

**Equity Research: Healthcare - Cannabis**
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**Q4/18 RESULTS: \$10M IN REVENUE - JUST GETTING STARTED**

**Solid start for MediPharm shows a bright future.** On April 3, MediPharm released 2018 financials, which beat our estimates driven by higher-than-anticipated margins, slightly offset by lower-than-expected revenue. Revenue and margins came in at \$10.2M and \$4.0M compared to our estimates of \$12.0M and \$2.0M, respectively. Expanded margins drove adj. EBITDA higher than we expected, coming in at \$2.1M vs. our estimate for -\$0.1M (Figure 1). EPS missed our estimate; however, this was due primarily to a one-time transaction fee of \$4.2M related to the RTO in October 2018, and to a slight degree, higher-than-expected marketing & G&A. We highlight that the Company also built \$9.4M in inventory in addition to the \$10M in sales.

**RECENT HIGHLIGHTS**

- \$10M in revenue is already ahead of multiple, Canada-based \$1B+ market cap cultivators.** We highlight that MediPharm has only had its sales license since March 29, 2018, and that it already surpassed several significant players in the space (first company to receive an oil license without being a cultivator). For comparison, as of the last-reported quarters, Cronos Group (TSX:CRON, \$24.28 | N/R) (Q4/18), CannTrust (TSX:TRST, \$10.28 | N/R) (Q4/18), TGOD (TSX:TGOD, \$4.70 | N/R) (Q4/18), and HEXO (TSX:HEXO, \$8.89 | N/R) (Q1/19), reported revenues of \$5.6M, \$16.2M, \$1.8M, and \$13.2M, respectively. We highlight that HEXO's financials are unique because it includes three months of full recreational sales. For reference, the market caps of these highlighted companies are \$7.9B, \$1.0B, \$1.2B, and \$1.8B, respectively. In comparison, the eight publicly listed processors, excluding Curaleaf, have an average market cap of \$125M.
- Canadian extraction efforts need more than what MediPharm can handle – there remains room for many players.** Beyond MediPharm's current capacity of 150,000 kg of dry cannabis per year (planned capacity expected to be 250,000 kg this year), due primarily, in our opinion, to a lack of processing technology and know-how in Canada, we believe there is ample room for other processors in the Canadian space to take market share. Of the eight publicly-listed processors, we believe only five are operating. In our view, within the next one to two-year time frame, there will be a significant revaluation of these companies and that the large Canadian operators will have to either 1) contract these processors to assist with excess biomass or; 2) target for M&A purposes.

**VALUATION**

- Extraction companies are undervalued compared with Canadian cultivators and U.S. multi-state operators.** Based on our preliminary estimates, the Company trades at 4.9x and 3.3x, 2019E & 2020E revenue multiples, compared with Canadian majors and U.S.-based peer companies, which trade at a consensus average of 42.5x, and 9.3x for 2019E, 12.6x and 4.6x for 2020E, respectively. On an EBITDA basis, the Company trades at 19.6x and 13.1x 2019E & 2020E multiples, compared with U.S.-based peer companies, which trade at 35.6x and 15.3x, respectively. We believe this gap will close as the market realizes the significant value potential of extraction-based business in Canada.

**MEDI PHARM LABS CORP. TSXV:LABS**
*(Currency is C\$, unless noted otherwise)*

Last Price	\$3.62
52 Week High	\$3.92
Current Share Price % 52-week high	92.3%
52 Week Low	\$0.91
Current Share Price % 52-week low	397.8%
30-Day Average Daily Volume	820.0K
30-Day VWAP	\$3.18
Company Headquarters	Barrie, ON, Canada
Company Website	www.medipharmlabs.com

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	97.5M	131.6M
Market Capitalization (\$M)		C\$353.0
Enterprise Value (\$M)		\$348.6
Cash Balance (\$M)		\$6.4
Total Debt (\$M)		\$2.0

RELATIVE VALUATION	EV/Revenue 2019E	EV/Revenue 2020E
MediPharm*	4.9x	3.3x
CAN-Based Major Cultivators	42.5x	12.6x
CAN-US Based Operations	9.3x	4.6x

MANAGEMENT TEAM	
Patrick McCutcheon	President & CEO
Christopher Hobbs	CFO
David Mayers	COO
Sybil Taylor	CMO
Ahmed Shehata	General Counsel

**MAJOR SHAREHOLDERS**

Management and Insiders (19.4%)

**DISCLOSURE CODE:**

Disclosure: None (See back page for further details)

Source: Ubika, Capital IQ

**Figure 1: Quarterly Results**

	Actual		Estimates	Var.
	Q4/18A	Q4/18E		
Revenue (\$'000)	\$10.2	\$12.0		-15%
COGS (\$'000)	\$6.2	\$10.0		-38%
Gross Margin (\$'000)	\$4.0	\$2.0		96%
Adj. EBITDA (\$'000)	\$2.1	-\$0.1		nm
Adj. EPS	-\$0.05	\$0.00		nm

Source: Company Reports, Ubika

Source: Ubika



Source: www.stockcharts.com

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**Buy:** Recommendation: stock is expected to appreciate from its current price beyond 20% in the next 12 months.

**Neutral:** Recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

**Sell:** Recommendation: stock is expected to decline from its current price level below 20% in the next 12 months.

**U/R:** Under Review.

**N/R:** Not Rated.

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- |   |       |
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