

Equity Research: Healthcare - Cannabis
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NEXTLEAF WANTS TO BECOME AN EMPIRE, NOT A FOOTNOTE IN HISTORY

Protecting shareholders to ensure full value is achieved in the long-term. On July 24, 2019, Nextleaf announced the adoption of a shareholder rights plan, which protects shareholders in a hostile take-over bid. This is also known as a poison pill. The plan grants one right for no consideration for each common share, applicable to shareholders of record, as of July 23, 2019.

Under the plan, shareholders have the right to double their share holdings at half the market price should an attempt to acquire 20% or more of Nextleaf's common stock take place through a hostile takeover bid. Under the terms of the poison pill, for a takeover to be successful, a bid must be made to all shareholders of the Company and must be open for a minimum of 105 days. If more than 50% of the shares held by independent shareholders (shareholders other than the acquiring person or related persons) have been tendered and not withdrawn, the bidder may acquire the shares, but must make a public announcement of the acquisition and extend the bid for an additional 10 days to allow other shareholders to tender their shares to the bid. The term of the poison pill is three years, and is subject to re-approval by shareholders of Nextleaf at its 2022 Annual Meeting.

A shareholder rights plan is a tool employed by an issuer to protect shareholders in a hostile takeover attempt. During hostile takeovers, the acquiring company or individual(s) may employ abusive takeover tactics, such as buying shares aggressively on the open market. For example, in November 2012, Netflix adopted a poison pill to prevent activist investor Carl Icahn from launching a takeover attempt. After it was disclosed that Icahn owned 9.98% of Netflix's stock, Netflix's poison pill successfully thwarted Icahn from gaining substantial influence on the Board of Directors. In June 2015, Icahn moved on and sold his position. In situations like this, a shareholder rights plan can be used to force an activist into negotiation. Nextleaf's portfolio of 27 issued and pending patents, including patents on various methods of industrial scale extraction, purification and refinement of cannabinoids and concentrate product formulations, could be a target for a large-cap cannabis, pharmaceutical, or CPG player. In short, the shareholder rights plan helps to ensure shareholder value is maximized should a large player attempt a takeover. We highlight that once Nextleaf's facility receives a Standard Processing License from Health Canada, the Company is likely to gain significant exposure in the Canadian market.

VALUATION

We are maintaining our BUY rating and our target price of \$1.65/ share. The adoption of a shareholder rights plan is an important defence against potential hostile bidders, to help ensure the Company's full fundamental value is realized. We believe Nextleaf is in a prime position to take advantage of what should be a thriving, lucrative extraction market in Canada in 2020E and beyond. In terms of estimates, we have made slight updates to account for the last reported fiscal quarter (ending March 31, 2019). Our revenue and EBITDA estimates for F2020E and beyond remain the same. OILS trades at 0.8x and 5.4x our F2020E estimates, a discount to extraction peers, which trade at 5.5x and 18.2x, respectively.

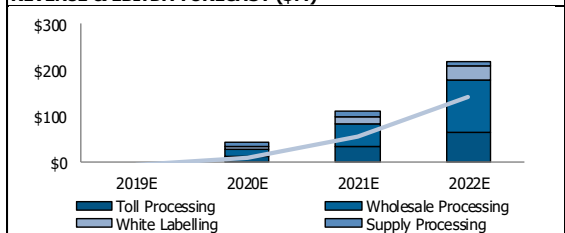
NEXTLEAF SOLUTIONS LTD. CSE:OILS
*(Currency is CAD\$, unless noted otherwise)
 (Fiscal year-end is as of Sept. 30)*

Last Price	\$0.42
Target Price	\$1.65
Potential Return	293%
Net Asset Value Per Share	\$2.16
52 Week Low / High	\$0.30 / \$0.83
Average Daily Volume (30-Day)	162K

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	107.8	147.3
Market Capitalization (\$M)		\$45.3
Enterprise Value (\$M)		\$41.7
Last Reported Cash (\$M)		\$3.6
Last Reported Debt Balance (\$M)		\$0.0

OILS OPERATIONS	F2020E	F2021E	F2022E
Biomass Processing Volume (kg)	9,130	25,800	54,300
Crude Produced (kg)	790	1,890	3,420
Distillate Produced (kg)	300	1,080	2,660
Total Revenue (\$M)	\$49.2	\$125.2	\$241.8
EBITDA (\$M)	\$7.7	\$54.6	\$142.6
FCF (\$M)	\$0.4	\$33.4	\$91.0
Total CAPEX (\$M)	\$5.5	\$2.0	\$3.0
CFPS	\$0.05	\$0.25	\$0.61
EPS	\$0.02	\$0.23	\$0.60
Cash At Year End (\$M)	\$7.9	\$61.4	\$152.4
Debt At Year End (\$M)	\$0.0	\$0.0	\$0.0

RELATIVE VALUATION	EV/EBITDA		EV/SALES	
	2020E	2021E	2020E	2021E
Nextleaf Solutions	5.4x	0.8x	0.8x	0.3x
Extraction Companies	18.2x	7.5x	5.5x	2.7x
CAN-Based Major Cultivators	31.6x	14.0x	7.8x	4.6x
US-Based Operations	8.5x	5.6x	2.6x	1.8x

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

We believe Nextleaf's facility could receive a Standard Processing License from Health Canada in less than two months. On July 8, 2019, Nextleaf announced that it had submitted to Health Canada its Affirmation of Readiness and Video Evidence Package. According to management, Health Canada has indicated a service standard for response to parties that have submitted an evidence package of 60 days. As a result, Health Canada could make a decision as early as September 6, 2019. We highlight there have been several licenses granted of late – PharmHouse, Tricho-Med, and The Flowr Group. Although we do not know when these companies submitted their respective evidence packages, this does indicate that Health Canada remains active in its licensing efforts. In terms of timing, we continue to expect the facility to be licensed by Q4/19, however, there is a reasonable chance that this may occur earlier.

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
Nextleaf	\$0.42	\$45.3	\$41.7	\$3.6	\$0.0	n/a	0.8x	0.3x	n/m	5.4x	0.8x
Pure Play Cannabis Extraction Companies											
Neptune Wellness Solutions Inc.	\$7.86	\$726.6	\$713.4	\$9.8	\$3.5	29.2x	10.4x	3.9x	n/m	38.3x	10.7x
MediPharm Labs Corp.	\$5.46	\$708.9	\$694.5	\$8.4	\$6.0	6.3x	3.5x	2.4x	26.5x	10.8x	7.6x
Valens GroWorks Corp.	\$3.89	\$476.1	\$419.1	\$57.0	\$0.0	8.3x	2.6x	1.9x	25.1x	5.7x	4.1x
Radiant Technologies Inc.	\$0.76	\$205.9	\$167.5	\$31.8	\$6.7	n/a	n/a	n/a	n/m	n/m	n/m
Mean Cannabis Extraction						14.6x	5.5x	2.7x	25.8x	18.2x	7.5x
Canadian Majors											
Canopy Growth Corporation	\$45.90	\$15,871.6	\$12,444.8	\$2,480.8	\$946.0	n/a	17.1x	9.4x	n/m	n/m	n/m
Aurora Cannabis Inc.	\$8.44	\$8,582.2	\$7,596.5	\$346.7	\$639.1	28.4x	10.5x	6.0x	n/m	91.0x	20.4x
Cronos Group Inc.	\$19.55	\$6,571.5	\$4,150.9	\$2,418.3	\$2.4	n/a	23.4x	12.5x	n/m	78.7x	42.2x
Tilray, Inc.	\$55.53	\$5,399.6	\$4,429.1	\$393.2	\$577.3	18.9x	9.2x	6.1x	n/m	n/m	26.3x
Aphria Inc.	\$7.24	\$1,817.2	\$1,632.3	\$107.5	\$77.4	7.8x	2.5x	1.8x	n/m	27.8x	8.3x
HEXO Corp.	\$5.24	\$1,346.2	\$1,139.3	\$173.1	\$33.7	19.1x	3.3x	2.1x	n/m	19.1x	7.8x
OrganiGram Holdings Inc.	\$7.80	\$1,218.1	\$1,121.5	\$47.2	\$49.5	11.4x	5.4x	3.8x	30.3x	13.9x	9.6x
The Green Organic Dutchman Holdings Ltd.	\$2.75	\$757.5	\$580.7	\$174.4	\$2.4	13.3x	2.1x	1.1x	n/m	6.9x	3.8x
Village Farms International, Inc.	\$14.97	\$736.3	\$668.7	\$8.3	\$59.3	2.8x	2.1x	1.3x	16.5x	6.7x	4.0x
CannTrust Holdings Inc.	\$3.01	\$425.1	\$406.3	\$3.2	\$15.6	3.3x	2.1x	1.3x	n/m	8.7x	3.7x
Mean Canadian Majors						13.1x	7.8x	4.6x	23.4x	31.6x	14.0x
US Based Operations											
Curaleaf Holdings, Inc.	\$10.35	\$4,916.5	\$4,515.1	\$230.7	\$170.7	11.4x	4.2x	n/a	50.1x	13.0x	n/m
Green Thumb Industries Inc.	\$13.40	\$2,887.7	\$2,691.1	\$156.5	\$40.1	9.8x	4.4x	2.7x	49.2x	12.9x	9.7x
Cresco Labs Inc.	\$10.80	\$1,997.4	\$1,789.3	\$141.8	\$66.3	5.1x	1.9x	1.2x	29.5x	6.2x	3.5x
Charlotte's Web Holdings, Inc.	\$19.92	\$1,939.4	\$1,841.5	\$92.3	\$5.6	10.2x	4.0x	3.1x	33.1x	11.6x	9.2x
Acreage Holdings, Inc.	\$17.27	\$1,562.3	\$1,448.7	\$85.8	\$27.8	5.2x	2.2x	n/a	n/m	7.2x	n/m
Trulieve Cannabis Corp.	\$13.75	\$1,514.3	\$1,415.1	\$27.5	\$71.7	4.6x	2.8x	2.3x	10.7x	7.1x	5.7x
MedMen Enterprises Inc.	\$2.79	\$1,402.6	\$1,107.3	\$29.3	\$266.0	5.8x	2.1x	1.4x	n/m	8.2x	3.6x
iAnthus Capital Holdings, Inc.	\$3.65	\$626.2	\$415.7	\$56.6	\$154.0	2.1x	0.9x	0.8x	24.7x	3.2x	2.3x
Origin House	\$6.55	\$442.8	\$386.8	\$39.3	\$16.7	2.6x	1.3x	1.0x	27.6x	6.9x	5.2x
Mean US Based Operations						6.3x	2.6x	1.8x	32.1x	8.5x	5.6x

Source: Capital IQ, Ubika

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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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