



UBIKA ALPHA

LGC Capital Ltd. (TSXV:LG | OTCQB:LGGCF, \$0.10 | BUY \$0.20)

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Equity Research: Healthcare - Cannabis

Patrick Smith | Analyst | patrick@ubikaresearch.com | (647) 444-5506
Christopher Bednarz, MBA | Associate | chris.b@ubikaresearch.com | (416) 558-5548
John Brooker | Associate | john@ubikaresearch.com | (905) 616-6185

LGC CAPITAL LTD. TSXV:LG

(Currency is CAD\$ & estimates are attributable, unless noted otherwise)

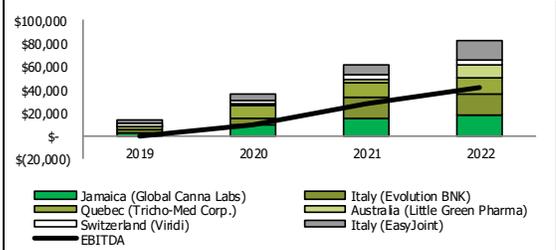
Last Price	\$0.10
Target Price	\$0.20
Potential Return	100%
Net Asset Value Per Share	\$0.23
52 Week Low / High	\$0.08 / \$0.25
Average Daily Volume (30-Day)	458K

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	416.2	610.3
Market Capitalization (\$M)		\$41.6
Enterprise Value (\$M)		\$41.0
Last Reported Cash Balance (\$M)		\$2.9
Last Reported Total Debt (\$M)		\$2.3

LGC CAPITAL OPERATIONS	F2019E	F2020E	F2021E
Flower Produced (kg) - 100%	7,300	23,600	39,500
Revenue (\$M)	\$12.7	\$35.8	\$61.7
Cash Costs (\$ per gram)	\$1.03	\$1.08	\$1.02
AICC (\$ per gram)	\$2.13	\$2.19	\$1.61
EBITDA (\$M)	-\$0.8	\$9.9	\$27.3
FCF (\$M)	-\$12.8	-\$12.9	\$3.2
Total CAPEX (\$M)	\$8.9	\$19.0	\$14.6
CFPS	\$0.00	\$0.01	\$0.03
Cash At Year End (\$M)	\$1.9	\$1.8	\$1.9
Debt At Year End (\$M)	\$2.5	\$6.0	\$6.0

RELATIVE VALUATION	P/NAV	EV/EBITDA
		2019E 2020E
LGC Capital Ltd	0.4x	nm 4.1x
Cannabis Holdings Companies	n/a	30.1x 10.8x
Gold and Oil Royalty Companies	1.3x	10.1x 8.9x

ATTRIBUTABLE REVENUE & EBITDA FORECAST



MAJOR SHAREHOLDERS

Management & Insiders (21.3%)

DISCLOSURE CODE:

Disclosure: None (See back page for further details)

Source: Ubika, Capital IQ



Source: stockcharts.com

INVESTMENT IN FREIA DRIVES LGC DEEPER INTO EUROPEAN MARKETS

ITALY UPDATE

Freia Farmaceutici's competitive advantage provides further upside in Europe. On May 16, 2019, LGC Capital entered into an investment agreement to acquire a 35% equity interest in Freia Farmaceutici Srl, a hemp-focused Italian Pharmaceutical company for \$4.8M. This payment would be made in three installments over the course of 10 months.

Freia is one of the few hemp-based pharmaceutical companies with products approved by the European Food Safety Authority (EFSA). Freia has a first-mover advantage, as it is the only company in Italy and one of the few in Europe to have developed and marketed hemp-based pharmaceutical products authorized by EFSA. For reference, EFSA is of similar caliber to the FDA, but focused in Europe. EFSA is funded by the EU and operates independently of European legislation.

Freia Farmaceutici has a recent history of strong financial performance. In 2017, Freia achieved sales of \$740K and EBITDA of \$265K, representing a 36% EBITDA margin. In 2018, with the additional approval of new drugs in Freia's portfolio, sales levels increased by 74% to \$1.3M and EBITDA grew to \$280K. In 2019E, Freia is expected to focus on expanding its business nationally and internationally through increased sales of its existing drug pipeline, and the roll out of an additional eight authorized drugs into the market.

Freia Farmaceutici currently owns 2 patents, has filed 5 patent applications, and is in the process of completing 6 additional applications. Freia has 6 registered pharmaceutical drug products for patients on chemotherapy treatment, atopic dermatitis, and from dysmetabolism. Freia already has 6 products authorized in the nutrition and topical fields. Another 8 products that have been authorized in the gynecological field are expected to be launched in 2019E. Lastly, 9 more products are awaiting authorization. Of note, Freia has a variety of other research and development projects ongoing in the areas of gastroenterology, nutrition, and multiple sclerosis.

VALUATION

Trades at a discount to peers. We believe this acquisition could provide significant synergies for LGC within Europe. Recall, LGC has a 47% interest in EasyJoint, one of Italy's largest, vertically-integrated legal cannabis producer and a leader in the sale of 40 branded products ranging from high CBD flower to edibles. This would be an ideal distributor of Freia's products. In terms of estimates, we plan to update once the investment in Freia closes. LGC currently trades at 4.1x our F2020E EBITDA estimate, a discount to cannabis holdings companies and gold and oil royalty companies, which trade at an average of 10.1x and 8.9x, respectively. We believe this gap should close as LGC begins to make material cash flow.

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Ratings

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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