

**Equity Research: Healthcare - Cannabis**

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**ANOTHER POTENT PATENT ADDED TO THE PORTFOLIO**

**Nextleaf Solutions adds butane hash oil extraction process and formulation to its portfolio.** On June 24, 2019, Nextleaf announced that it has entered into an agreement to acquire a U.S. patent pending hydrocarbon extraction process and an award-winning shatter formulation for 444,444 shares at \$0.45/share. The new patent brings OILS' portfolio to three issued and 24 pending patents. With concentrates going through legalization in Canada later this year, Nextleaf stands to benefit from the commercialization of its IP portfolio by providing processing services to licensed cultivators.

**Diversification into butane extraction positions Nextleaf as a stronger industry player once legal edible sales begin in December 2019.** In our view, since the barriers to entry are so high in Canada (stringent Health Canada regulations, know-how, approved infrastructure, license requirements, etc.), we expect there to be very limited legal processors to address derivative high-potency products, such as shatter, by year-end. We also highlight that, in general, secondary extraction (distillate and isolates) efforts continue to be in very high demand in Canada compared to the U.S. We note that Nextleaf is not yet equipped to produce butane products, as a Class 1 Division 1 (C1D1) explosion proof room is required. However, management has indicated to us that the Company is currently designing a purpose-built C1D1 butane extraction lab for a potential future expansion site. The Company could also license its patent-pending BHO hydrocarbon extraction process and shatter formulation, as other processors in Canada look to start producing butane products. Currently, no Canadian processors produce butane products.

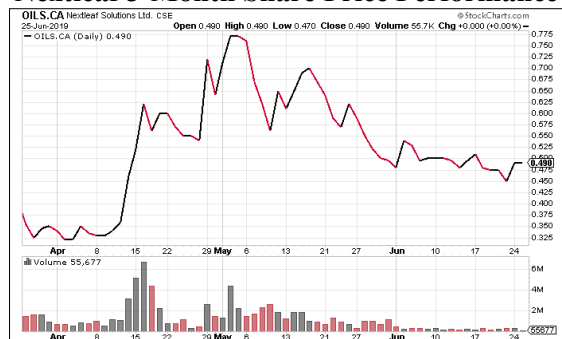
**One important step closer to obtaining the Standard Processor License from Health Canada.** In conjunction with the news release, Nextleaf also announced that the site-evidence package has been filmed at the Company's built-out extraction and processing facility in Greater Vancouver. Recall, on May 8, 2019, Health Canada updated cannabis licensing requirements, which required new applicants to have a fully-built facility that adheres to all Cannabis Regulations at the time of their application. The recent changes by Health Canada to its licensing process now require a submission of a filmed site evidence package as a final step in the licensing application. Health Canada has indicated that it plans to respond to companies within 60 days from submission of a completed filmed site evidence package. In terms of timing, we continue to expect the facility to be licensed by Q4/19, however, there is reasonable chance that this may occur earlier. For further discussion on new Health Canada rules, refer to our last published note on May 13, 2019 [here](#).

**VALUATION**

**We are maintaining our BUY rating and our target price of \$1.65/share.** We believe that the new patent should further diversify Nextleaf's patent portfolio, which allows a wider range of processing and extraction services to Canadian cultivators. To remain conservative, we have made no changes to our estimates or timelines.

NEXTLEAF SOLUTIONS LTD.		CSE:OILS			
<i>(Currency is CAD\$, unless noted otherwise)</i>					
Last Price			\$0.49		
Target Price			\$1.65		
Potential Return			237%		
Net Asset Value Per Share			\$2.09		
52 Week Low / High		\$0.30 /	\$0.83		
Average Daily Volume (30-Day)			345K		
CAPITALIZATION		Basic	Diluted		
Shares Outstanding (M)		107.0	146.4		
Market Capitalization (\$M)			\$52.4		
Enterprise Value (\$M)			\$43.4		
Cash Balance (\$M)			\$9.0		
Total Debt (\$M)			\$0.0		
OILS OPERATIONS		2019E	2020E	2021E	
Biomass Processing Volume (kg)		1,230	10,030	25,800	
Crude Produced (kg)		170	900	1,890	
Distillate Produced (kg)		0	320	1,080	
Total Revenue (\$M)		\$6.1	\$54.2	\$125.2	
EBITDA (\$M)		-\$5.2	\$9.2	\$54.0	
FCF (\$M)		-\$10.5	\$3.4	\$33.3	
Total CAPEX (\$M)		\$5.0	\$3.3	\$1.0	
CFPS		-\$0.09	\$0.06	\$0.25	
EPS		-\$0.07	\$0.03	\$0.23	
Cash At Year End (\$M)		\$1.2	\$9.2	\$55.4	
Debt At Year End (\$M)		\$0.0	\$0.0	\$0.0	
RELATIVE VALUATION		EV/EBITDA		EV/SALES	
		2020E	2021E	2020E	2021E
Nextleaf Solutions		4.7x	0.8x	0.8x	0.3x
Extraction Companies		16.1x	6.8x	5.1x	2.6x
CAN-Based Major Cultivators		36.9x	16.5x	8.8x	5.3x
US-Based Operations		9.0x	6.3x	2.6x	1.7x
REVENUE & EBITDA FORECAST (\$M)					
MAJOR SHAREHOLDERS					
Management and Insiders (17%)					
Disclosure: 1, 3 (See back page for further details)					

Source: Ubika, Capital IQ

**Nextleaf 3-Month Share Price Performance**


Source: www.stockcharts.com

**Concentrate demand in Canada should follow a similar pattern as seen in the U.S.** In Colorado, a [report](#) prepared by the Leeds School of Business at the University of Colorado, shows that non-flower products went from 26% of total sales in 2015 to 38% of total sales in 2017. Additionally, [data](#) from the Washington Liquor and Cannabis Boards shows that ~18,000 kg of extracts were produced in 2017, a 353% increase from 5,100 kg in 2015. We highlight that data collected by BDS Analytics through point of sale terminals has indicated that growth in wax, oils, resin, and vape products have grown 30%, 43%, 67%, and 93%, respectively. Additionally, we note that in mature cannabis markets, such as California and Colorado, there is a strong preference for hydrocarbon extracted products, such as shatter, wax, and budder, due primarily to the high terpene profile, which produces a full spectrum extract. Anecdotal [evidence](#) suggests that full spectrum extract is more effective in the treatment of a variety of health conditions, specifically pain and inflammation. In our view, a patent for the extraction of a full spectrum shatter gives Nextleaf a significant competitive advantage

**Nextleaf's Comps Table**

Company Name	Last Price (\$CAD)	Mrkt Cap (\$CAD)	EV (\$CAD)	Cash (\$CAD)	Debt (\$CAD)	EV/Revenues			EV/EBITDA		
						2019E	2020E	2021E	2019E	2020E	2021E
<b>Nextleaf Solutions</b>	<b>\$0.49</b>	<b>\$52.4</b>	<b>\$43.4</b>	<b>\$9.0</b>	<b>\$0</b>	<b>7.1x</b>	<b>0.8x</b>	<b>0.3x</b>	<b>n/m</b>	<b>4.7x</b>	<b>0.8x</b>
<b>Pure Play Cannabis Extraction Companies</b>											
MediPharm Labs Corp.	\$4.93	\$716.3	\$701.9	\$8.4	\$6.0	6.3x	3.5x	2.4x	26.8x	10.9x	7.7x
Valens GroWorks Corp.	\$4.09	\$492.0	\$491.6	\$0.5	\$0.0	10.4x	3.3x	2.3x	27.2x	6.6x	4.5x
Neptune WellNess Solutions Inc.	\$5.73	\$466.1	\$452.8	\$9.8	\$3.5	18.5x	8.5x	3.1x	n/m	30.9x	8.1x
Radiant Technologies Inc.	\$0.80	\$216.7	\$172.3	\$37.6	\$6.7	n/a	n/a	n/a	n/m	n/m	n/m
<b>Mean Cannabis Extraction</b>						<b>11.8x</b>	<b>5.1x</b>	<b>2.6x</b>	<b>27.0x</b>	<b>16.1x</b>	<b>6.8x</b>
<b>Canadian Majors</b>											
Canopy Growth Corporation	\$52.45	\$18,141.3	\$14,714.5	\$2,480.8	\$946.0	65.0x	20.2x	11.3x	n/m	n/m	n/m
Aurora Cannabis Inc.	\$9.84	\$10,005.8	\$9,020.1	\$346.7	\$639.1	34.0x	12.0x	7.1x	n/m	110.7x	25.0x
Cronos Group Inc.	\$20.88	\$6,975.8	\$4,555.1	\$2,418.3	\$2.4	90.5x	24.7x	13.8x	n/m	86.4x	46.1x
Tilray, Inc.	\$61.63	\$5,992.4	\$5,021.9	\$393.2	\$577.3	21.2x	10.2x	7.0x	n/m	n/m	29.9x
Aphria Inc.	\$9.10	\$2,281.5	\$2,096.6	\$107.5	\$77.4	10.0x	3.1x	2.2x	n/m	31.7x	9.6x
HEXO Corp.	\$6.74	\$1,730.6	\$1,523.8	\$173.1	\$33.7	25.6x	4.4x	2.8x	n/m	25.6x	10.5x
OrganiGram Holdings Inc.	\$8.00	\$1,252.7	\$1,177.9	\$12.5	\$62.3	10.1x	5.2x	3.8x	24.1x	13.6x	10.4x
CannTrust Holdings Inc.	\$6.61	\$933.3	\$914.5	\$3.2	\$15.6	6.9x	3.6x	2.6x	n/m	12.3x	8.1x
The Green Organic Dutchman Holdings Ltd.	\$3.10	\$853.3	\$676.5	\$174.4	\$2.4	14.2x	2.2x	1.3x	n/m	8.0x	4.5x
Village Farms International, Inc.	\$14.29	\$702.8	\$635.2	\$8.3	\$59.3	2.6x	2.1x	1.3x	15.9x	7.0x	4.2x
<b>Mean Canadian Majors</b>						<b>28.0x</b>	<b>8.8x</b>	<b>5.3x</b>	<b>20.0x</b>	<b>36.9x</b>	<b>16.5x</b>
<b>US Based Operations</b>											
Curaleaf Holdings, Inc.	\$9.35	\$4,321.9	\$3,920.5	\$230.7	\$170.7	9.3x	3.8x	n/a	34.6x	11.6x	n/m
Green Thumb Industries Inc.	\$13.75	\$2,738.6	\$2,542.0	\$156.5	\$40.1	9.2x	4.1x	2.5x	36.9x	15.3x	9.1x
Acreage Holdings, Inc.	\$22.38	\$1,950.9	\$1,837.4	\$85.8	\$27.8	6.3x	2.6x	n/a	n/m	9.1x	n/m
Charlotte's Web Holdings, Inc.	\$17.31	\$1,685.3	\$1,587.4	\$92.3	\$5.6	8.8x	3.5x	2.7x	28.6x	10.0x	7.9x
Cresco Labs Inc.	\$13.91	\$1,641.4	\$1,433.3	\$141.8	\$66.3	3.9x	1.5x	1.1x	22.1x	5.0x	3.6x
MedMen Enterprises Inc.	\$3.16	\$1,560.7	\$1,265.4	\$29.3	\$266.0	6.3x	2.2x	1.5x	n/m	9.4x	4.1x
Trulieve Cannabis Corp.	\$13.60	\$1,497.8	\$1,398.6	\$27.5	\$71.7	4.5x	2.7x	2.3x	10.6x	7.0x	5.7x
iAnthus Capital Holdings, Inc.	\$4.19	\$707.9	\$497.4	\$56.6	\$154.0	2.2x	1.0x	0.7x	13.7x	3.7x	n/m
Origin House	\$8.90	\$600.1	\$544.2	\$39.3	\$16.7	3.6x	1.9x	1.5x	38.9x	9.7x	7.3x
<b>Mean US Based Operations</b>						<b>6.0x</b>	<b>2.6x</b>	<b>1.7x</b>	<b>26.5x</b>	<b>9.0x</b>	<b>6.3x</b>

Source: Capital IQ, Ubika

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