

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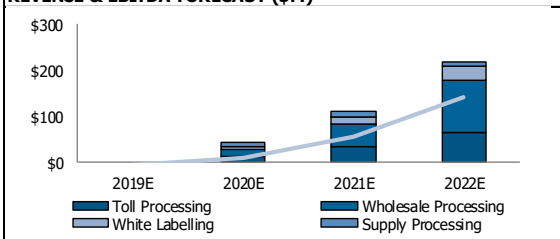
NEXTLEAF SOLUTIONS LTD. CSE:OILS
(Currency is CAD\$, unless noted otherwise)
(Fiscal year-end is as of Sept. 30)

Last Price	\$0.55
Target Price	\$1.65
Potential Return	200%
Net Asset Value Per Share	\$2.16
52 Week Low / High	\$0.30 / \$0.83
Average Daily Volume (30-Day)	384K

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	107.8	147.3
Market Capitalization (\$M)		\$59.3
Enterprise Value (\$M)		\$55.7
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	7.2x	1.0x	1.1x	0.4x
Extraction Companies	14.8x	5.1x	4.0x	1.9x
CAN-Based Major Cultivators	22.2x	15.6x	5.9x	3.3x
US-Based Operations	8.9x	5.0x	2.5x	1.6x

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

NEW PATENT BRINGS NEXTLEAF'S ISSUED AND PENDING PATENT PORTFOLIO TO 25 PATENTS

Robust patent portfolio covering all aspects of the extraction and refinement process. On September 3, 2019, Nextleaf Solutions announced that it had been granted a patent for the Company's proprietary technology for post-extraction processing of THC/CBD. The patent extends Nextleaf's existing patent portfolio to include a method relating to the removal of unwanted fats and lipids from crude cannabis oil. The new methodology speeds up the process of removing excess fats and waxes from crude cannabis extract, which enables Nextleaf to achieve more efficient throughput rates. Recall that using an Ethanol-based system, Nextleaf can achieve a throughput of 500 kg biomass/day. This compares favourably to CO₂ based systems, which can achieve ~40 kg/day per machine (based on one q45 Vitalis). Of note, this refinement and distillation process can also be applied to other extraction methods, such as CO₂ or hydrocarbon-based extraction.

Distillation and refinement are the final steps of the extraction process. The main different between primary extraction (crude cannabis oil) and secondary extraction (isolation of cannabis isolate/distillate) is purity. In primary extraction, there are high concentrations of cannabinoids and terpenes, however, there is no isolation of specific cannabinoids. Through isolation (secondary extraction), concentration and purity can be increased further. Purity is especially important for products that are inhaled. Issues with products such as vape pens arise when distillate is not properly refined, and unwanted waxes or lipids are left in the product and inhaled, which some believe could lead to tar in the lungs. Nextleaf's new patent helps to ensure between a ~85% - 95% pure THC/CBD isolate/distillate with no remaining waxes or lipids. In our view, Nextleaf's distillation and refinement process should differentiate OILS products from its competitors, due to the efficiency and scalability of the process, leading to more rapid revenue growth.

Health Canada Processing and Sales License imminent. Recall, on July 8, 2019, Nextleaf submitted its Affirmation of Readiness and Video Evidence Package to Health Canada. Health Canada has indicated to management that it expects to respond to operators within 60 days of receiving the completed Evidence Package. Health Canada typically announces new cannabis licenses on Fridays at 5pm. Based on this timing, we believe that the Company could receive its processing and sales license as early as Friday, September 6, 2019.

VALUATION

Undervalued to peers. The addition of the new patent further diversifies Nextleaf's patent portfolio, which allows the Company to provide a wider range of processing and extraction services in the future. Our revenue and EBITDA estimates for F2020E and beyond remain the same. OILS trades at 1.1x and 7.2x our F2020E estimates, a discount to extraction peers, which trade at 4.0x and 14.8x, respectively.

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	\$0.55	\$59.3	\$55.7	\$3.6	\$0.0	n/a	1.1x	0.4x	n/m	7.2x	1.0x
Pure Play Cannabis Extraction Companies											
MediPharm Labs Corp.	\$4.99	\$650.8	\$572.1	\$72.7	\$6.0	3.9x	2.3x	1.4x	15.5x	7.2x	4.2x
Neptune Wellness Solutions Inc.	\$5.52	\$510.4	\$499.3	\$5.3	\$5.8	20.4x	7.6x	2.7x	n/m	32.6x	7.9x
Valens GroWorks Corp.	\$3.24	\$399.2	\$342.2	\$57.0	\$0.0	6.8x	2.1x	1.6x	20.5x	4.6x	3.3x
Radiant Technologies Inc.	\$0.70	\$189.8	\$158.9	\$23.5	\$7.3	n/a	n/a	n/a	n/m	n/m	n/m
Mean Cannabis Extraction						10.4x	4.0x	1.9x	18.0x	14.8x	5.1x
Canadian Majors											
Canopy Growth Corporation	\$32.54	\$11,319.5	\$7,306.5	\$1,816.6	\$2,196.4	32.3x	11.7x	6.1x	n/m	n/m	n/m
Aurora Cannabis Inc.	\$7.40	\$7,548.4	\$6,562.6	\$346.7	\$639.1	26.0x	9.5x	5.5x	n/m	84.3x	19.4x
Cronos Group Inc.	\$14.63	\$4,917.9	\$3,335.1	\$1,579.2	\$3.5	n/a	15.3x	8.0x	n/m	n/m	42.9x
Tilray, Inc.	\$39.78	\$3,884.2	\$3,074.2	\$241.4	\$568.6	12.7x	6.8x	4.0x	n/m	n/m	38.2x
Aphria Inc.	\$8.95	\$2,254.9	\$1,215.5	\$550.8	\$488.6	5.1x	1.8x	1.3x	n/m	16.2x	7.1x
HEXO Corp.	\$5.65	\$1,451.5	\$1,244.6	\$173.1	\$33.7	20.9x	3.6x	2.3x	n/m	20.9x	8.6x
OrganiGram Holdings Inc.	\$5.75	\$898.0	\$801.4	\$47.2	\$49.5	8.0x	3.9x	2.7x	21.1x	10.3x	7.2x
The Green Organic Dutchman Holdings Ltd.	\$2.93	\$807.1	\$735.9	\$68.7	\$2.4	20.2x	3.3x	1.3x	n/m	12.0x	6.9x
Village Farms International, Inc.	\$15.25	\$751.5	\$679.4	\$15.3	\$56.7	2.5x	1.9x	1.3x	12.5x	6.6x	4.0x
CannTrust Holdings Inc.	\$2.16	\$305.6	\$286.8	\$3.2	\$15.6	2.5x	1.5x	0.8x	n/m	5.3x	5.9x
Mean Canadian Majors						14.5x	5.9x	3.3x	16.8x	22.2x	15.6x
US Based Operations											
Curaleaf Holdings, Inc.	\$10.18	\$4,735.9	\$4,393.5	\$140.4	\$201.9	12.7x	3.7x	n/a	87.9x	11.8x	n/m
Green Thumb Industries Inc.	\$12.10	\$2,628.1	\$2,289.5	\$177.6	\$161.1	8.1x	3.6x	2.4x	59.2x	11.9x	6.8x
Charlotte's Web Holdings, Inc.	\$22.87	\$2,229.0	\$2,150.4	\$67.3	\$11.3	12.9x	5.4x	3.6x	51.5x	16.8x	10.3x
Cresco Labs Inc.	\$11.70	\$1,470.9	\$1,326.7	\$80.0	\$64.2	5.6x	1.4x	1.0x	49.1x	5.4x	3.0x
MedMen Enterprises Inc.	\$2.60	\$1,357.6	\$1,062.4	\$29.3	\$266.0	5.3x	2.2x	1.2x	n/m	7.8x	4.0x
Trulieve Cannabis Corp.	\$10.57	\$1,202.1	\$973.0	\$70.7	\$158.5	3.1x	1.9x	1.5x	7.0x	4.9x	3.7x
Acreage Holdings, Inc.	\$9.41	\$842.3	\$693.7	\$110.5	\$38.1	2.9x	1.2x	0.6x	n/m	6.8x	1.9x
iAnthus Capital Holdings, Inc.	\$3.35	\$581.7	\$400.4	\$39.9	\$141.3	2.9x	1.1x	0.8x	n/m	4.7x	2.7x
Origin House	\$7.96	\$578.3	\$542.1	\$14.8	\$21.4	3.6x	1.9x	1.5x	38.7x	9.6x	7.3x
Mean US Based Operations						6.3x	2.5x	1.6x	48.9x	8.9x	5.0x

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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