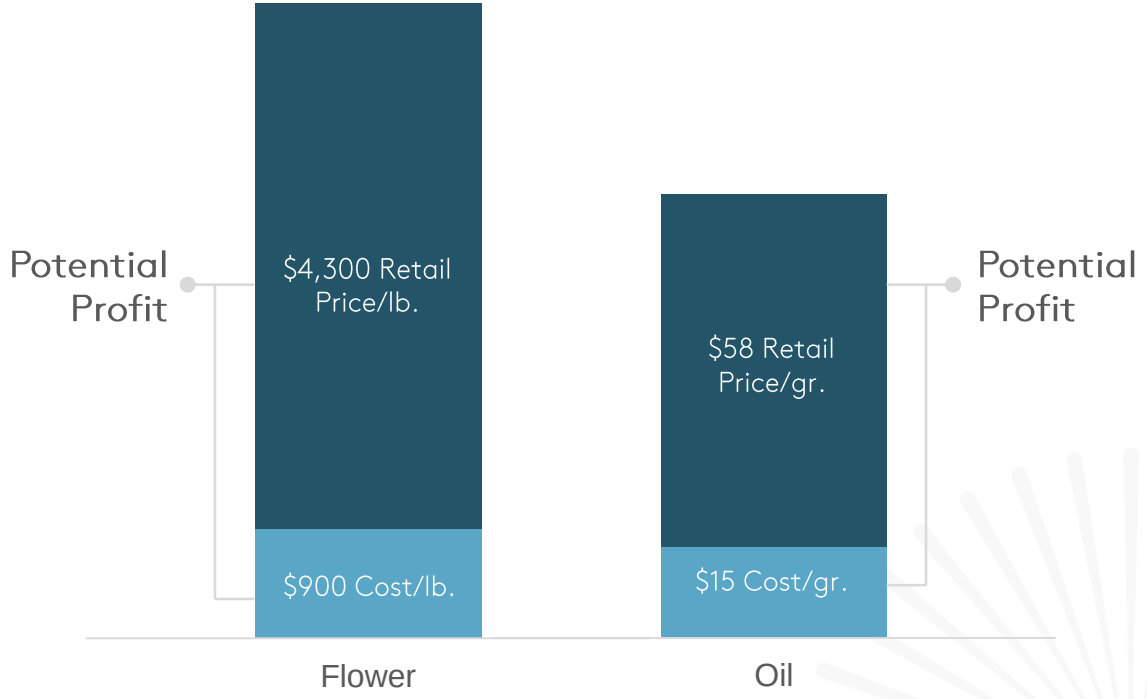

1) Includes increased oil production capacity from equipment & operational improvements.

# BRIDGE DETAIL: ADDITIONAL CAPACITY TO BE SOLD AT ATTRACTIVE MARGINS

## Massachusetts




## Nevada



# A DIFFERENTIATED MSO

| WHO WE ARE | | WHO WE AREN'T |
|---|---|---|
| Low risk growth plan focused on established businesses, best-in-class operators | | Collection of greenfield opportunities with large capex needs and execution risk |
| Focused on **profitability** and **cash flow** | | Burning cash and sacrificing margins |
| Pursuing **strategic organic growth** projects | | Deploying capex dollars for the sake of driving growth |
| Disciplined in our M&A strategy targeting **limited license states to cluster and penetrate** | | Acquiring states instead of talent |
| Always seeking to **maximize shareholder value** | | Pursuing dilutive transactions in search for growth |

# KEY METRICS

**3,600+**
Daily Transaction Count[1]

**West: ~$55**
**East: ~$105**
Avg. Spend per Customer[1]

**8**
Dispensaries Operational

**W: 60 of 65**
**E: 16 of 29**
Wholesale Penetration[2]

**30,000**
Production sq. ft.

**150k**
Cultivation sq. ft. capacity

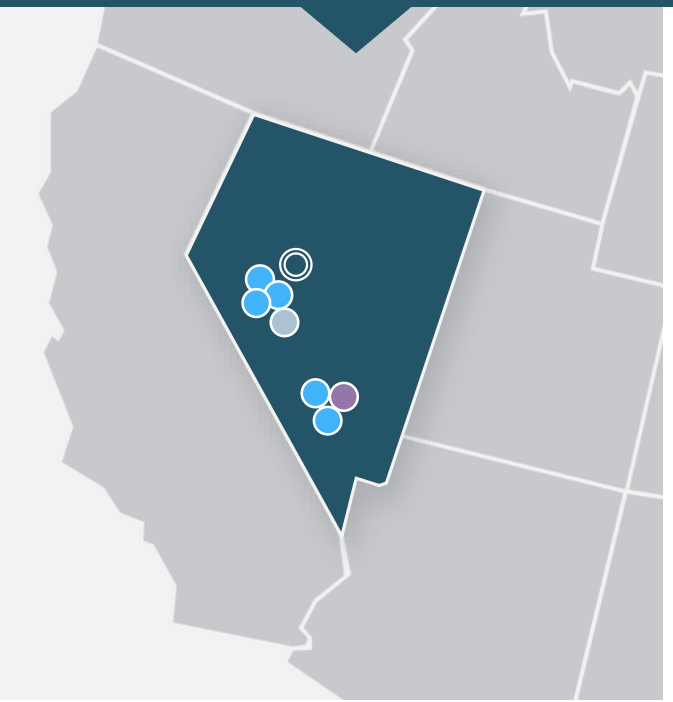
**11,000 lb**
Current Annual Flower Production

**1,000 lb**
Current Annual Oil Production

1) As of Q2 2019.
2) Wholesale penetration into all NV dispensaries and recreational MA dispensaries projected to be open September 2019.

# WESTERN PORTFOLIO

## 5 dispensaries in key markets across Nevada

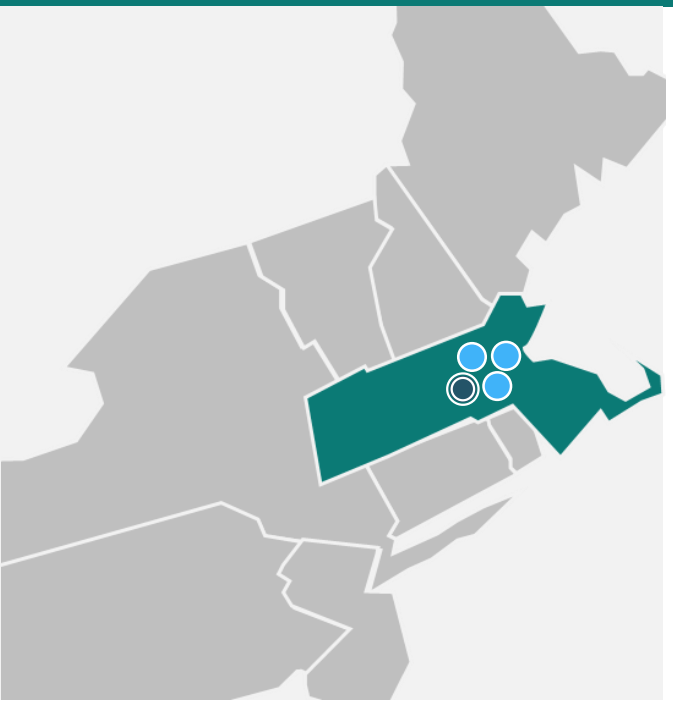


- 14,000 ft² cultivation facility; ability to build out additional 17,000 ft²
- Additional cultivation facility licensed with 20,000+ ft²
- Two extraction/production facilities for cannabis infused products (CIPs)[1]
- Establishes foundation to expand into adjacent states

1) Cannabis infused products (CIPs) include edibles, beverages, tinctures, topicals, etc.

# EASTERN PORTFOLIO

## Strong Wholesale and 3 Med/Rec dispensaries in Massachusetts



- 13,000 ft² cultivation facility; 19,000 ft² phase II in process
- Additional cultivation canopy of licensed with 60,000+ ft² possible under license
- **Retail:** Prime locations in Cambridge (Med/Rec), Sommerville (Med/Rec), Needham (Med); with potential Back Bay (Rec) location
- **Wholesale:** Substantial wholesale business selling into growing Rec dispensary market with limited additional wholesale supply

# PRODUCT MIX

highly
EDIBLE
GRAND DADDY GRAPE
REGULAR STRENGTH
GOLDEN STRAWBERRY
REGULAR STRENGTH

#BEKYND
KYND
CANNABIS COMPANY
CBD
TINCTURE
THC
2:1

MADE WITH LOVE
CONTAINS THC

SIRA NATURALS

SATIVA

# NEAR-TERM INITIATIVES TO DRIVE ORGANIC GROWTH & MARGIN EXPANSION

## Begin Integration of Five Acquired Companies in Q3 2019

Leverage best practices from each portfolio company, including product innovation and evolving retail concepts to capitalize on consumer trends

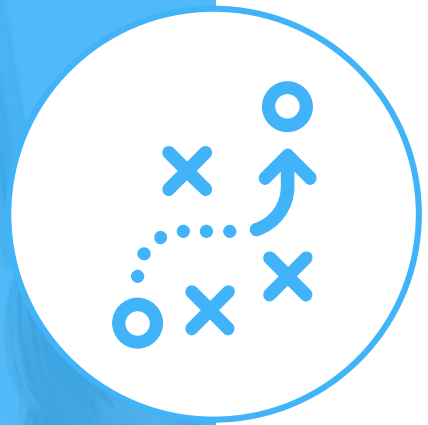
Establish vertical integration synergies, expanding margins and increasing opportunities in the wholesale market

Build on experience in NV to maximize conversion of med → rec dispensaries in other markets

Consolidate storefront portfolio into one unified brand over time

# DISCIPLINED ACQUISITION STRATEGY

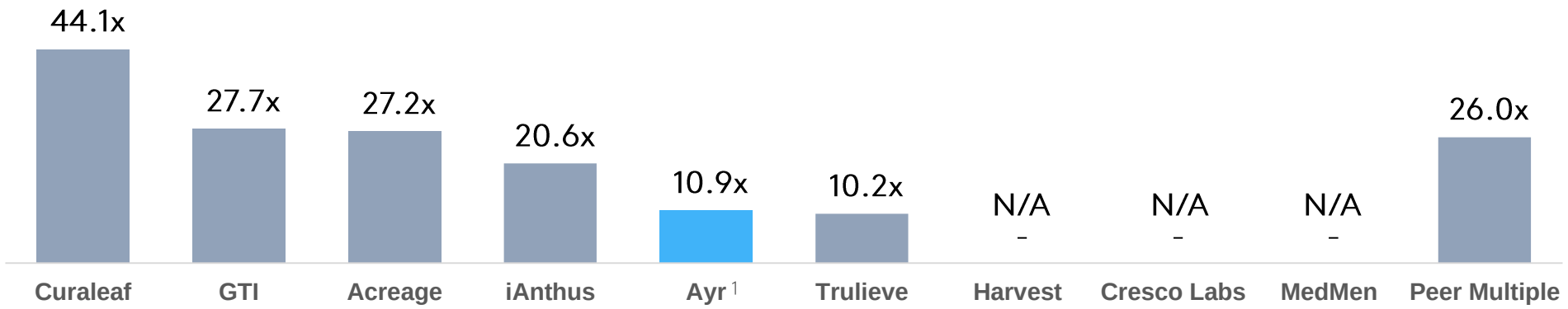
## Strategic Transactions Must Meet Strict Criteria



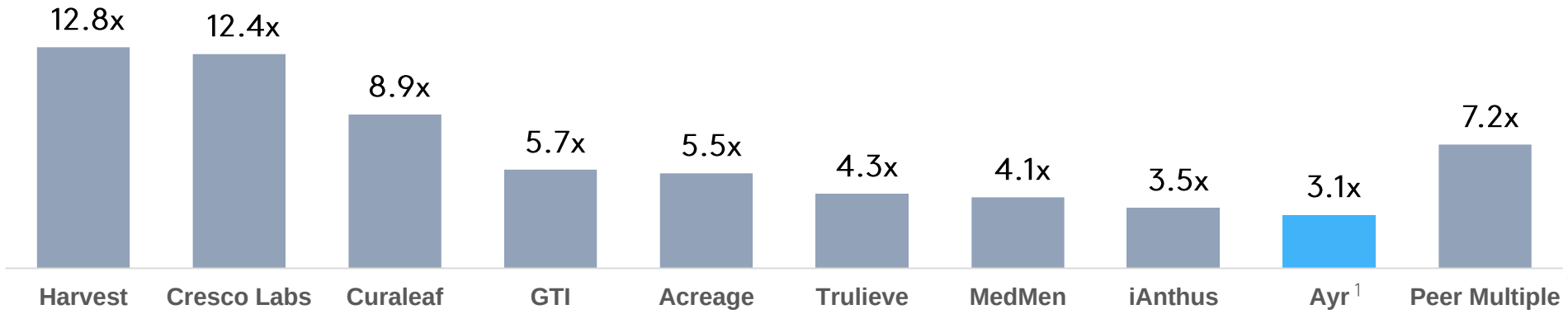
- Cluster in adjacent states for synergy and brand strength
- Focus on limited license & highly populated states with disciplined, patient approach
- Targeting well-established and profitable cannabis companies, not ones that need to "grow" into their multiple
- Leverage operational and product expertise that can be deployed across existing portfolio
- Retain quality assets and talented personnel

# COMPETITIVE LANDSCAPE

## 2019E AEBITDA Multiples




## 2019E Revenue Multiples

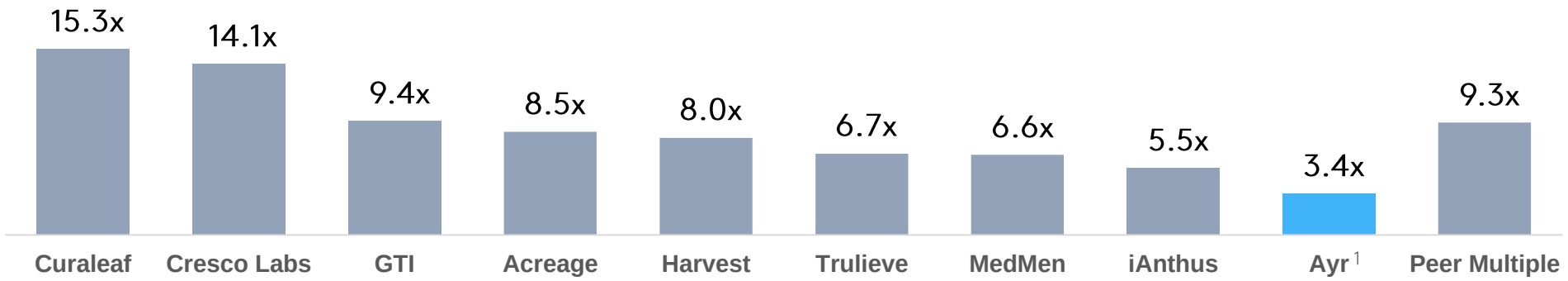



Source: Factset, Canaccord Genuity

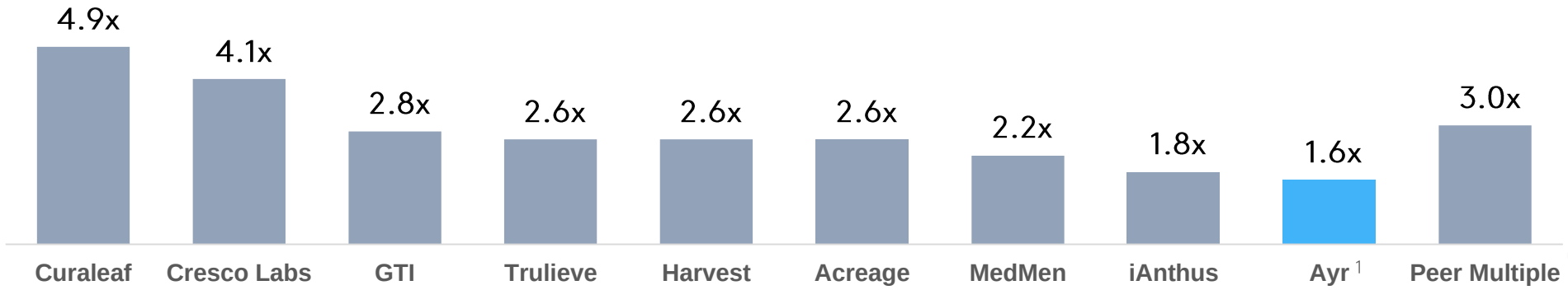
1) Enterprise value assumes share count of 30.3M based on treasury method, net debt of C$37.8M and a share price of C$14.92. Fully diluted share count = 42.9M.

# COMPETITIVE LANDSCAPE

## 2020E AEBITDA Multiples




## 2020E Revenue Multiples




Source: Factset, Canaccord Genuity

1) Enterprise value assumes share count of 30.3M based on treasury method, net debt of C$37.8M and a share price of C$14.92. Fully diluted share count = 42.9M.

# MARKET PROFILE

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## TRADING DATA @ (08/14/19) *(In C$)*

Stock Price

**$14.92**

Enterprise Value[2]

**$489.6M**

**42.9M**
TOTAL FULLY DILUTED SHARES OUTSTANDING[1]

**$451.7M**
MARKET CAP

**73%**
PUBLIC FLOAT, EST.

**41,880**
AVG. DAILY VOL. (3 MO.)

## VALUATION & FINANCIAL MEASURES *(In C$)*

2020F Revenue[3]

**$315M**

2020F AEBITDA[3]

**$145M**

**1.6x**
EV/FY2020 REVENUE

**3.4x**
EV/FY2020 AEBITDA

Source: Capital IQ

1) Includes 18.2M subordinate and multiple voting shares, 16.4M warrants, 8.0M exchangeable shares, rights convertible into 0.3M shares.
2) Enterprise value assumes share count of 30.3M based on treasury method, net debt of C$37.8M and a share price of C$14.92. Fully diluted share count = 42.9M.
3) Reflects midpoint of company outlook issued and effective on August 14, 2019 only.

# DEEP EXECUTIVE TALENT POOL

## Jonathan Sandelman
Chief Executive Officer

- 30 year veteran of banking and finance, with a history of generating shareholder value
- Served as President of Bank of America Securities after building its capital markets businesses through the early 2000s, building Bank of America Securities beyond its roots as a consumer and corporate lender
- Founder and CEO of multi-billion dollar asset manager Sandelman Partners

## Jennifer Drake
Chief Operating Officer | Interim CFO

- Proven business leader in large blue chip institutions and at lean start-ups
- Former Managing Director at Goldman Sachs with extensive M&A experience
- Institutionalized the businesses of several multi-billion dollar asset management firms, ensuring compliance with complex regulatory frameworks and creating foundation for accelerated growth

## Jamie Mendola
Head of Strategy and M&A

- Nearly two decades of experience in public and private equity and an active cannabis investor
- Founder and portfolio manager of hedge fund Pacific Grove Capital
- Former partner at multi-billion dollar hedge fund Scout Capital

## Mark Pitchford
Chief Development Officer

- 20+ year veteran in the cannabis sector with deep expertise in cultivation, extraction, production and manufacturing
- Founding member of Washoe Wellness and The Canopy NV; previously served as Ayr's Head of Cultivation
- Consulted on cannabis-related issues across the U.S., from cultivation design & implementation to operational & production optimization to the medical & recreational marijuana application process

## Chris Burggraeve
Director, Board of Experts (Branding)

- Award winning global business marketer and active cannabis entrepreneur
- Over 30 years of global marketing experience at Proctor and Gamble, the Coca Cola Company, and AB InBev, where he was global CMO
- Chris has also served as a board member and President of the World Federation of Advertisers

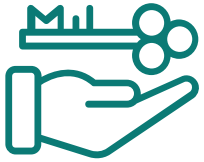
## Charles Miles
Director, Board of Experts (Early Stage Companies)

- Veteran in banking and finance with senior positions at Citibank, Deutsche Bank and Salomon Brothers
- Founder and portfolio manager of investment firm Claris Capital Management
- Currently Managing Director at VC firm, Recapture Partners

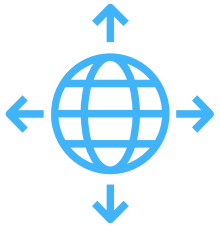
# KEY TAKEAWAYS

## Multiple near-term inflection points:

Early stages of leveraging vertical integration and operational synergies across portfolio



Minimal retail ownership, analyst & press coverage given previous SPAC structure



Robust pipeline of expansion opportunities and favorable market environment

Leadership by Wall Street veterans ensures proper stewardship of capital and disciplined acquisition strategy

# APPENDIX

# A LARGE AND RAPIDLY GROWING MARKET

## Legal U.S. Cannabis Sales to More Than Double by 2022

Dispensary market remains fragmented with largest U.S. public company at ~43 operational dispensaries[1]

Our current markets (NV,MA) to comprise over C.$1.3B of industry sales in 2019[2]

64% of U.S. population live in states that have some form of legalized cannabis use and sales

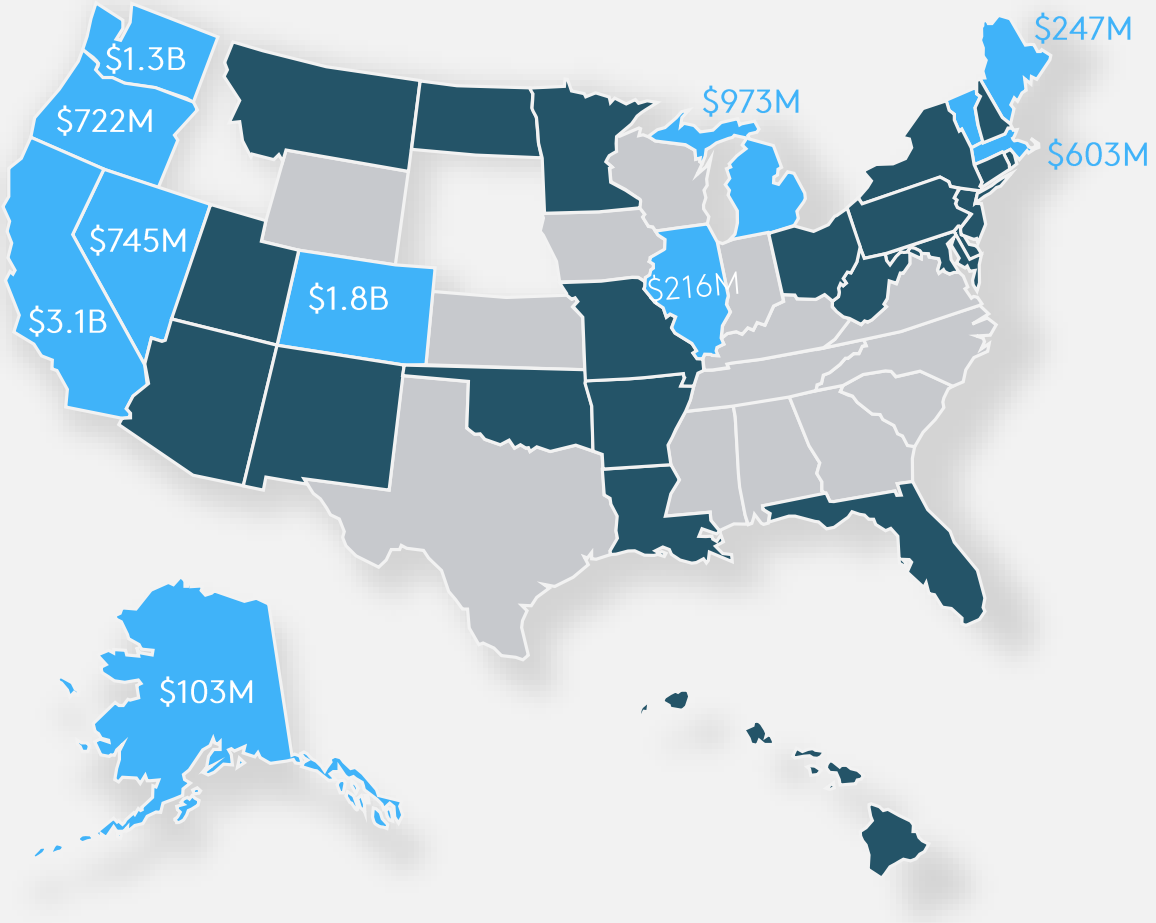
### Legal U.S. Cannabis Market

| $11B | $23B |
|---|---|
| in 2018 | in 2022 |

Source: Arcview Market Research

1) Telsey Advisory Group Industry Report.
2) Canaccord Genuity Estimates.

# U.S. CANNABIS LANDSCAPE[1]




**47** States and Washington D.C. have legalized cannabis in one form or another

| | |
|---|---|
| 11 | States Adult-use |
| 23 | States Medical Only |
| 14 | States CBD Only |

1) 2019 retail sales estimates from Canaccord Genuity & New Frontier.

# AYR HISTORY

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### December 2017

Raised over C$130mm in a public offering of Canadian-listed SPAC shares for the acquisition of U.S. cannabis operators

### December 2017 to October 2018

Evaluated over fifty potential acquisitions, eventually signing purchase agreements in October 2018

### October 2018

Announced the acquisition of five target businesses

### December 2018

Filed preliminary prospectus

### January 2019

Record date for shareholder vote

### February 2019

Filed the final prospectus

### March 2019

Shareholder meeting and shareholder vote to approve the transaction

### May 2019

Closed qualifying transaction

### July 2019

Began trading on OTCQX under new ticker: AYRSF

# ADJ. EBITDA RECONCILIATION

| Period | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| *($USD)* | | | | |
| Loss from operations | (8,147,652) | (138,374) | (9,688,740) | (297,000) |
| **Non-cash items accounting for biological assets and inventories** | | | | |
| Fair value changes | 4,696,472 | – | 4,696,472 | – |
| Unrealized gain on changes in fair value | (2,479,803) | – | (2,479,803) | – |
| | 2,216,669 | – | 2,216,669 | – |
| Interest | – | – | – | – |
| Depreciation and amortization | 1,645,222 | – | 1,645,222 | – |
| Acquisition costs | 2,462,076 | – | 3,113,102 | – |
| Share-based compensation expense | 4,520,138 | – | 4,520,138 | – |
| Other[1] | 312,801 | – | 312,801 | – |
| | 8,940,237 | – | 9,591,263 | – |
| **Adjusted EBITDA** | **3,009,254** | **(138,374)** | **2,119,192** | **(297,000)** |

1) Other adjustments made to exclude the impact of non-recurring items.

# CONTACT INFORMATION

Sean Mansouri, CFA
or Cody Slach
Gateway Investor Relations

949-574-3860

AYR@gatewayir.com