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For:

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Agenda

- Executive Summary
- Industry Analysis
- SWOT Analysis
- Macro Analysis
- Porter Five Forces Analysis
- Company Overview
- Revenue Predication
- WACC
- DCF Model
- Risk Matrix
- Recommendation
- Appendix
- References

EXECUTIVE SUMMARY – RECOMMENDATION

Buy

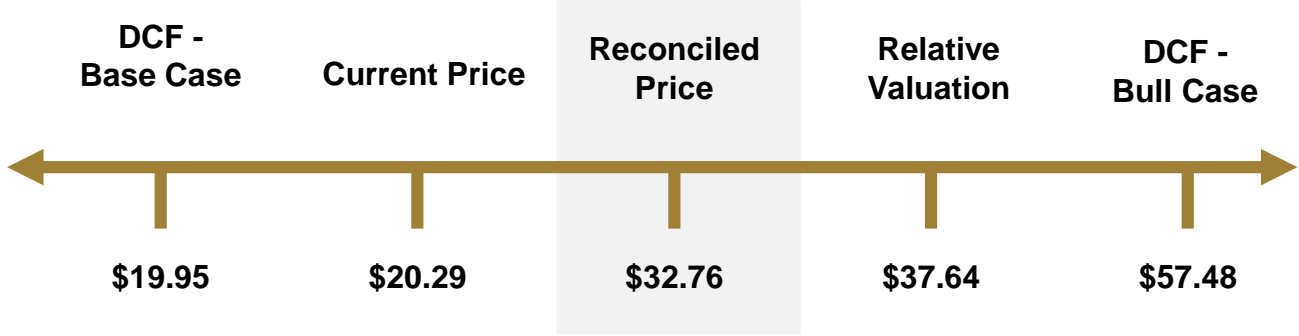
Canopy Growth Inc. (TSE:WEED)

\$32.76 **61.7%**
Target Price Upside

Valuation

Key Assumptions:

WACC	11.8%
Terminal Growth Value	2%
Corporate Tax Rate	26.5%



Investment Thesis

- Thesis I: Cash Positions Canopy to Capture Rapid Industry Growth
- Thesis II: Strategic Partnership Gives Advantage in Emerging Segments
- Thesis III: Low Probability of Massive U.S. Upside

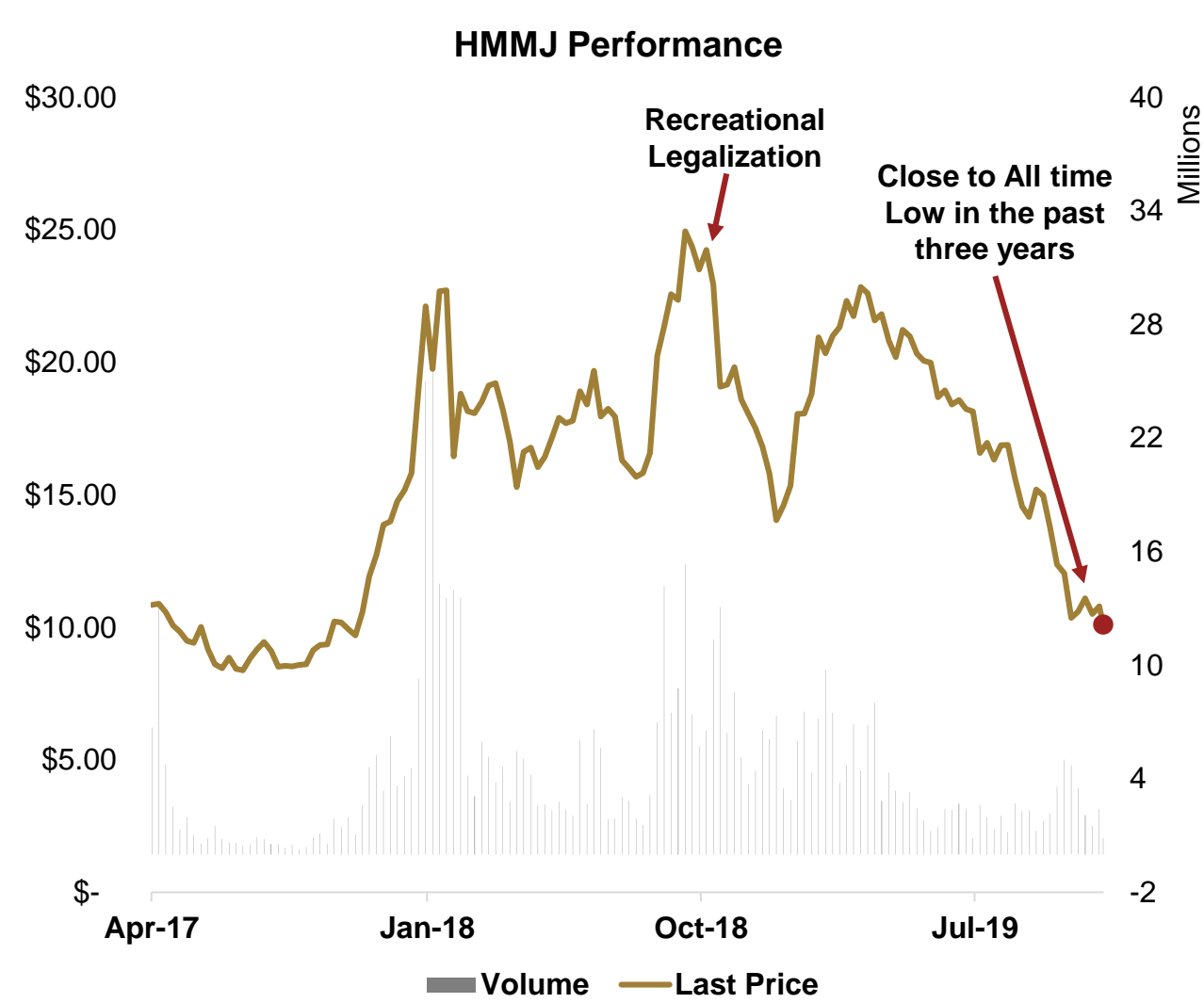
Based on our projections of the companies growth, strong industry metrics and strategic partnerships, we believe the value of the stock to be \$32.76. While the cannabis is highly competitive, we believe Canopy has a strong business model that will appeal to consumer and allow them to gain market share.

1. Industry Analysis



INDUSTRY ANALYSIS – OVERVIEW

CANNABIS SECTOR PERFORMANCE



CANOPY'S SHARES HAVE UNDERPERFORMED ITS PEERS

	ACB	APHA	WEED	CRON	HEXO	TLRY	HMMJ	SPX
Last 12 Months	-47%	-56%	-51%	-11%	-56%	-81%	-44%	16%
Year to Date	-34%	-27%	-37%	-37%	-49%	-70%	-32%	25%
Since April	-59%	-48%	-54%	-54%	-67%	-57%	-49%	8%

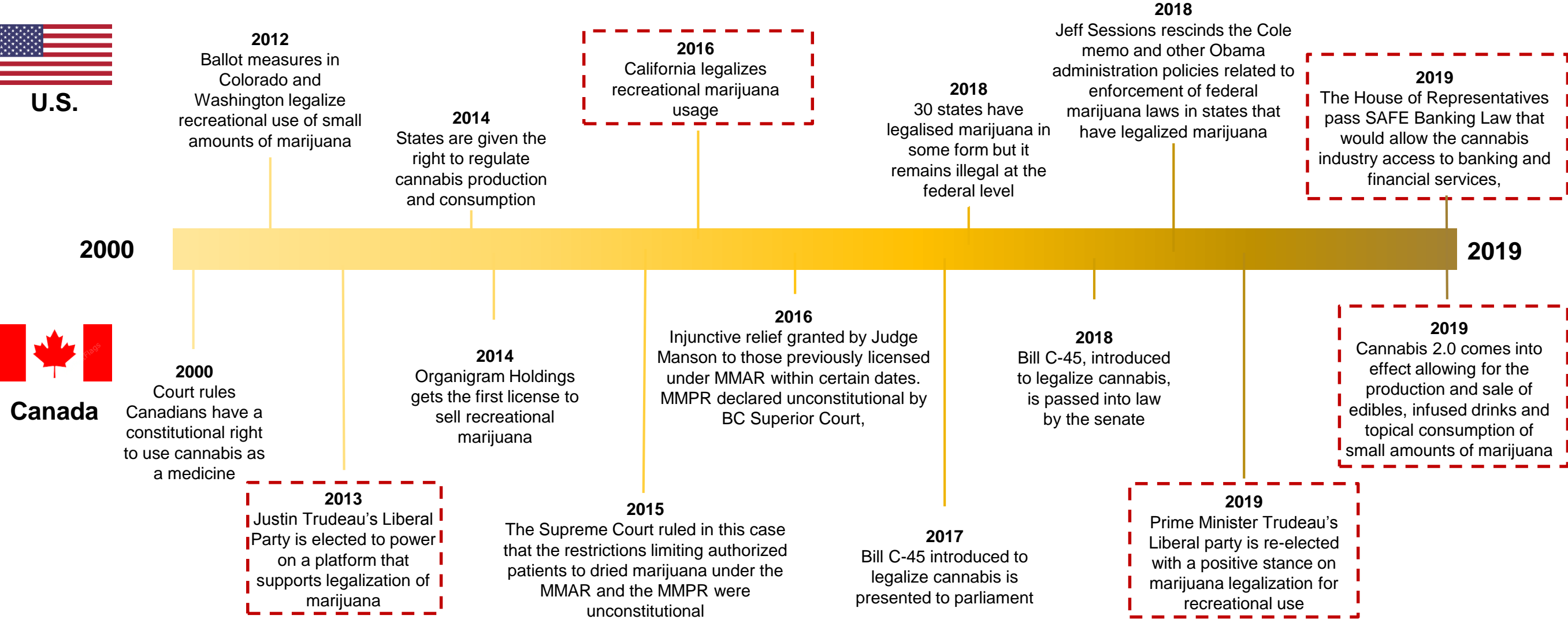
DISCUSSION & ANALYSIS

- Due to legislative headwinds, Canadian marijuana firms were not able to address the full demand from the market. As a result most Canadian LPs did not reach the level of profitability that was projected.
- Furthermore, many LPs ran into cash flow problems and were forced to either slow down growth or in some cases downsize operations.
- Further easing of legislation in the form of Cannabis 2.0 will lead to market expansion that should give guidance on the true size and potential of the cannabis market.
- **Forward Looking:** Over the long term, we anticipate that only a handful of companies will have enough cash to fund continued expansion and be able to effectively capture market share in the recreational space.



INDUSTRY ANALYSIS – CANNABIS INDUSTRY

TIMELINE OF THE CANNABIS INDUSTRY

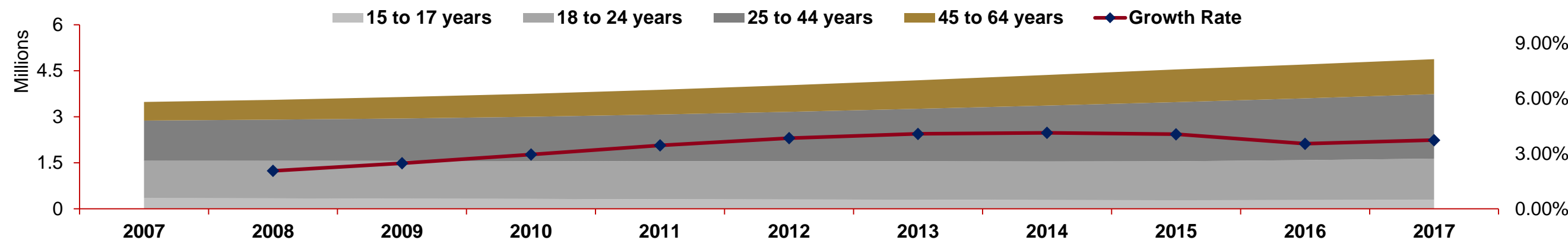


After the recreational legalization in Canada, U.S. is expected to legalize Marijuana in the following 3~5 years



INDUSTRY ANALYSIS – CANNABIS INDUSTRY

CONSUMPTION IS GROWING AT ~4% LARGELY DRIVEN BY OLDER CONSUMERS PRIOR TO LEGALIZATION



DISCUSSION & ANALYSIS

- The medical market pre-legalization showed strong annual growth of 4% indicating widening social acceptance of cannabis as a legitimate medicinal solution
- In 2019 Canadian marijuana use was up from 2017 by 5% (2 million users)
- The lack of user growth indicates that use was not heavily impacted by legalization and that most of the industries growth will come from a conversion of black market sales to legal sales
- Demographics shifts in consumption were minimal, with the 15-24 age range dropping by 10% to 20% as a proportion of consumption and the 25-44 age range increasing by 10% to 50% while the 44+ age range remained at ~30%
- Because these figures are self reported, we expect that the changes can be attributed to a several factors including; the 2 year demographic shift (2017-19) and a reduction in the stigma around marijuana consumption prompting a more representative response



INDUSTRY ANALYSIS – SUPPLY CHAIN ANALYSIS

SUPPLY CHAIN FOR RECREATIONAL MARKET BY PROVINCE

	British Columbia	Alberta	Nova Scotia	Ontario	Quebec
Cannabis use	15.97%	12.74%	5.01%	38.91%	15.46%
Distributor	Govt (BC LDB)	Govt (AGLC)	Govt (NSLC)	Govt (OSC)	Govt (SAQ)
Announced Suppliers	None Announced	None Announced	None Announced	None Announced	Aphria, Aurora, Canopy, Hydropharmacy (QCbased), MedReleaf, Tilray
Online	Govt. Partnered with Shopify	Govt. Partnered with Shopify	Govt. Partnered with Shopify	Govt. Partnered with Shopify	Govt. Partnered with Shopify
Stores	Govt. and unlimited private licences	Private. 250 licenses expected in the first year	Govt. Allow co-location with alcohol.	Govt. 150 stores by 2020.	Govt. Initially 15 stores.
CGC's Stores	0	0	0	2	0

DISCUSSION & ANALYSIS

- The five main provinces covered around ~88% of Canada's cannabis use.
- Canopy has ongoing supply agreements with various provinces and territories, which equated to 70,000+ kg/year excluding Ontario.
- Canopy operates 2 online platforms and 26 retail store locations- 6 in Saskatchewan, 9 in Manitoba, 2 in Ontario, and 8 in Newfoundland and Labrador.
- These stores are operating under the Tweed or Tokyo Smoke banner as of their Q1 2019 report.
- Distribution models vary by province and have been a source of market constraint in regions like Ontario and Quebec where limited licenses reduce access to marijuana

Canopy has arguably the strongest relationship with Canada's provincial governments which provides them a leadership advantage

INDUSTRY ANALYSIS – NUMBER OF MEDICAL PATIENTS IN U.S.

U.S. legal medical marijuana patients 2018, by state	
Number of legal medical marijuana patients in the U.S. as of May 2018, by state	
Alaska	1,054
Arizona	162,528
Arkansas	5,000
California	915,845
Colorado	88,946
Connecticut	25,948
D.C.	5,679
Delaware	3,588
Florida	108,981
Hawaii	21,004
Illinois	21,800
Maine	51,324
Maryland	39,276
Massachusetts	48,265
Michigan	269,553
Minnesota	9,435
Montana	25,725

U.S. legal medical marijuana patients 2018, by state	
Number of legal medical marijuana patients in the U.S. as of May 2018, by state	
Nevada	21,579
New Hampshire	4,753
New Jersey	20,445
New Mexico	52,260
New York	55,136
Oregon	45,210
Pennsylvania	37,000
Rhode Island	6,313
Vermont	5,313
Washington	80,818
Total	2,132,778

DISCUSSION & ANALYSIS

- According to ProCons Research, in 26 states where medical marijuana use is legal, 1.079% of the population patients.
- With the existing medical market as a baseline, we can assume there will be 3,514,510 patent in U.S. once medical marijuana is legalized federally.

INDUSTRY ANALYSIS – PORTER FIVE FORCES

THREAT OF SUBSTITUTION: **HIGH** AND **DECREASING**

- As of Q4 2018 illicit cannabis sales made up 79% of the total market down from 90% in the third quarter
 - Illicit cannabis remains ~33% cheaper at \$6.5 / gram creating an incentive for consumers to avoid heavily taxes legal cannabis
 - **Forward-Looking:** As retail locations expand in various provinces and the operational costs of cannabis producers fall, legal cannabis will capture more market share and the threat of substitution will decline
-

THREAT OF NEW ENTRY: **HIGH** AND **INCREASING**

- Legislation remains the largest barrier to entry as companies must obtain a license to produce / sell cannabis. Despite this 111 new companies have entered the Canadian market in 2019
 - As changes in legislation and market stabilization improve access to capital, barriers to entry will decline, increasing the threat of new entrants
 - The novelty of the industry creates opportunities for innovation, small competitors can gain market share through product differentiation
 - **Forward-Looking:** We expect new marijuana producers and sellers to enter the market at an increasing rate for the foreseeable future
-

BUYER POWER: **MEDIUM** AND **INCREASING**

- Depending on the region, consumer choices as far as retailers varies with Alberta and BC being the most competitive markets and Ontario & Quebec the least
- Consumers still have access to the illicit market where pricing is significantly cheaper; however, as legal prices drop this market will be compressed lowering buyer power
- The continued introduction of new competitors to this early stage market will continue to broaden consumer choice and increase buyer power
- **Forward-Looking:** New firms will continue to adapt to consumer preferences and offer consumers an increasing number of choices

INDUSTRY ANALYSIS – PORTER FIVE FORCES (CONT.)

COMPETITIVE RIVALRY: MEDIUM AND INCREASING

- While the number of new entrants is rapidly increasing with legalization, market share is increasingly concentrated across four established producers that currently control ~25% of the market (Canopy Growth Corporation, Aurora Cannabis Inc., Aphira Inc., Tilray Inc.)
 - Despite high acquisition activity, the market remains fragmented with over 263 licenses producers in Canada as of Q3 2019
 - Large plays have been acquiring smaller producers at a rapid pace in an effort to capture more of the market, new technology and licensed production facilities
 - **Forward-Looking:** Due to the novelty of the market and high growth rate, rivalry is expected to increase as access to capital improves and players strive to create brand dominance amongst consumers
-

SUPPLIER POWER: MEDIUM AND DECLINING

- Marijuana production makes up a relatively small proportion of the overall farming market that relies on the same set of producers; for example, Canadian wheat farming is approximately 4x the size of the marijuana market
- Supplier concentration for fertilizer and lightbulb production is extremely high with a few players owning most of the market, pesticide production remains a highly fragmented market
- Large marijuana producers hold significantly more buyer power than operators in related farming markets as these markets are highly fragmented with a single producer typically owning no more than 2% of market share
- **Forward-Looking:** As large Marijuana producers continue to gain market share their power over suppliers will increase

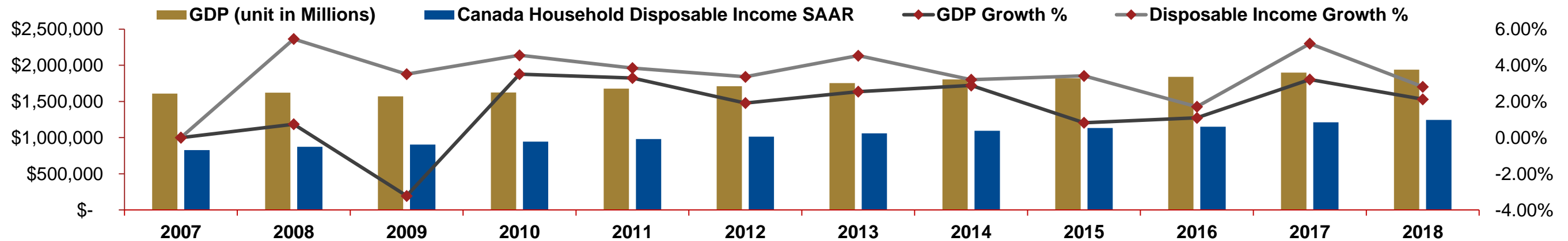
In conclusion the marijuana, like any new market, remains highly competitive as players move to capture market share through innovation, differentiation, brand recognition and cost reduction. Legislation will continue to determine the intensity of competition in the market, the pace of growth, and the relevance of illicit products, as new markets either open to recreational and medical marijuana or prohibit consumption.

2. Macro Analysis



MACROECONOMIC ANALYSIS – GDP & DISPOSABLE PERSONAL INCOME

U.S. GDP PER CAPITA AND DISPOSABLE PERSONAL INCOME



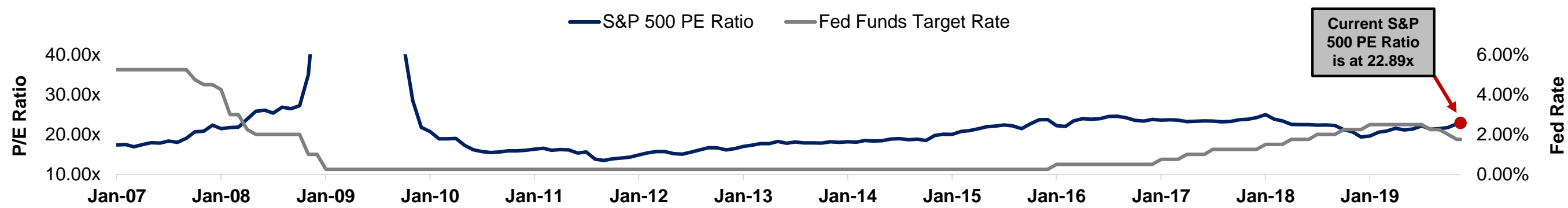
DISCUSSION & ANALYSIS

- Recreational cannabis is a luxury good and as such is facilitated by higher levels of disposable income and strong GDP growth
- Canadian GDP growth since 2009 has averaged a strong ~2.4%. Growth has been driven by expansions in the Canadian Real-estate market, financial services, insurance, professional services, industrial production growth, energy and mining with cannabis making up ~1% of growth.
- Canadian disposable personal income per-capita has risen year over year with the economy. Growth in disposable income has increased on average 3.62% per year since the crisis. However, household debt to disposable income has also increased from 156% to 172% in the last decade indicating less disposable income in the economy.
- An IPSOS study of over 2000 respondents showed that 48% of Canadians have less than \$200 of disposable income per month

While metrics for GDP create a strong economic environment for the marijuana industries expansion, increasing debt levels may limit demand for cannabis and increase reliance on cheaper illicit products. Projected GDP growth is 1.5% in 2020.

MACROECONOMIC ANALYSIS – RECESSION & INTEREST RATE

MONETARY ENVIRONMENT IS EXPECTED TO LOOSEN LEADING TO HIGH MULTIPLES IN THE EQUITY MARKET



U.S. PRIVATE DEBT

(% of GDP)	Current	High-point of the financial crisis
Non-financial private debt	147.6	171.1
Household Debt	75.0	98.6
Mortgage debt	49.7	73.5
Non-financial corporate debt	72.6	72.5

DISCUSSION & ANALYSIS

- The current S&P 500 PE ratio is closed to its all time high since the last recession, this indicates high valuation multiples for equities
- Since 2019, the U.S. Federal reserve has cut its target rate three times from 2.25% – 2.5% to 1.5% – 1.75%. A lower borrowing rate encourages consumers and firms to take out loans to finance greater spending and investment. The down side risk of these successive cuts is that the Federal reserve will have less room for quantitative easing during the next recession.
- **Forward Looking:** While the risk of a recession exists, unemployment is at an all time low and many companies have a better understanding of cash flow. As such the general consensus is that we will see a correction rather than a full blown recession

The US stock market is at all time highs indicating that a correction is due in the near future. However, fundamentally the economy is strong and companies are better at maintaining their cash flow which could both extend the bull market and reduce the size of any correction.

MACROECONOMIC ANALYSIS – LEGISLATION OVERVIEW

CONTINENT	CURRENT LEGISLATION	FORWARD LOOKING
North American	<p>Canada: recreational and medical marijuana use is legal at the federal and provincial level for production and sale.</p> <p>United States: Medical Marijuana is legal across 46 states however remains illegal at the federal level. Recreational use has been legalized across 11 states. Hemp farming was legalized at the federal level in 2018 through the Farm Act which will be used by Canadian LP's to develop a U.S. footprint.</p>	<p>Canada: Cannabis 2.0 will open the Canadian market further to allow for marijuana based edible and beverage consumption and sale.</p> <p>United States: The SAFE banking bill is awaiting debate in the Senate and if enacted will allow cannabis companies to operate bank accounts. Broader legislation has been introduced to the house in the form of the STATES act, which would exempt individuals and companies in compliance with state marijuana laws from federal prosecution. Timelines remain uncertain.</p>
	<p>Germany: Medically legalized in March 2017; domestic production rights were recently awarded to three firms marking further progress and allowing for the domestic cultivation that will serve ~50% of demand</p> <p>Denmark: A 4-year pilot program that began in January of 2018 has made medical marijuana accessible to patients suffering from a variety of painful illnesses and has allowed for domestic cultivation</p> <p>Poland: Legalized medical use in 2017 and the first non-state company was given licence to import in 2018</p> <p>Czech Republic: Legalized medicinal use in April 2013, domestic production is possible with the applicable licenses and possession of up to 10g of cannabis has been decriminalized</p> <p>United Kingdom: Medical cannabis was legalized in November 2018 and bulk imports began in 2019</p> <p>Spain: In 2017 Catalonia legalized consumption via 'Cannabis Clubs'; however, consumption and medical use of cannabis remains illegal at the federal level</p>	<p>Germany: No evidence of further legalization</p> <p>Denmark: Data from 4-year pilot program is expected to support further medical legalization once complete in 2022</p> <p>Poland: No evidence of further legalization</p> <p>Czech Republic: No evidence of further legalization</p> <p>United Kingdom: Minimal progress expected due to parliamentary gridlock caused by Brexit</p> <p>Spain: Little political support for the legalization of cannabis for medical or recreational use</p>

MACROECONOMIC ANALYSIS – LEGISLATION OVERVIEW

CONTINENT	CURRENT LEGISLATION	FORWARD LOOKING
Africa	<p>South Africa: In September of 2018 the South African Supreme Court legalized recreational use of cannabis; however, large scale cultivation and distribution remains illegal</p> <p>Lesotho: Became the first African state to legalize the use of medical cannabis in 2017 and 5 companies were licenced to produce in early 2018</p>	<p>South Africa: The supreme court has given parliament 2 years to introduce formal legislation and as such we expect to see bills introduced in early 2020</p> <p>Lesotho: More stringent laws around license distribution are set to come into effect later this year; however, existing producers will be grandfathered in</p>
	<p>Peru: Medical cannabis was legalized in 2017, and recreational use has been decriminalised, industrial production remains illegal</p> <p>Colombia: Medical cannabis was formally legalised in 2015, recreational and industrial cultivation and use has been legal since 1986</p> <p>Chile: Medical cannabis oil was legalized in 2015, marijuana has been decriminalized up to 10g and industrial cultivation is legal</p> <p>Brazil: Medical cannabis products are legal under prescription, recreational use is decriminalised. Cultivation, sale consumption remain illegal and industrial production for medicinal hemp oil is legal</p> <p>Cayman Islands: Medical cannabis use was legalized in 2016, recreational cannabis and industrial hemp cultivation remains illegal</p>	<p>Peru: Law 30.681 proposes to expand the breadth of legal imports to include resins, dyes, oils and extracts</p> <p>Columbia: Fully legal</p> <p>Chile: Fully legal</p> <p>Brazil: Landmark supreme court case involving a review of cannabis decriminalization is set to take place in November of 2019</p> <p>Cayman Islands: Increasing public tolerance; however, there is no evidence of further legislative change</p>
Australia	<p>Australia: Medical cannabis was legalized in 2016 and 74 licenses have been granted to domestic producers</p>	<p>Australia: Australia's federal government is under increasing pressure to allow states to decriminalise recreational use of cannabis which could lead to a situation similar to that of US state legalization situation</p>

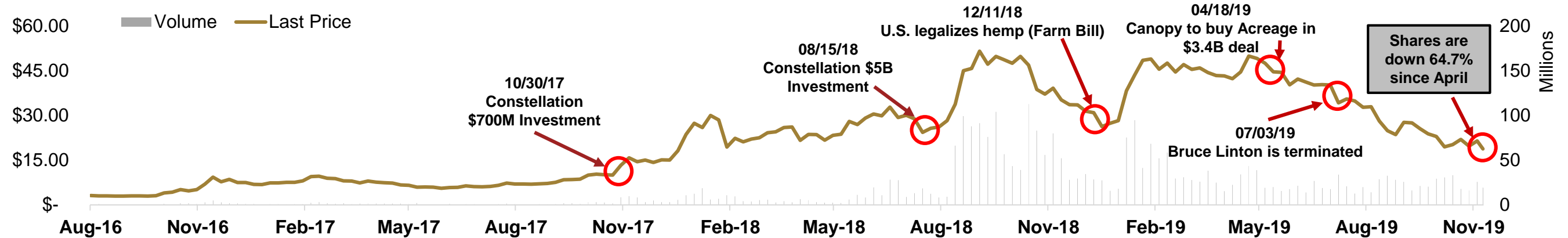
Regulation of medical marijuana use is easing in response to evidence of the drugs medicinal properties. We expect the introduction of medical marijuana along with the high profit potential of marijuana cultivation, to act as catalysts for the expansion of recreational & industrial markets.

3. Company Analysis



COMPANY OVERVIEW – COMPANY PERFORMANCE

CGC SHARES HAVE PULLED BACK LATELY DUE TO INDUSTRY RELATED AND COMPANY SPECIFIC CONCERNS



DISCUSSION & ANALYSIS

- Canopy is a been a leader in the cannabis industry and was one of the first to receive a strategic investment from a fortune 500 company looking for synergies in the cannabis industry
- Canada moved to legalize recreational marijuana in June 2018 (legalized date: October 17, 2018), shortly after Constellation Brands made a \$5 billion investment in Canopy providing the company sufficient capital for growth and expansion
- Canopy has focused on global expansion, in particular they have looked to diversify their operations across Europe, Australia, South America and the US through acquisition and partnership's
- Recently, Canopy CEO and growth specialist Bruce Linton, was terminated as the company shifts to prioritize its operational development over continued expansion
- U.S. regulation continues to impede growth; however, recent legislation like the Farm Bill indicates a relaxing of political opposition to marijuana legalization prompting Canopy to strike a deal with Acreage Holdings that will facilitate an acquisition given certain catalysts

COMPANY ANALYSIS – SWOT ANALYSIS

STRENGTHS (+++)

- **First Mover Advantage:** Canopy is one of the few LP's with enough production capacity to supply the initial demand for recreational cannabis. This first mover advantage and a long history as a medical marijuana producer should enable the company to quickly capture market share and provide a cost efficient product in an undersupplied market.
- **Long-Term Global Branded Leader:** With a strong multi-brand platform, large scale, commitment to innovation and strategic alliance with Constellation Brands, Canopy is well positioned to be a global leader. As international markets continue to open to medical and recreational cannabis use, Canopy's brand, patent and physical assets will allow it capture opportunities on a global scale.
- **Patent Portfolio:** Canopy's efforts and partnerships in medical innovation have allowed it accumulate 111 patents and file for another 270 patent. This broad portfolio covers beverage production, 15 medical treatments, device delivery technologies, large scale processing, and plant genetics.

WEAKNESSES (--)

- **Profitability:** Canopy continues to burn through cash at a rate of \$300-\$400M per month while remaining unprofitable creating risk for cash flow issues and limiting growth potential
- **Leadership:** The company remains without a CEO since the departure of Bruce Linton earlier this year. While management has maintained operations, the lack of a complete leadership team creates potential for instability and loss of direction.

OPPORTUNITY (+++)




















- **Diversified Brand Platform:** Canopy's diversified brand platform gives it the flexibility to shift its strategy as the marijuana market develops. Currently, consumer preferences are still relatively unknown especially when it comes to edibles and beverages. Canopy has positioned multiple brands to capture market upside where ever it may occur.
- **Rights to Acreage Holdings:** As previously mentioned canopy is well positioned to take advantages of US legislative easing, through the acquisition of Acreage Holdings.
- **Cannabis 2.0:** Canopy's strategic partnership with Constellation Brands as well as its \$93M worth of finished product in inventory gives it a significant advantage when the estimated \$1b market for edibles and beverages opens in mid-December.

Threat (--)

- **Vaping:** Headlines around health risks associated with vaping is impacting development and creates a regulatory risk as it is unclear how Health Canada will respond
- **Capital Access:** Potential for regulatory delay weighs on the companies to meet street estimates reducing access capital for further infrastructure development
- **Long runway to Profitability:** Analysts forecast negative EBITDA until at least 2022. If operating losses continue or the company fails to meet earnings guidance further multiple contraction can be expected.

COMPANY OVERVIEW – BRAND PORTFOLIO

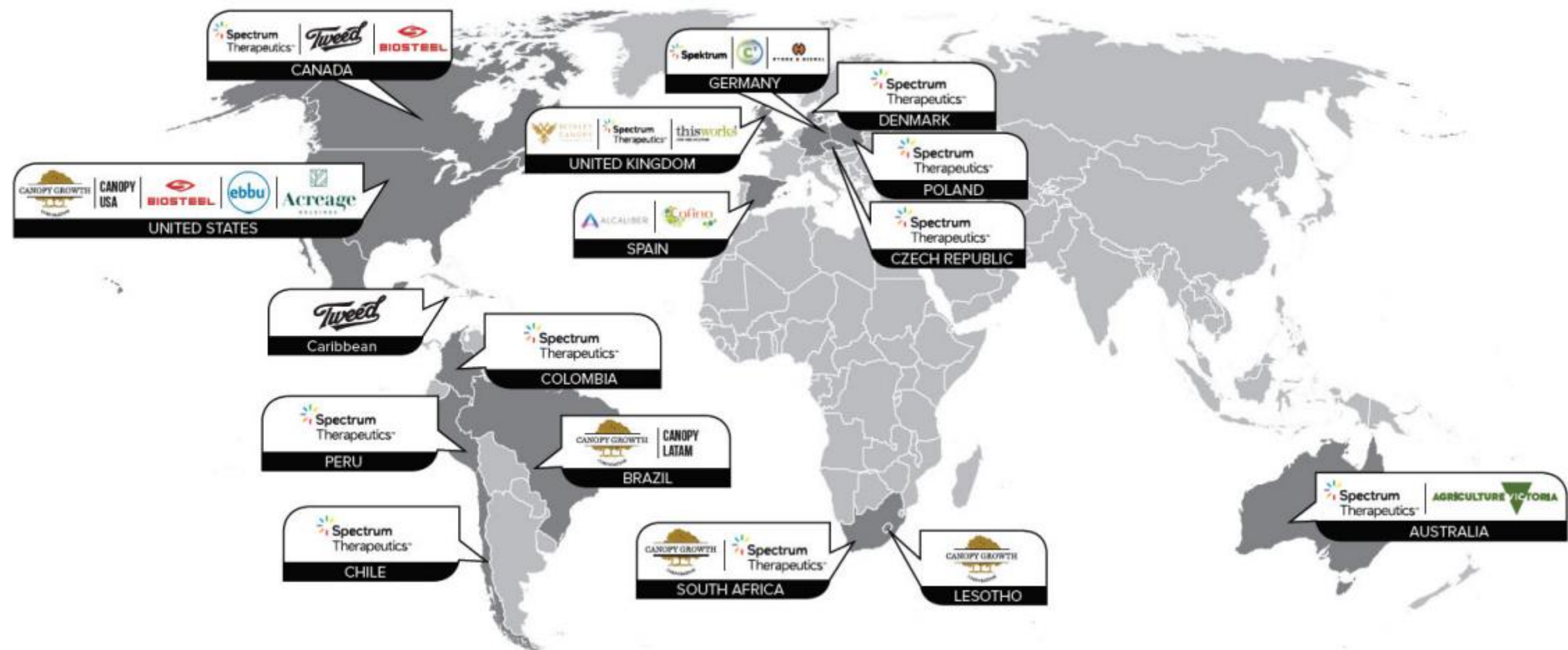
CANOPYS MULTI-PRONGED BRAND PORTFOLIO WILL ALLOW CANOPY TO CAPTURE MARKET OPPROTUNITIES

Core Brands	New Beverage And Edibles Brands	Affiliated Brands	Technology Brands	Retail Platforms
       	  	    		 

Canopy has built a diverse brand portfolio that targets specific consumer groups to encourage new consumption and convert occasions of illicit cannabis use to legal cannabis use

COMPANY OVERVIEW – BRAND PORTFOLIO CONT.

CANOPY'S INTERNATIONAL FOOTPRINT



Although the pace of global legalization is unclear, Canopy has positioned its self well to capture the potential opportunities

COMPANY OVERVIEW – KEY MANAGEMENT TEAM

CANOPY IN-TERM MANAGEMENT TEAM

Management Officers		
Name	Role	Experience
Mark Zekulin	Interim Chief Executive Officer	Mr. Zekulin has been with Canopy since its inception. His background is in both Law and Mathematics. Prior to that, Mr. Zekulin served as a Senior Advisor to the Ontario Minister of Finance. In 2018, Mr. Zekulin received Canada's Top 40 under 40 award.
Mike Lee	Interim CFO	Mr. Lee has many years of experience in the consumer goods & beverages industry. Prior to that, he worked for E. & J. Gallo Winery, PepsiCo, and recently Constellation Brands, where he served as Senior Chief Financial Officer of their Wine & Spirits Division.
Phil Shaer	Chief Legal Officer	Mr. Shaer joined Canopy in 2016. Prior to that he served as the General Counsel at Conversant Intellectual Property Management Inc.
Rade Kovacevic	President	Mr. Kovacevic has many years in investing and operating medical cannabis dispensary. Prior to Canopy, he was the former president of the Canadian Association of Medical Cannabis Dispensaries.
Dave Pryce	VP, International Market Expansion and Government Relations	Mr. Pryce has 20+ years of international experience. He has previously held senior positions at BlackBerry and D2L.

DISCUSSION & ANALYSIS

- After the termination of Bruce Linton, Canopy has been in search of a CEO that will take the company from an acquisition growth stage to an operational stage
- Four of seven board members hold some relation to Canopy's largest share holder, Constellation Brands (35.9%). This provides Canopy with a significant informational advantage when it comes to the cannabis beverage industry, which will to open in Canada in mid- December with the introduction of Cannabis 2.0.

COMPANY OVERVIEW – CANOPY & CONSTELLATION BRANDS PARTNERSHIP

BENEFIT	DESCRIPTION
Dramatic Influx of Capital Supports Expansion	\$5 billion influx of capital from Constellation provided Canopy the capital it need for expansion across 30 countries and to make a \$300 million deal with Acreage Holdings that will allow for rapid expansion in the event of U.S. legalization.
Informational Advantage on Cannabis Beverage Industry	Constellation will be an invaluable asset when entering the cannabis beverage industry in late 2019. From operations to branding, Canopy will have an advantage when compare to it peers due to its ability to tap into the it partners deep industry knowledge.
Increase in Investor Confidence	The support of a fortune 500 company provides a level of assurance to share holders and debt holder giving Canopy increased access to capital.

DISCUSSION & ANALYSIS

- On August 15th , 2018 Constellation Brands Inc. announced a \$5 billion investment (\$4 billion USD) in Canopy Growth
- Canopy deployed the capital quickly to expand its Canadian and internationally mostly though acquisition
- Canopy is still sitting on \$2.7 billion of the investment which is expected to be deployed as the Canadian market opens up more with new legislation
- Cannabis 2.0, which is currently in effect will allow Canopy to expand into Cannabis beverage sales where Constellation will serve as a source of operational and strategic knowledge
- Constellations operations in the U.S. will provide Canopy access to distribution networks if U.S. legalization occurs

Canopy’s strategic partnership with Constellation Brands gives it a dominant position in the Canadian market and give the company and informational advantage in the cannabis beverage industry



COMPANY OVERVIEW – CANOPY & ACREAGE DEAL

BENEFIT	DESCRIPTION
Access into the U.S. Cannabis Market	Canopy and Acreage executed a licensing agreement granting Acreage access to Canopy Growth's brands, including Tweed and Tokyo Smoke, along with other intellectual property.
Generate Awareness of Canopy's Brand in the U.S.	Canopy has strong awareness in Canada; however, limited awareness in the U.S. as it doesn't have any operations there. However, the deal will allow Canopy to leverage the operational footprint and distribution of Acreage.
Diversify Canopy's operation	Canopy has the intention to become the global cannabis leader. With this deal, Canopy would be able to position itself to best capture any upside in the change of U.S. legislation regarding marijuana.

DISCUSSION & ANALYSIS

- Canopy has the right to acquire Acreage when cannabis is federally legal in U.S. regarding cultivation, distribution, and possession of marijuana.
- Acreage is headquartered in New York City and is a leading vertically-integrated, multi-state operator in U.S cannabis. Acreage owns licences to operate approximately 90 dispensaries and over 20 cultivation and processing sites in 20 U.S. states.
- The deal must occur within 90 months from payment of Up-Front Cash Premium or else the agreement will terminate
- Transaction is valued at approximately US\$3.4 billion on a fully-diluted basis (\$300M Cash, the rest is Canopy's Share), represents a premium of 41.7%
- Acreage owns 90 for ~3500 listed dispensaries. However, a study by the Humbolt Institution found that on 37% of listed dispensaries are operational. This gives Acreage an estimated market share of 7%.

Canopy & Acreage have the assets, operational knowledge and brand platform to capture opportunities created by shifts in US legislation



4. WACC



WACC – COST OF DEBT

CURRENT DEBT STRUCTURE:

	Maturity Date	30/06/2019
Convertible senior notes at 4.25% interest with semi-annual interest payments	July 15, 2023	
Principal amount	\$	600,000
Accrued interest	\$	11,898
Non-credit risk fair value adjustment (FVTPL)	\$	145,230
Credit risk fair value adjustment (FVOCI)	\$	32,520
EBIT (a)	-657	\$ 789,648
Interest Expense (b)	0	
Interest Coverage Ratio (a)/(b)	0	

Interest Coverage Ratio & Default Spread Conversion Chart (Company Less than \$5B)			
>	≤ to	Rating	Default Spread
7.5	9.499999	A1/A+	1.25%
6	7.499999	A2/A	1.38%
4.5	5.999999	A3/A-	1.56%
9.5	12.499999	Aa2/AA	1.00%
12.5	100000	Aaa/AAA	0.75%
2.5	2.999999	B1/B+	4.50%
2	2.499999	B2/B	5.40%
1.5	1.999999	B3/B-	6.60%
3.5	3.999999	Ba1/BB+	3.00%
3	3.499999	Ba2/BB	3.60%
4	4.499999	Baa2/BBB	2.00%
0.5	0.799999	C2/C	14.54%
0.8	1.249999	Ca2/CC	11.08%
1.25	1.499999	Caa/CCC	9.00%
-100000	0.499999	D2/D	19.38%

Estimated Effective Corporate Tax Rate	26.5%
Risk Free Rate (a)	3.44%
Theoretical (Credit Rating Agency)	N/A
Actual (Calculation)	D2
Default Spread (b)	19.38%
Credit Rating for Constellation	Baa3
Estimated Cost of Debt (a) + (b)	22.82%
Estimated After Tax Cost of Debt	7.44%

RATIONALE

- Previously, Canopy’s competitor (Aurora) has raised \$200M short debt (mature in 2021) with the interest rate at ~4%.
- Furthermore, Constellation Brand own 35.9% of Canopy, which Canopy can leverage to gain a better debt terms.
- Based on Damodaran’s synthetic credit rating calculation, as Canopy growth has negative EBIT, it would receive a rating of D2 **which is not realistic**.
- We believe Canopy, with its strong balance sheet, sitting on \$2.7B cash, the cost of debt should be somewhere around 5% – 7%, where we take 7.44% to remain conservative

WACC – BETA

Comparable Company	2 Year Daily Levered Beta	R^2	D/E (FY 2001)	Tax Rate	Unlevered Beta
Aurora	1.468	0.034	0.15x	26.50%	1.325
OrganiGram Holding	1.188	0.025	0.54x	26.50%	0.852
Tilray	0.818	0.028	2.17x	26.50%	0.315
Cronos	1.435	0.025	0.10x	26.50%	1.338
Aphria	0.863	0.005	0.28x	26.50%	0.715
HEXO	1.461	0.042	0.04x	26.50%	1.416
Green Organic Dutchman Holding	1.456	0.025	0.01x	26.50%	1.445
Average	1.241		0.47x		1.058
Minimum	0.818		0.01x		0.315
25th percentile	0.863		0.043		0.715
Medium	1.435		0.147		1.325
75th percentile	1.459		0.435		1.385
Maximum	1.468		2.17x		1.445

Comparable Company	2 Year Daily Levered Beta	R^2	D/E (FY 2001)	Tax Rate	Unlevered Beta
Philip Morris	0.693	0.093	1.51x	21.50%	0.317
Constellation Brands	0.793	0.17	1.06x	21.50%	0.433
Altria	0.564	0.116	1.74x	21.50%	0.239
Molson Coors	0.66	0.125	0.76x	21.50%	0.413
Brown-Forman	0.779	0.271	1.48x	21.50%	0.360
Anheuser-Busch	1.003	0.327	1.53x	30.00%	0.485
Heineken	0.789	0.247	0.96x	24.50%	0.457
Average	0.754		1.29x		0.386
Minimum	0.564		0.763		0.239
25th percentile	0.660		0.964		0.317
Medium	0.779		1.482		0.413
75th percentile	0.791		1.521		0.447
Maximum	1.003		1.74x		0.485

DISCUSSION & ANALYSIS

- Canopy's direct peers have a medium unlevered beta of 1.325 and debt to equity of 0.147x.
- However, the current debt to equity structure is not representative in the long run as most cannabis companies are struggling to get debt due to low or negative profits.
- Therefore, we looked into companies in similar industry such as tobacco and alcohol. From there, we can assume the optimal capital structure should be somewhere around 1.48x.
- Typically speaking, drug and alcohol industries are less cyclical and should have a lower beta. However, the cannabis has high beta as it is a new industry and we believe this would continue until it stabilize.
- Therefore, the beta we choose for canopy is 1.325 and debt to equity is 1.48x.

WACC – COST OF EQUITY

Proxy Beta

Optimal D/E (a)	1.482x
Canopy Corporate Tax Rate (b)	26.5%
Canopy Proxy Unlevered Beta (c)	1.325
Canopy's Proxy Beta (c) * (1 + (1 - (b)) * (a))	2.768

Cost of Equity

Market Risk Premium in Canada (Damodaran)	5.96%
Market Risk Premium in U.S.	4.76%
Blended Market Risk Premium	5.36%
Risk Free Rate	3.44%
Estimated Cost of Equity (rf + Beta * market risk premium)	18.28%

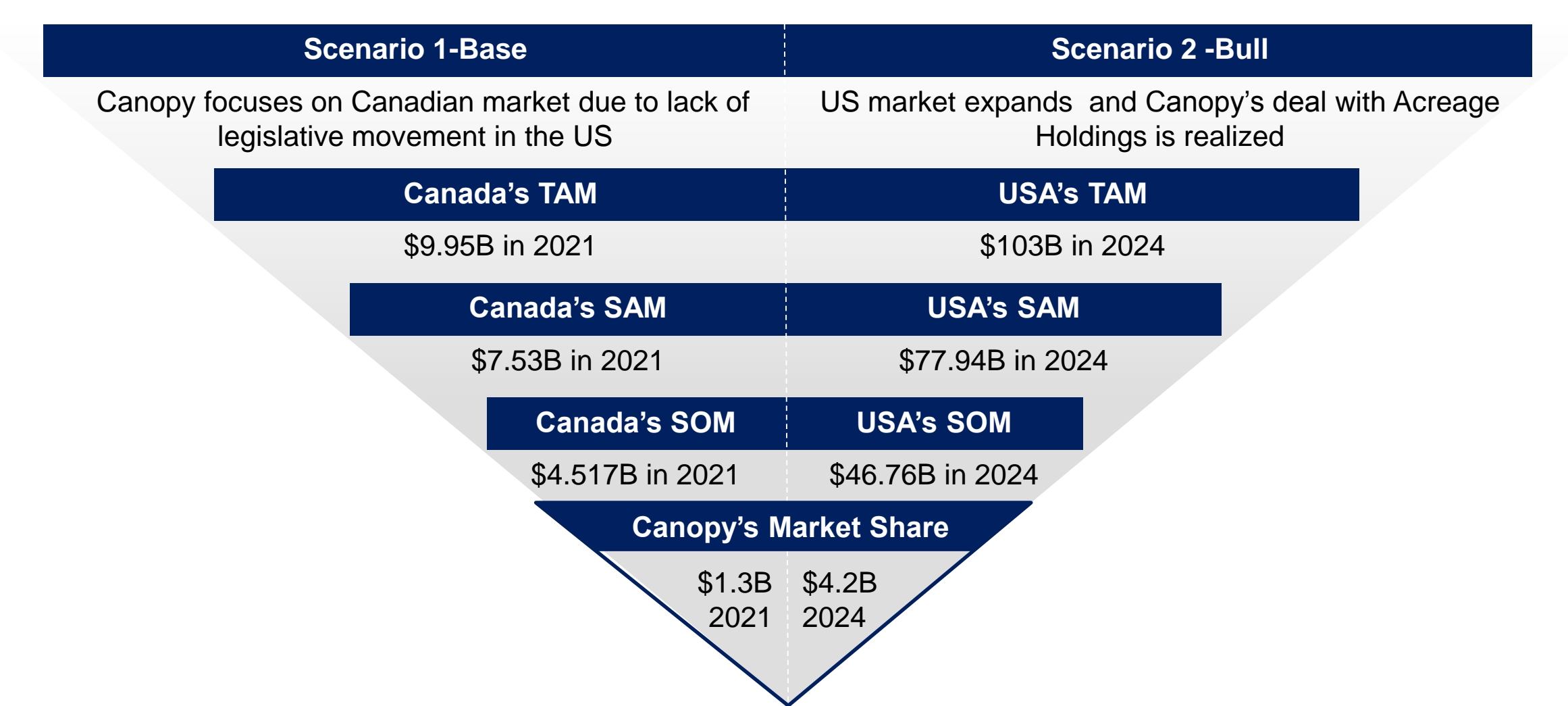
- Canopy's business will have both a U.S. and Canada element, as such we decided that the market risk premium should be a blend of both markets
- Additionally, it is being traded in both U.S. and Canadian market which further strengthens this assumption

$$\text{WACC} = \text{Cost of Equity} * \% \text{ of Equity} + \text{Cost of Debt} * \% \text{ of Debt}$$

$$\text{WACC} = 18.28\% * 1/(1+1.482) + 7.44\% * 1.482/(1+1.482)$$

$$\text{WACC} = 11.8\%$$

DCF Valuation - Scenarios



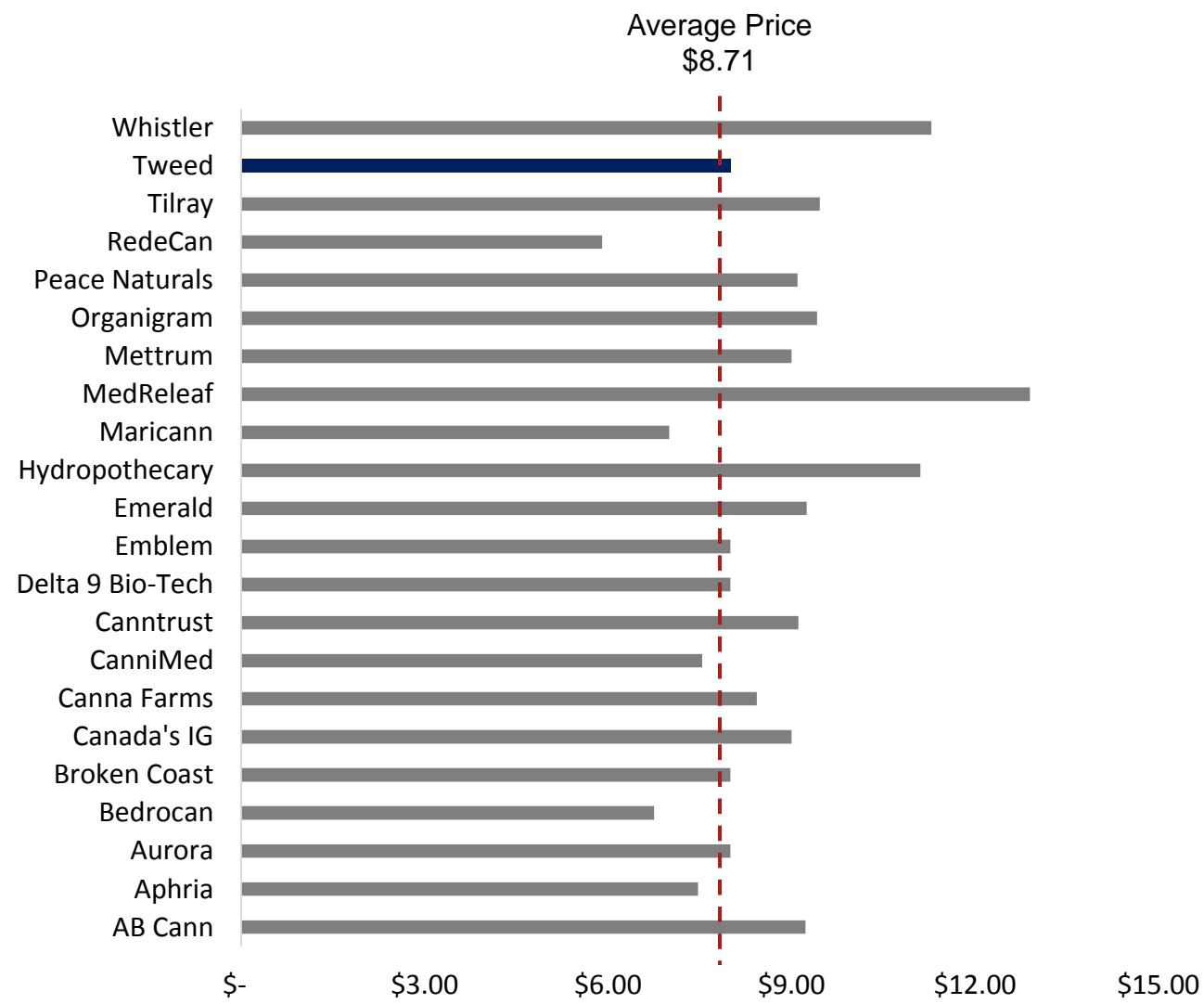
In order to account for the uncertainty around U.S. legislation we have developed two DCF scenarios; one where Canopy is only able to capture the Canadian market and one where the U.S. moves forward with the STATES act expanding the U.S. market and catalyzing the Acreage Holdings deal by 2024.

4. Discounted Cash Flow (Base Case)



CANADIAN CANNABIS PRICING

LP'S AVERAGE MEDICAL CANNABIS PER GRAM



DISCUSSION & ANALYSIS

- In order to effectively size the Canadian medical and recreational markets we need to determine the average price of cannabis
- Currently competitors have vastly different prices ranging from \$5.90 to \$12.90 per gram
- We took the average price of \$8.71 per gram as a starting point of where to price the markets
- We believe that prices will fall over the next 12 months due partially to operational improvements and partially to out of necessity to compete with sub \$7 per gram prices supplied by the black market
- In addition to this data we took into account the average price of medical marijuana during 2018 in Canada, \$7.27 per gram which we believe is more representative of future pricing



CANADA’S TOTAL ADDRESSABLE MARKET

Methodology

- Based on the total number of medical users, averages consumption per user per year and average cost per gram of marijuana retrieved from Stats Canada, we estimated the current size of Canada’s medical marijuana market to be \$1.1 billion.
- To break down the recreational market we segmented consumption into 5 types; vaporizers, dried flowers, concentrates, edibles and cannabis beverages. We then estimated the number of users per group based on consumption survey results and the average consumption per user for a given method of consumption. From this information we deduced the total size of each segmented market and determined the potential revenue by combining the total sales with average sales price. The total size of the recreation market is estimated to be \$9.95 bn.
- In this estimate we make a conservative estimates on the % uptake of concentrates, edibles and beverages going forward. These, products will be introduced in Dec '19.

Market: Canadian Medical		
Medical		
Number of Patients (as of September 2019) (a)		342,103
Estimate Per User Annual Consumption (g) (b)		443
Estimate Annual Consumption (kg) (a) * (b) / 1000		151,483
Estimate Avg. Selling Price(\$/g)	\$	7.27
Total Potential Revenues to LPs (\$ bn)	\$	1.10

CANADA'S TOTAL ADDRESSABLE MARKET CONT.

Market: Canadian Recreational	
Total Adult Population (m) (15 and above)	32
Number of Persons used Cannabis in the past three months (m)	5.20
Estimate % Using Cannabis (Bear Case)	10%
Estimate Population using Cannabis	3.16
Dried Flower	
% of Users within the Cannabis Users	40%
Estimate Users (m)	1.26
Estimate Annual Consumption	238
Total Consumption (kg)	300,136
Estimated Avg. Selling Price (\$/g)	\$8.27
Total Potential Revenues to LPs (\$ bn)	\$ 2.48
Vape Pens	
% of Users within the Cannabis Users	5%
Estimate Users (m)	0.16
Estimate Annual Consumption	238
Total Consumption (kg)	37,517
Estimated Avg. Selling Price (\$/g)	\$40.00
Total Potential Revenues to LPs (\$ bn)	\$ 1.50

Market: Canadian Recreational	
Concentrates	
% of Users within the Cannabis Users	15%
Estimate Users (m)	0.47
Estimate Annual Consumption	22
Total Consumption (kg)	10,232
Estimated Avg. Selling Price (\$/g)	\$35.00
Total Potential Revenues to LPs (\$ bn)	\$ 0.36
Edibles	
% of Users within the Cannabis Users	20%
Estimate Users (m)	0.63
Estimate Annual Consumption	48
Total Consumption (kg)	30,317
Estimated Avg. Selling Price (\$/g)	\$20.00
Total Potential Revenues to LPs (\$ bn)	\$ 0.61
Cannabis Beverages	
% of Users within the Cannabis Users	20%
Estimate Users (m)	0.63
Estimate Annual Consumption	48
Total Consumption (kg)	30,317
Estimated Avg. Selling Price (\$/g)	\$35.00
Total Potential Revenues to LPs (\$ bn)	\$ 1.06

Total Addressable Market for Recreational in 2021 is expected to be \$5.01bn in Canada

PROXY FROM FLORIDA

Florida Market Share Breakdown								
Trulieve's LTHC Sales	Trulieve's MMJ Sales	Trulieve's Flowers Sales	Total LTHC Sales	Total MMJ Sales	Total Flowers Sales	% LTHC market Share	% MMJ market Share	% Flowers market Share
644625	36259715	7814	2067752	76103132	16588	31.18%	47.65%	47.11%
606669	38176552	6856	2064226	77580566	17072	29.39%	49.21%	40.16%
551290	41977408	6740	2027655	80258622	15007	27.19%	52.30%	44.91%
616357	40259220	6353	2060360	79330293	14750	29.92%	50.75%	43.07%
616363	38653152	4353	2001728	78386202	12114	30.79%	49.31%	35.93%
659862	41605241	4856	2188399	77086413	12951	30.15%	53.97%	37.49%
680475	37318166	5696	2230229	75790254	13591	30.51%	49.24%	41.91%
678962	38599588	4830	2118213	74149760	12444	32.05%	52.06%	38.82%
603297	41796822	6144	2191977	76818695	13373	27.52%	54.41%	45.94%
568673	37838800	5572	2184423	72871619	12502	26.03%	51.93%	44.57%
498338	32996241	5358	1786050	66341157	11706	27.90%	49.74%	45.77%
744689	44985419	6008	2469870	87135114	12893	30.15%	51.63%	46.60%
549327	35398338	5583	2150464	71196883	11620	25.54%	49.72%	48.05%
512268	39836899	4222	2073294	74148271	9684	24.71%	53.73%	43.60%
603701	36803636	5392	2294688	71643891	10833	26.31%	51.37%	49.78%
586544	35590842	5354	2107104	68598544	10766	27.84%	51.88%	49.73%
613399	34602343	5268	2134171	66888401	9910	28.74%	51.73%	53.16%
589032	34602569	5374	2067976	65329591	9415	28.48%	52.97%	57.07%
Average						28.58%	51.31%	45.20%

MMJ = Medical Marijuana LTHC = Low THC Product

Discussion

Trulieve U.S. is a vertically integrated “seed to sale” cannabis Corporation and is the first and largest fully licensed medical marijuana Corporation in the State of Florida. Trulieve has been able to dominate the Florida market capturing over 50% of the medical market, 45% of the flower market and 28% of the low THC market. Trulieve is evidence that the marijuana market can become concentrated to only a few large suppliers with dominant positions. We believe that Canopy has a similar position to Trulieve and has the potential for capture and maintain similar market share.

CANOPY'S CANADIAN MARKET SHARE BASED ON ROLLING 12 MONTH SALES

Canopy Canadian Market share	Total Canadian Sales (kg and kg equivalents)	Total Canopy Sales (kg and kg equivalents)	Canopy Market Share
Recreational Dried Flower	83,882	23128	27.57%
Recreational Oil	8,648	6667	77.10%
Medical Dried Flower	20,660	6807	32.95%
Medical Oil	11,902	3275	27.52%
Total	125,092	39879	31.88%
Oil Market	20,550	9,943	48.38%
Flower Market	104,542	29,936	28.64%
Recreational Market	92,530	29,796	32.20%
Medical Market	32,562	10,083	30.97%

Discussion

- Based on the rolling 12 months sales of Stats Canada and Canopy we estimate that canopy's current overall market share is ~31% when sales are adjusted for international exposure (~13 % of revenues from international markets)
- Canopy has a very strong position in the recreational oil market however this market is notably small and the most at risk for cannibalization from the introduction of Canopy 2.0

REVENUE PREDICTION – CANADA’S TOTAL ADDRESSABLE MARKET

Total Addressable Market (\$ bn)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Dried Flower	\$ 1.24	\$ 2.48	\$ 2.73	\$ 3.00	\$ 3.30	\$ 3.47	\$ 3.64	\$ 3.75	\$ 3.83	\$ 3.90
Vape Pens	\$ 0.75	\$ 1.50	\$ 1.58	\$ 1.64	\$ 1.69	\$ 1.72	\$ 1.76	\$ 1.79	\$ 1.83	\$ 1.86
Concentrates	\$ 0.18	\$ 0.36	\$ 0.43	\$ 0.49	\$ 0.54	\$ 0.58	\$ 0.61	\$ 0.63	\$ 0.64	\$ 0.66
Edibles	\$ 0.30	\$ 0.61	\$ 0.79	\$ 0.91	\$ 1.00	\$ 1.07	\$ 1.13	\$ 1.16	\$ 1.19	\$ 1.22
Cannabis Beverages	\$ 0.53	\$ 1.06	\$ 1.38	\$ 1.59	\$ 1.74	\$ 1.92	\$ 2.06	\$ 2.17	\$ 2.23	\$ 2.28
Medical	\$ 0.55	\$ 1.10	\$ 1.15	\$ 1.19	\$ 1.23	\$ 1.26	\$ 1.30	\$ 1.33	\$ 1.37	\$ 1.39
<i>Dried Flower % Growth</i>			10.00%	10.00%	10.00%	5.00%	5.00%	3.00%	2.00%	2.00%
<i>Vape Pens % Growth</i>			5.00%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%
<i>Concentrates % Growth</i>			20.00%	15.00%	10.00%	7.50%	5.00%	3.00%	2.00%	2.00%
<i>Edibles % Growth</i>			30.00%	15.00%	10.00%	7.50%	5.00%	3.00%	3.00%	2.00%
<i>Cannabis Beverages % Growth</i>			30.00%	15.00%	10.00%	10.00%	7.50%	5.00%	3.00%	2.00%
<i>Medical % Growth</i>			4.00%	4.00%	3.00%	3.00%	3.00%	2.50%	2.50%	2.00%

Methodology

- To forecast Canada's future total addressable market applied conservative growth rates to our 2020 market segment estimates
- Insignificant growth in total user base post-legalization indicates that additional consumption will largely be a result of illicit consumer conversion. We estimate that as legal pricing becomes more competitive and legislative changes open up supply we will see moderate growth in recreational dried flower market.
- Cannabis vaping fairly mature and with current health inquiries by the FDA and Health Canada we expect growth to be lower than other segments
- Edibles will be introduced in Dec '19 and are expected to grow into a ~1.2 billion dollar market by 2030. This new segment is expected to see high initial adoption similar to that of the Vape pen market
- Cannabis beverages have gained significant popularity in various U.S. states and the Canadian market is expected to be ~2.3 billion by 2030
- Given the medical marijuana markets growth pre-legalization (~4% annually) we forecasted the market will grow at this rate until it begins to mature in 2024

REVENUE PREDICTION – CANOPY’S MARKET SHARE & ASSUMPTIONS (BASE CASE)

Assumptions:																
Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenues % Growth	-	107%	436%	214%	96%	225%	195%	152%	15%	11%	8%	6%	5%	4%	3%	3%
Recreational - Edibles & Beverages % Market Share	-	-	-	-	-	-	35%	34%	33%	32%	31%	30%	29%	28%	27%	25%
Recreational - Dry Bud % Market Share	-	-	-	-	-	-	20%	21%	22%	23%	24%	25%	26%	27%	28%	30%
Recreational - Oil % Market Share	-	-	-	-	-	-	35%	34%	33%	32%	31%	30%	29%	28%	27%	25%
Total Medical Cannabis Revenue % Market Share	-	-	-	-	-	-	30%	29%	28%	27%	26%	25%	24%	23%	22%	20%
Other Revenue from different Countries % Growth								3%	3%	3%	3%	3%	3%	3%	3%	3%

Methodology

- Given Trulieve’s ability to maintain significant market share in Florida along with Canopy’s significant cash holding, strategic partnership with Constellation Brands and substantial supply agreement with the Canadian government, Canopy should be able to maintain roughly maintain its current market share over the coming decade
- Edibles is a high margin business that will attract significant competition, and while Canopy’s management has made edibles a priority, competition and opportunities for differentiation will undoubtable erode their market share
- The recreational dry bud market is currently supplied by many cash strapped low margin producers that will find it hard to compete as large competitors like Canopy push prices lower through operational efficiencies, this will create opportunities to capture more of the market
- The recreational oil market is a higher margin industry that will attract more competition and ultimately make it more difficult for Canopy to maintain its currently high market share created by its first move advantage
- The medical market it mature at this point; however, due to lack of differentiation and low barriers to entry in this market competition is very intense, as a result we expect market share to be eroded

REVENUE PREDICTION – CANOPY’S REVENUE (BASE CASE)

Income Statement (Units in Millions)																
	Historical						Prediction									
Fiscal Years	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenues	\$ 1	\$ 2	\$ 13	\$ 40	\$ 78	\$ 253	\$ 517	\$ 1,879	\$ 2,169	\$ 2,400	\$ 2,604	\$ 2,769	\$ 2,916	\$ 3,023	\$ 3,110	\$ 3,201
Recreational - Edibles & Beverages	-	-	-	-	-	-	-	\$ 567	\$ 723	\$ 816	\$ 880	\$ 940	\$ 981	\$ 1,001	\$ 1,009	\$ 983
Recreational - Dry Bud	-	-	-	-	-	\$ 83	-	\$ 836	\$ 947	\$ 1,068	\$ 1,198	\$ 1,298	\$ 1,404	\$ 1,497	\$ 1,583	\$ 1,730
Recreational - Oil	-	-	-	-	-	\$ 58	-	\$ 122	\$ 142	\$ 158	\$ 169	\$ 175	\$ 178	\$ 177	\$ 174	\$ 164
Other Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Medical Cannabis Revenue	-	-	-	-	\$ 74	\$ 79	-	\$ 319	\$ 321	\$ 322	\$ 319	\$ 316	\$ 312	\$ 307	\$ 301	\$ 279
Medical - Oil	-	-	-	-	\$ 59	\$ 51	-	-	-	-	-	-	-	-	-	-
Medical - Dry Bud	-	-	-	-	\$ 16	\$ 28	-	-	-	-	-	-	-	-	-	-
Other Revenue from different Countries	-	-	-	-	\$ 4	\$ 34	-	\$ 35	\$ 36	\$ 37	\$ 38	\$ 39	\$ 41	\$ 42	\$ 43	\$ 44
Excises Taxes	-	-	-	-	-	\$ 27	-	-	-	-	-	-	-	-	-	-
Net Revenue	\$ 1	\$ 2	\$ 13	\$ 40	\$ 78	\$ 226	\$ 495	\$ 1,879	\$ 2,169	\$ 2,400	\$ 2,604	\$ 2,769	\$ 2,916	\$ 3,023	\$ 3,110	\$ 3,201
COGS	\$ 1	\$ 8	\$ 32	\$ 15	\$ 40	\$ 175	\$ 336	\$ 1,123	\$ 1,099	\$ 997	\$ 843	\$ 834	\$ 813	\$ 804	\$ 818	\$ 831
COGS of Medical								\$ 915	\$ 906	\$ 817	\$ 674	\$ 676	\$ 666	\$ 669	\$ 691	\$ 719
COGS of Recreational								\$ 208	\$ 192	\$ 180	\$ 169	\$ 158	\$ 147	\$ 135	\$ 126	\$ 112
Gross Margin Before the Undernoted	\$ 0	(\$ 6)	(\$ 20)	\$ 25	\$ 38	\$ 51	\$ 159	\$ 757	\$ 1,071	\$ 1,404	\$ 1,761	\$ 1,935	\$ 2,102	\$ 2,219	\$ 2,292	\$ 2,370

Projections

- While we do not expect Canopy to maintain its current exaggerated market share as competition increases, they are positioned to capture a significant amount of market growth across all segments
- Our revenue projections are underpinned by our forecasted for both segmented market growth and Canopy’s market share in each respective segment
- The most significant contributor will continue to be dried bud and concentrate marijuana products as Canopy is positioned to grow in this market through attrition of smaller suppliers with poor cash flow
- Edibles and beverages will be the next largest revenue center due to the projected market size, high margins and partnership wit Constellation Brands

REVENUE PREDICTION – CANOPY’S MARKET SHARE & ASSUMPTIONS (BASE CASE)

Assumptions:																
Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
COGS as % of Revenue	64%	343%	256%	38%	52%	69%	65%	60%	51%	42%	32%	30%	28%	27%	26%	26%
COGS as % of Recreational								60%	50%	40%	30%	28%	26%	25%	25%	25%
COGS as % of Medical								65%	60%	56%	53%	50%	47%	44%	42%	40%
Sales and Marketing as % of Revenue	174%	113%	45%	32%	49%	61%	30%	30%	20%	13%	10%	8%	6%	5%	4%	4%
R&D as % of Revenue	14%	11%	6%	2%	2%	6%	5%	5%	5%	4%	4%	3%	3%	2%	2%	2%
General and Administration as % of Revenue	328%	206%	64%	42%	56%	66%	30%	30%	27%	25%	22%	20%	20%	20%	20%	20%
Depreciation and amortization as % of Revenue	0%	27%	18%	15%	17%	8%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
CAPEX as % of Revenue	1039%		103%	74%	226%	254%	20%	15%	10%	8%	7%	6%	5%	5%	5%	5%

Methodology

- Future projections for COGS, S&M, R&D, G&A, and CAPEX are based on the current operating standards of established companies in the alcohol and tobacco space. Specifically we looked are Philips Morris, Constellation Brands, and Altria to project these expenses as a proportion of revenue at maturity
- Because this is a novel industry we expect that cost growth will decelerate rapidly in the initial years and then more gradually after the first 5 years of maturity
- COGS is broken down across recreational and medical operations as medical is slightly more operational intensive due to additional standards
- While CAPEX has been exceptionally high over recent years due to M&A activity, the company has signalled that it is entering into an operational stage and out of it rapid growth stage with the termination of Bruce Linton. CAPEX as a % of revenue is expected to drop dramatically as revenue increases and acquisition decreased.

EXPENSE PREDICTION – CANOPY’S OPERATING EXPENSE (BASE CASE)

Income Statement (Units in Millions)																
Fiscal Year	Historical						Prediction									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Operation Expenses	\$ 8	\$ 11	\$ 21	\$ 53	\$ 149	\$ 666	\$ 728	\$ 1,316	\$ 1,226	\$ 1,104	\$ 1,055	\$ 983	\$ 977	\$ 967	\$ 964	\$ 992
Sales and Marketing	\$ 2	\$ 3	\$ 6	\$ 13	\$ 38	\$ 154	\$ 204	\$ 564	\$ 434	\$ 300	\$ 260	\$ 208	\$ 175	\$ 151	\$ 124	\$ 128
R&D	\$ 0	\$ 0	\$ 1	\$ 1	\$ 1	\$ 15	\$ 37	\$ 94	\$ 98	\$ 96	\$ 91	\$ 83	\$ 73	\$ 60	\$ 62	\$ 64
General and Administration	\$ 4	\$ 5	\$ 8	\$ 17	\$ 44	\$ 168	\$ 249	\$ 564	\$ 586	\$ 588	\$ 573	\$ 554	\$ 583	\$ 605	\$ 622	\$ 640
Acquisition - related Costs	-	-	\$ 1	\$ 7	\$ 3	\$ 23	\$ 16	-	-	-	-	-	-	-	-	-
Share-based compensation expense	\$ 1	\$ 2	\$ 3	\$ 8	\$ 30	\$ 183	\$ 161	-	-	-	-	-	-	-	-	-
Share-based compensation expense related to acquisition milestones	\$ 1	\$ 1	\$ 0	\$ 1	\$ 19	\$ 100	\$ 19	-	-	-	-	-	-	-	-	-
Depreciation and amortization	-	\$ 1	\$ 2	\$ 6	\$ 13	\$ 22	\$ 43	\$ 94	\$ 108	\$ 120	\$ 130	\$ 138	\$ 146	\$ 151	\$ 155	\$ 160
Loss from operations/Operating Income	(\$ 8)	(\$ 8)	(\$ 2)	(\$ 14)	(\$ 82)	(\$ 577)	(\$ 569)	(\$ 559)	(\$ 155)	\$ 299	\$ 706	\$ 952	\$ 1,126	\$ 1,252	\$ 1,328	\$ 1,378

Projections

- As the cannabis market grows rapidly over the next two years Canopy’s expenses will expand accordingly with its ability to supply new market segments it captures
- After initial growth years operational improvements will begin to apply downward pressure on operational costs while brand recognition will allow them to lower SG&M expenditure.
- No attempt was made to forecast future acquisition costs as they is no way to predict what strategic acquisitions will present themselves. We expect that acquisition costs will continue to a lesser degree, however, the companies ability to integrate acquired companies and assets so far has been relatively poor, as a result this is a risk to the overall value of the company

CANOPY'S NET OPERATING LOSSES (BASE CASE)

Net Operating Losses (NOL)																
Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
NOL's - BOP	(\$ 9)	(\$ 9)	(\$ 18)	(\$ 22)	(\$ 29)	(\$ 83)	(\$ 754)	(\$ 1254)	(\$ 1813)	(\$ 1968)	(\$ 1668)	(\$ 962)	(\$ 10)	\$ 882	\$ 1,872	\$ 2,921
Plus: Additions	-	(\$ 9)	(\$ 3)	(\$ 8)	(\$ 54)	(\$ 670)	(\$ 500)	(\$ 559)	(\$ 155)	-	-	-	-	-	-	-
Less: Utilizations	-	-	-	-	-	-	-	-	-	\$ 299	\$ 706	\$ 952	\$ 892	\$ 990	\$ 1,050	\$ 1,089
NOL's - EOP	(\$ 9)	(\$ 18)	(\$ 22)	(\$ 29)	(\$ 83)	(\$ 754)	(\$ 1254)	(\$ 1813)	(\$ 1968)	(\$ 1668)	(\$ 962)	(\$ 10)	\$ 882	\$ 1,872	\$ 2,921	\$ 4,010
Pre Tax Income	-	(\$ 9)	(\$ 3)	(\$ 8)	(\$ 54)	(\$ 670)	(\$ 500)	(\$ 559)	(\$ 155)	\$ 299	\$ 706	\$ 952	\$ 892	\$ 990	\$ 1,050	\$ 1,089
Taxable Income	-	-	-	-	-	-	-	-	-	-	-	-	\$ 882	\$ 990	\$ 1,050	\$ 1,089
Tax Rate	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%
Tax Expense	-	-	-	-	-	-	-	-	-	-	-	-	\$ 234	\$ 262	\$ 278	\$ 289

Projections

- This is a net operating losses schedule that helps canopy to calculate its tax obligation.
- Since Canopy has never had net income, theirs is significant net lose credit that can be carried forward to reduce their taxes once they start generating revenue.

CANOPY'S CHANGE IN NWC (BASE CASE)

Net Working Capital																
Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Accounts Receivable	\$ 0	\$ 0	\$ 1	\$ 3	\$ 6	\$ 62	\$ 149	\$ 282	\$ 217	\$ 192	\$ 182	\$ 166	\$ 146	\$ 91	\$ 62	\$ 64
% of Revenue	17.46%	12.65%	8.66%	7.02%	7.56%	24.39%	20.00%	15.00%	10.00%	8.00%	7.00%	6.00%	5.00%	3.00%	2.00%	2.00%
Change in AR (a)		\$ 0	\$ 1	\$ 2	\$ 3	\$ 56	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Inventory	\$ 1	\$ 5	\$ 20	\$ 5	\$ 27	\$ 38	\$ 93	\$ 188	\$ 163	\$ 120	\$ 104	\$ 83	\$ 87	\$ 91	\$ 93	\$ 96
% of Revenue	87.28%	210.88%	160.64%	12.78%	33.97%	15.00%	12.50%	10.00%	7.50%	5.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Change in Inventory (b)		\$ 4	\$ 15	(\$ 15)	\$ 21	\$ 12	\$ 55	\$ 95	(\$ 25)	(\$ 43)	(\$ 16)	(\$ 21)	\$ 4	\$ 3	\$ 3	\$ 3
Prepaid Expenses and other	\$ 1	\$ 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% of Revenue	69.83%	33.74%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Change in Prepaid Expenses (c)		-	(\$ 1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Account Payable	-	-	-	\$ 6	\$ 46	\$ 189	\$ 299	\$ 564	\$ 542	\$ 480	\$ 391	\$ 277	\$ 233	\$ 212	\$ 187	\$ 160
% of Revenue	0.00%	0.00%	0.00%	14.29%	59.23%	74.55%	40.00%	30.00%	25.00%	20.00%	15.00%	10.00%	8.00%	7.00%	6.00%	5.00%
Change in Prepaid Expenses (d)		-	-	\$ 6	\$ 41	\$ 143	\$ 110	\$ 265	(\$ 22)	(\$ 62)	(\$ 90)	(\$ 114)	(\$ 44)	(\$ 22)	(\$ 25)	(\$ 27)
Change in NWC (a) + (b) + (c) - (d)							(\$ 54)	(\$ 170)	(\$ 4)	\$ 20	\$ 74	\$ 93	\$ 48	\$ 25	\$ 28	\$ 29

- NWC is cumulating of accounts receivable, inventory, prepaid expenses less accounts payable. We modeled these accounts as a percentage of revenue.
- Companies in neighbouring industries of tobacco and alcohol were used as proxies to forecast future account ratios
- Specifically our approach was to use two large tobacco producers (Phillip Morris and Altria) and one large beverage producers (Constellation Brands) to guide our estimates (See Appendix 5)

PROXY FOR CAPEX

Philip Morris													
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenue	\$ 20,794	\$ 22,810	\$ 25,705	\$ 25,035	\$ 27,208	\$ 31,097	\$ 31,377	\$ 31,217	\$ 29,767	\$ 26,794	\$ 26,685	\$ 28,748	\$ 29,625
CAPEX	\$ 886	\$ 1,072	\$ 1,099	\$ 715	\$ 713	\$ 897	\$ 1,056	\$ 1,200	\$ 1,153	\$ 960	\$ 1,172	\$ 1,548	\$ 1,436
CAPEX % of Revenue	4.26%	4.70%	4.28%	2.86%	2.62%	2.88%	3.37%	3.84%	3.87%	3.58%	4.39%	5.38%	4.85%

Constellation Brands													
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenue	\$ 3,773	\$ 3,655	\$ 3,365	\$ 3,332	\$ 2,654	\$ 2,796	\$ 4,868	\$ 6,028	\$ 6,548	\$ 7,332	\$ 7,580	\$ 8,116	2303.4
CAPEX	\$ 132	\$ 192	\$ 144	\$ 129	\$ 108	\$ 89	\$ 68	\$ 62	\$ 224	\$ 719	\$ 891	\$ 907	1057.6
CAPEX % of Revenue	3.51%	5.25%	4.27%	3.86%	4.06%	3.19%	1.41%	1.03%	3.41%	9.81%	11.76%	11.18%	45.91%

Altria													
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenue	\$ 35,968	\$ 15,212	\$ 15,957	\$ 16,824	\$ 16,892	\$ 16,619	\$ 17,500	\$ 17,663	\$ 17,945	\$ 18,854	\$ 19,337	\$ 19,494	\$ 19,627
CAPEX	\$ 1,285	\$ 386	\$ 241	\$ 273	\$ 168	\$ 105	\$ 124	\$ 131	\$ 163	\$ 229	\$ 189	199	238
CAPEX % of Revenue	3.57%	2.54%	1.51%	1.62%	0.99%	0.63%	0.71%	0.74%	0.91%	1.21%	0.98%	1.02%	1.21%

Projections

- Philip Morris and Altria are both established tobacco companies that have reached full maturity. Because their operations are similar to that of the cannabis industry we weighed them more heavily when considering CAPEX
- Constellation Brands is an established alcohol beverage producer and a strategic partner of Canopy. A significant proportion of Canopy's revenue will be attributed to beverage sales and we expect that CAPEX will be similar

DCF (BASE CASE)

DCF Model	Historical					
	2014	2015	2016	2017	2018	2019
Revenue	\$ 1	\$ 2	\$ 13	\$ 40	\$ 78	\$ 253
COGS	\$ 1	\$ 8	\$ 32	\$ 15	\$ 40	\$ 175
Total Operating Expenses	\$ 8	\$ 11	\$ 21	\$ 53	\$ 149	\$ 666
Depreciation (b)	\$ -	\$ 1	\$ 2	\$ 6	\$ 13	\$ 22
EBIT	-\$ 9	-\$ 9	-\$ 3	-\$ 10	-\$ 52	-\$ 658
Taxes (Tax rate = 26.5%)	\$ -	\$ -	\$ 0	-\$ 3	\$ 2	\$ 12
NOPAT (a)	-\$ 9	-\$ 9	-\$ 3	-\$ 8	-\$ 54	-\$ 670
Capital expenditure (c)	-\$ 12		-\$ 13	-\$ 29	-\$ 176	-\$ 645
Change in NWC (d)						
FCFF (a) + (b) - (c) - (d)						
Discount						
Year						
PV of FCFF						

Projected									
FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
\$ 517	\$ 1,879	\$ 2,169	\$ 2,400	\$ 2,604	\$ 2,769	\$ 2,916	\$ 3,023	\$ 3,110	\$ 3,201
\$ 336	\$ 1,123	\$ 1,099	\$ 997	\$ 843	\$ 834	\$ 813	\$ 804	\$ 818	\$ 831
\$ 728	\$ 1,316	\$ 1,226	\$ 1,104	\$ 1,055	\$ 983	\$ 977	\$ 967	\$ 964	\$ 992
\$ 43	\$ 94	\$ 108	\$ 120	\$ 130	\$ 138	\$ 146	\$ 151	\$ 155	\$ 160
-\$ 569	-\$ 559	-\$ 155	\$ 299	\$ 706	\$ 952	\$ 1,126	\$ 1,252	\$ 1,328	\$ 1,378
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 219	\$ 262	\$ 278	\$ 289
-\$ 569	-\$ 559	-\$ 155	\$ 299	\$ 706	\$ 952	\$ 906	\$ 990	\$ 1,050	\$ 1,089
\$ 103	\$ 282	\$ 217	\$ 180	\$ 169	\$ 152	\$ 146	\$ 151	\$ 155	\$ 160
\$ 9	-\$ 234	-\$ 4	\$ 20	\$ 74	\$ 93	\$ 48	\$ 25	\$ 28	\$ 29
-\$ 639	-\$ 513	-\$ 260	\$ 220	\$ 593	\$ 846	\$ 858	\$ 965	\$ 1,022	\$ 1,060
112%	125%	140%	156%	175%	195%	218%	244%	273%	305%
1	2	3	4	5	6	7	8	9	10
-\$ 571	-\$ 411	-\$ 186	\$ 141	\$ 340	\$ 433	\$ 393	\$ 395	\$ 375	\$ 347

DCF & SENSITIVITY ANALYSIS (BASE CASE)

Sum of Present Value	\$ 1,256
WACC	11.80%
Terminal Growth Rate	2.00%
Terminal Value in 2029	\$11,030
PV of terminal Value	\$ 3,615
Enterprise Value	\$ 4,872
Plus: Cash	\$ 2,736
Less: Debt	\$ 605
Less: Preferred & Other	\$ 271
Equity Value	\$ 6,733
Share Outstanding	\$ 338
Stock Price	\$ 19.95

SENSITIVITY ANALYSIS

		WACC				
		10.80%	11.30%	11.80%	12.30%	12.80%
Terminal Growth Rate	1.00%	\$ 22.08	\$ 20.81	\$ 19.66	\$ 18.63	\$ 17.70
	1.50%	\$ 22.76	\$ 21.40	\$ 20.18	\$ 19.09	\$ 18.10
	2.00%	\$ 23.52	\$ 22.06	\$ 20.75	\$ 19.58	\$ 18.53
	2.50%	\$ 24.38	\$ 22.79	\$ 21.38	\$ 20.13	\$ 19.01
	3.00%	\$ 25.34	\$ 23.61	\$ 22.08	\$ 20.74	\$ 19.54

DISCUSSION & ANALYSIS

- The DCF valuation is based on the given assumptions regarding Canopy’s revenue and expenses. This will give Canopy a new valuation of \$19.95 which has an implied an downside of 1%.
- A sensitivity analysis was conducted assuming a terminal growth rate and WACC in the range of 1% - 3% and 10.8% - 12.8% respectively. This will give a price range of \$22.08 - \$17.7.

5. Discounted Cash Flow (Bull Case)



U.S. ELECTION



Elizabeth Warren

Supporter

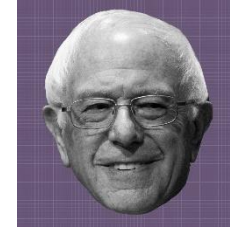
Warren has once said that “No one should go to jail for a joint. But more Americans are arrested for marijuana possession than all violent crimes combined.” (2018)



Donald Trump

Un-Known

Trump has sent mixed messages on cannabis over the past few years. He has said that the issue should be determined by individual states, but also nominated an epically anti-cannabis attorney general, Jeff Sessions.



Bernie Sanders

Supporter

Sanders publicly support the legalization of cannabis and has been on its platform since 2016's election.



Joe Biden

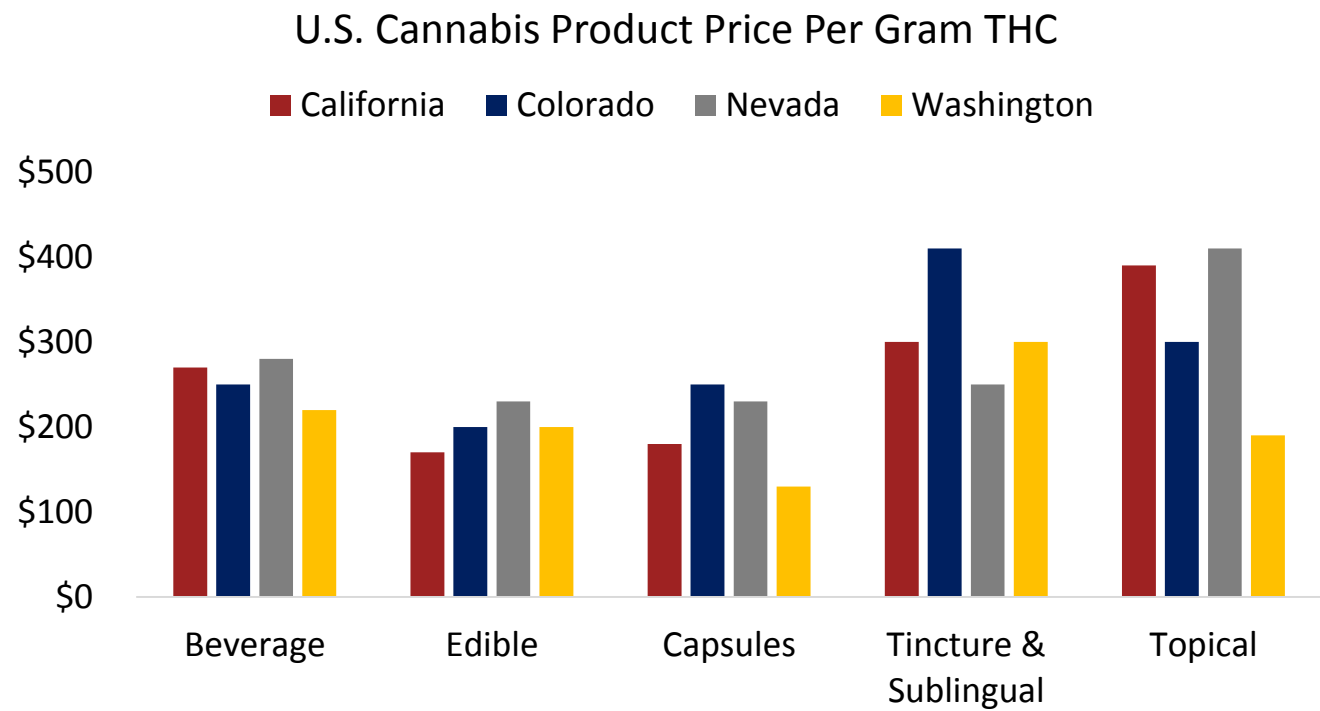
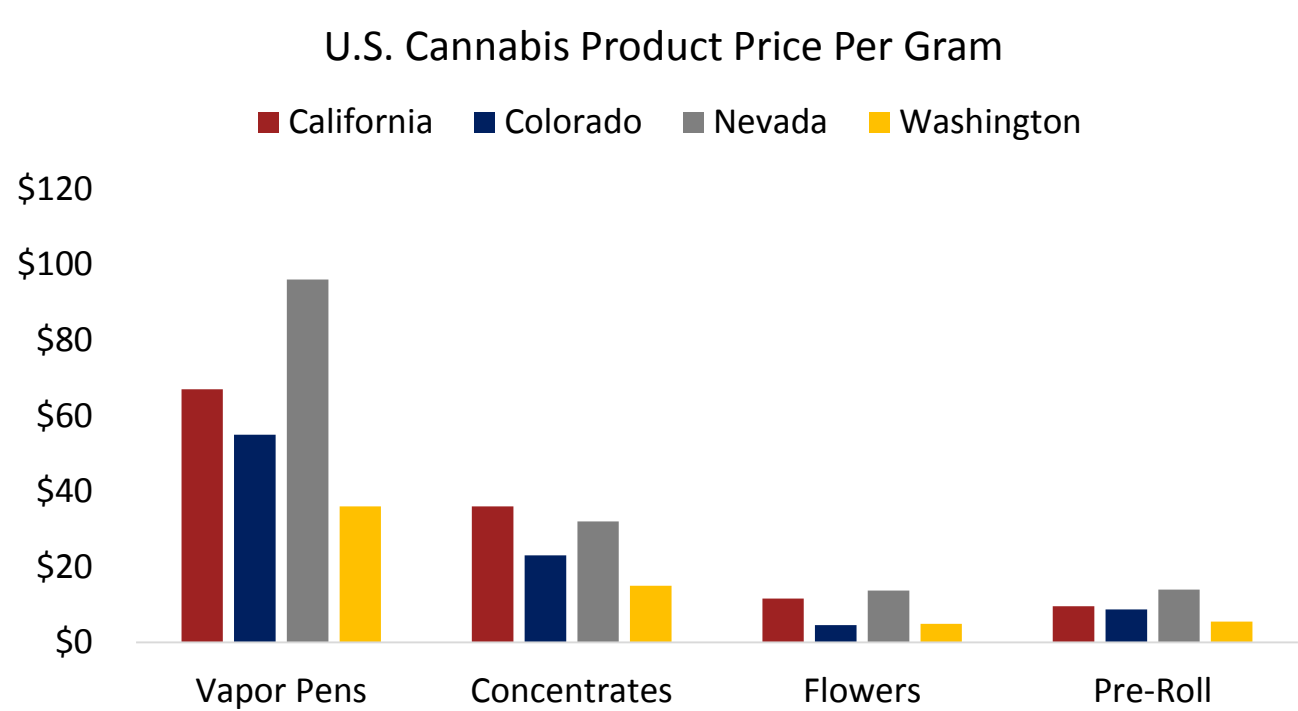
Non - Supporter

Biden believes that there is not “enough evidence” as to “whether or not it is a gateway drug.”

Discussion

- The Democratic party has shown strong support for the legalization of marijuana; however, front runner candidate Joe Biden holds a different opinion, stating on Monday Nov 18, 2019 that he would not support legalization as marijuana is a gateway drug
- The Republican party has also shown support for legalization, president Trump has sent mixed messages on his particular stance but supports that states should have the right to decide their own laws
- The popular opinion amongst Americans is that marijuana should be federally legalized. Polling data indicated that two thirds of Americans would support legalization which, a fact that should pressure candidates to support the STATES act during their campaigns
- Since 2012, 11 states have legalized recreational marijuana and currently 46 states have legalized medical marijuana to some degree

U.S. CANNABIS PRICING



Discussion

- California and Colorado’s market are very mature in U.S. as they were some of the first states to legalize cannabis.
- Although prices in these markets will be lower than Canada due to their maturity and intense competition; this is a good proxy to predict the U.S. cannabis Total Addressable Market.
- Generally speaking, raw cannabis flower averages between 10-30% THC. This means that a gram of cannabis has between 0.1 and 0.3 g of THC. In this case, we assume that the average beverage price would be $\$250 \times 0.1 \sim \$250 \times 0.3 = \$25 \sim \75



U.S. TOTAL ADDRESSABLE MARKET

Methodology

- Based on ProCon’s Research, we have found that medical marijuana patients in the US make up 1.079% of the population across 26 states.
- Assuming a similar rate for the entire population once medical marijuana is fully legalized we can expect a market of 3.53 million patients.
- We carried the same annual consumption rate from Canada (StatCan), which is 443g per user annually
- We use a similar method to break down the recreational market which is segmented into 5 types; vaporizers, dried flowers, concentrates, edibles and cannabis beverages.
- The estimated selling price is taken directly from mature market of U.S. as a proxy (California & Colorado), which is lower than Canada as the competition in U.S. are more intense and the market more mature.

Market: US Medical		
Medical		
Number of Population (m)		327
Estimate % of Patients		1.079%
Number of Patients		3.53
Estimate Per User Annual Consumption (g)		443
Estimate Annual Consumption (kg)		1,563,300
Estimate Avg. Selling Price(\$/g)	\$	6.50
Total Potential Revenues to LPs (\$ bn)	\$	10.16

U.S. TOTAL ADDRESSABLE MARKET CONT.

Market: US Recreational		Market: US Recreational	
Total Adult Population (m) (15 and above)	327	Concentrates	
		% of Users within the Cannabis Users	15%
Number of Persons used Cannabis in the past three months (m)	5.20	Estimate Users (m)	4.91
Estimate % Using Cannabis (Bear Case)	10%	Estimate Annual Consumption	73
Estimate Population using Cannabis	32.72	Total Consumption (kg)	358,284
		Estimated Avg. Selling Price (\$/g)	\$35.00
Dried Flower		Total Potential Revenues to LPs (\$ bn)	\$ 12.54
% of Users within the Cannabis Users	40%	Edibles	
Estimate Users (m)	13.09	% of Users within the Cannabis Users	20%
Estimate Annual Consumption	238	Estimate Users (m)	6.54
Total Consumption (kg)	3,109,709	Estimate Annual Consumption	48
		Total Consumption (kg)	314,112
Estimated Avg. Selling Price (\$/g)	\$8.17	Estimated Avg. Selling Price (\$/g)	\$25.00
Total Potential Revenues to LPs (\$ bn)	\$ 25.41	Total Potential Revenues to LPs (\$ bn)	\$ 7.85
Vape Pens		Cannabis Beverages	
% of Users within the Cannabis Users	5%	% of Users within the Cannabis Users	20%
Estimate Users (m)	1.64	Estimate Users (m)	6.54
Estimate Annual Consumption	238	Estimate Annual Consumption	48
Total Consumption (kg)	388,714	Total Consumption (kg)	314,112
Estimated Avg. Selling Price (\$/g)	\$30.00	Estimated Avg. Selling Price (\$/g)	\$40.00
Total Potential Revenues to LPs (\$ bn)	\$ 11.66	Total Potential Revenues to LPs (\$ bn)	\$ 12.56

Total Addressable Market for Recreational in 2024 is expected to be \$70bn in U.S.



REVENUE PREDICTION – U.S. TOTAL ADDRESSABLE MARKET

Assumptions:	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Recreational - Edibles & Beverages % Market Share					5.00%	5.50%	6.00%	6.50%	7.00%	7.50%
Recreational - Dry Bud % Market Share					5.00%	5.50%	6.00%	6.50%	7.00%	7.50%
Recreational - Oil % Market Share					5.00%	5.50%	6.00%	6.50%	7.00%	7.50%
Total Medical Cannabis Revenue % Market Share					5.00%	5.50%	6.00%	6.50%	7.00%	7.50%
Total Addressable Market (\$ bn)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Dried Flower					\$ 25.41	\$ 27.95	\$ 29.90	\$ 31.40	\$ 32.34	\$ 32.99
Vape Pens					\$ 11.66	\$ 12.83	\$ 13.73	\$ 14.41	\$ 14.84	\$ 15.14
Concentrates					\$ 12.54	\$ 13.17	\$ 13.69	\$ 14.10	\$ 14.39	\$ 14.67
Edibles					\$ 7.85	\$ 8.64	\$ 9.24	\$ 9.70	\$ 10.00	\$ 10.20
Cannabis Beverages					\$ 12.56	\$ 13.82	\$ 14.79	\$ 15.53	\$ 15.99	\$ 16.31
Medical	\$ 6.13	\$ 6.50	\$ 6.89	\$ 7.30	\$ 10.16	\$ 10.57	\$ 10.99	\$ 11.32	\$ 11.60	\$ 11.84
Dried Flower % Growth						10.00%	7.00%	5.00%	3.00%	2.00%
Vape Pens % Growth						10.00%	7.00%	5.00%	3.00%	2.00%
Concentrates % Growth						5.00%	4.00%	3.00%	2.00%	2.00%
Edibles % Growth						10.00%	7.00%	5.00%	3.00%	2.00%
Cannabis Beverages % Growth						10.00%	7.00%	5.00%	3.00%	2.00%
Medical % Growth		6.00%	6.00%	6.00%	39.18%	4.00%	4.00%	3.00%	2.50%	2.00%

Methodology

- In our approach to sizing the US market we took a very similar approach and used similar assumptions to the Canadian market
- Our assumptions on Canopy's ability to capture market share are significantly lower in the US as Canopy does not hold the same dominant market position as it does in Canada. This being said, we do think that their deal with Acreage will allow them to capture ~7.5% of the market by 2029 given legalization by 2024
- We made a conservative estimate of Acreage Holdings current market share based on the number of dispensaries they operate (see slide 25)

DCF (BULL CASE)

	Historical					
DCF Model	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenue	\$ 1	\$ 2	\$ 13	\$ 40	\$ 78	\$ 253
COGS	\$ 1	\$ 8	\$ 32	\$ 15	\$ 40	\$ 175
Total Operating Expenses	\$ 8	\$ 11	\$ 21	\$ 53	\$ 149	\$ 666
Depreciation (b)	\$ -	\$ 1	\$ 2	\$ 6	\$ 13	\$ 22
EBIT	-\$ 9	-\$ 9	-\$ 3	-\$ 10	-\$ 52	-\$ 658
Taxes (Tax rate = 26.5%)	\$ -	\$ -	\$ 0	-\$ 3	\$ 2	\$ 12
NOPAT (a)	-\$ 9	-\$ 9	-\$ 3	-\$ 8	-\$ 54	-\$ 670
Capital expenditure (c)	-\$ 12		-\$ 13	-\$ 29	-\$ 176	-\$ 645
Change in NWC (d)						
FCFF (a) + (b) - (c) - (d)						
Discount						
Year						
PV of FCFF						

	Projected									
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	\$ 517	\$ 1,879	\$ 2,161	\$ 2,382	\$ 6,772	\$ 7,639	\$ 8,466	\$ 9,221	\$ 9,897	\$ 10,547
	\$ 336	\$ 1,123	\$ 1,095	\$ 990	\$ 2,210	\$ 2,325	\$ 2,395	\$ 2,493	\$ 2,653	\$ 2,801
	\$ 728	\$ 1,316	\$ 1,221	\$ 1,096	\$ 2,743	\$ 2,712	\$ 2,836	\$ 2,951	\$ 3,068	\$ 3,269
	\$ 43	\$ 94	\$ 108	\$ 119	\$ 339	\$ 382	\$ 423	\$ 461	\$ 495	\$ 527
	-\$ 569	-\$ 559	-\$ 155	\$ 297	\$ 1,819	\$ 2,602	\$ 3,235	\$ 3,777	\$ 4,176	\$ 4,477
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,240	\$ 791	\$ 875	\$ 938
	-\$ 569	-\$ 559	-\$ 155	\$ 297	\$ 1,819	\$ 2,602	\$ 1,996	\$ 2,986	\$ 3,301	\$ 3,539
	\$ 103	\$ 282	\$ 216	\$ 179	\$ 440	\$ 420	\$ 423	\$ 461	\$ 495	\$ 527
	\$ 9	-\$ 234	-\$ 2	\$ 21	-\$ 388	\$ 210	\$ 111	\$ 54	\$ 72	\$ 86
	-\$ 639	-\$ 513	-\$ 260	\$ 216	\$ 2,105	\$ 2,354	\$ 1,884	\$ 2,932	\$ 3,230	\$ 3,453
	112%	125%	140%	156%	175%	195%	218%	244%	273%	305%
	1	2	3	4	5	6	7	8	9	10
	-\$ 571	-\$ 411	-\$ 186	\$ 139	\$ 1,205	\$ 1,205	\$ 863	\$ 1,201	\$ 1,183	\$ 1,132

DCF & SENSITIVITY ANALYSIS (BULL CASE)

Sum of Present Value	\$ 5,760
WACC	11.80%
Terminal Growth Rate	2.00%
Terminal Value in 2029	\$35,938
PV of terminal Value	\$11,780
Enterprise Value	\$17,540
Plus: Cash	\$ 2,736
Less: Debt	\$ 605
Less: Preferred & Other	\$ 271
Equity Value	\$19,401
Share Outstanding	\$ 338
Stock Price	\$ 57.48

SENSITIVITY ANALYSIS

		WACC				
		10.80%	11.30%	11.80%	12.30%	12.80%
Terminal Growth Rate	1.00%	\$ 61.76	\$ 57.64	\$ 53.94	\$ 50.60	\$ 47.58
	1.50%	\$ 63.99	\$ 59.57	\$ 55.63	\$ 52.08	\$ 48.88
	2.00%	\$ 66.47	\$ 61.72	\$ 57.48	\$ 53.70	\$ 50.29
	2.50%	\$ 69.25	\$ 64.10	\$ 59.54	\$ 55.48	\$ 51.85
	3.00%	\$ 72.39	\$ 66.77	\$ 61.83	\$ 57.46	\$ 53.56

Discussion

- The DCF valuation is based on the given new assumptions regarding its revenue and expenses. This will give Canopy a new valuation of \$57.48 which has an implied upside of 184%.
- A sensitivity analysis was conducted assuming a terminal growth rate and WACC in the range of 1% - 3% and 10.8% - 12.8% respectively. This will give a price range of \$61.76 - \$47.58.

6. Relative Valuation



RELATIVE VALUATION (COMPARISON)

Company	Ticker	Revenue	Operation			Profitability		Risk	Growth
			Operating Margin	Profit Margin	Capacity	ROA	ROIC	Current Ratio	Revenue Growth
Canopy	WEED	0.51B	-255%	-303%	5600000	-13%	-13%	12.32	190%
Aurora	ACB	0.29B	-127%	-117%	4605200	-8%	-8%	1.52	349%
OrganiGram Holding	OGI	0.07B	293%	165%	533000	10%	15%	18.06	-3%
Tilray	TRLY	0.14B	-133%	-157%	1300000	-19%	-18%	21.37	110%
Cronos	CRON	0.04B	-115%	-120%	822000	-10%	-12%	1.43	285%
Aphria	APHA	0.35B	-61%	-7%	1806938	-1%	-1%	4.59	542%
HEXO	HEXO	0.05B	-178%	-172%	3941600	-13%	-14%	5.97	864%
Green Organic Dutchman Holding	TGOD	0.1B	-2369%	-2405%	1583114	-17%	-18%	9.63	516%

Methodology

- By look at competitor performance, risk, and growth ratio, we can evaluate which competitor is closest to Canopy and should be chosen for its relative valuation.

RELATIVE VALUATION (COMPARISON) CONT.

Company	Ticker	Revenue	Opeartion			Profitability		Risk	Growth	Average
			Operating Margin	Profit Margin	Capacity	ROA	ROIC	Current Ratio	Revenue Growth	Difference
Canopy	WEED	0.51B								
Aurora	ACB	0.29B	0.50	0.61	0.18	0.42	0.37	0.88	0.83	0.54
OrganiGram Holding	OGI	0.07B	2.15	1.54	0.90	1.77	2.18	0.47	1.02	1.43
Tilray	TRLY	0.14B	0.48	0.48	0.77	0.41	0.34	0.73	0.42	0.52
Cronos	CRON	0.04B	0.55	0.60	0.85	0.22	0.12	0.88	0.50	0.53
Aphria	APHA	0.35B	0.76	0.98	0.68	0.91	0.93	0.63	1.85	0.96
HEXO	HEXO	0.05B	0.30	0.43	0.30	0.01	0.07	0.52	3.54	0.74
Green Organic Dutchman Holding	TGOD	0.1B	8.29	6.94	0.72	0.24	0.37	0.22	1.71	2.64

Different	8.29
Somewhat Similar	1
Similar	0

Methodology

- A good competitor should have similar operational ratio, balance sheet risk, relevant size, growth stage, and competitiveness (pricing model).
- The top five competitors that have ratios similar to Canopy are: 1) Aurora, 2) Aphria, 3) Tilray, 4) Cronos, 5) HEXO
- However, we decided to use OrganicGram Holding instead of HEXO, HEXO is much smaller and has been having cash flow issues in recent months

RELATIVE VALUATION (COMPARISON) CONT.



- **Aurora Cannabis Inc.** engages in the production, distribution and sale of cannabis products. It also produces and sells indoor cultivation systems and hemp related food products and is half as large as Canopy.



- **OrganiGram Holdings Inc.** engages in the production and sale of medical marijuana. Its products include strains, cannabis oils, and vaporizers. Organigram is ~ 1/14th the size of Canopy.



- **Tilray Inc.** is a Canadian pharmaceutical and cannabis company, incorporated in the United States with primary operations headquartered in Toronto, Ontario. Tilray one third the size of Canopy and has strategic partners in Anheuser Busch InBev. And Novartis subsidiary Sandoz.



- **Cronos Group Inc.** produces and sells cannabis in federally legal jurisdictions, including Canada and Germany. Cronos is half the size of Canopy but has a strategic partner in major tobacco producer Altria Group who has invested \$2.4 billion.



- **Aphria Inc.** engages in the production and supply of medical cannabis with a focus on distribution. Aphria is one fifth the size of Canopy

All the comparable companies have similar business models to Canopy

CHOICE OF MULTIPLES

EV/Sales

- EV/Sales is one of the commonly used multiples at the cannabis industry currently, as most LPs are still generating low to negative EBIT which the accurate multiples regarding its capability to operate is through looking at their revenue. This demonstrates how many dollars of EV are generated by one dollar of yearly sales. The lower the multiples the cheaper the company. However, this multiples depends on the industry's business model and growth rate as cash cow business with high growth tend to be more attractive which earns a higher multiples.

EV/Capacity

- This was one of the most commonly used multiples in cannabis industry as most LPs did not generate representative revenue until this year. As a result, one of the key way to predict company's future performance is through looking at its ability to fulfill demand. Therefore, looking at their future capacity is a good matrix. However, the key problem with this matrix is the fact that having the supply doesn't mean you can sell the product. Therefore the most representative multiples is still EV/Sales.

EV/Yield in Kilograms

- Similar to EV/Capacity, another key matrix to look at is LPs utilization of space to yield corps. However, this has become one of the multiples that is used the least as it carries the same problem as the EV/Capacity (Supply \neq Demand) and most LPs yield roughly the same amount of Kilograms and to calculate it accurately is relatively harder.

P/B

- The P/B ratio reflects the value that market participants attach to a company's equity relative to its book value of equity. However, this is not recommend as the historical performance doesn't reflect the current expectation of the industry.

The most appreciate multiples for cannabis companies should be EV/Forward Capacity and EV/Sales (Trailing & Forward)

RELATIVE VALUATION – MULTIPLES

Comparable Company	EV	Capacity (sq. ft) as March 2019	Forward Capacity (sq. ft)	LTM - Sales	E1 - Sales	E2 - Sales
Canopy Growth	7,072,400,000	4,300,000	5,600,000	746,568,473	1,879,465,939	2,169,118,135
Aurora	3,771,400,000	1,164,500	4,605,200	293,500,000	431,700,000	790,200,000
OrganiGram Holding	474,800,000	23,200	533,000	66,500,000	88,300,000	164,900,000
Tilray	2,003,100,000	203,000	1,300,000	135,600,000	173,300,000	313,300,000
Cronos	2,873,900,000	355,500	822,000	35,000,000	4,980,000	170,900,000
Aphria	1,421,300,000	1,125,964	1,806,938	349,900,000	591,100,000	786,600,000
HEXO	603,900,000	307,600	3,941,600	4,750,000	11,490,000	236,500,000
Green Organic Dutchman Holding	192,900,000	13,393	1,583,114	9,800,000	20,300,000	147,000,000

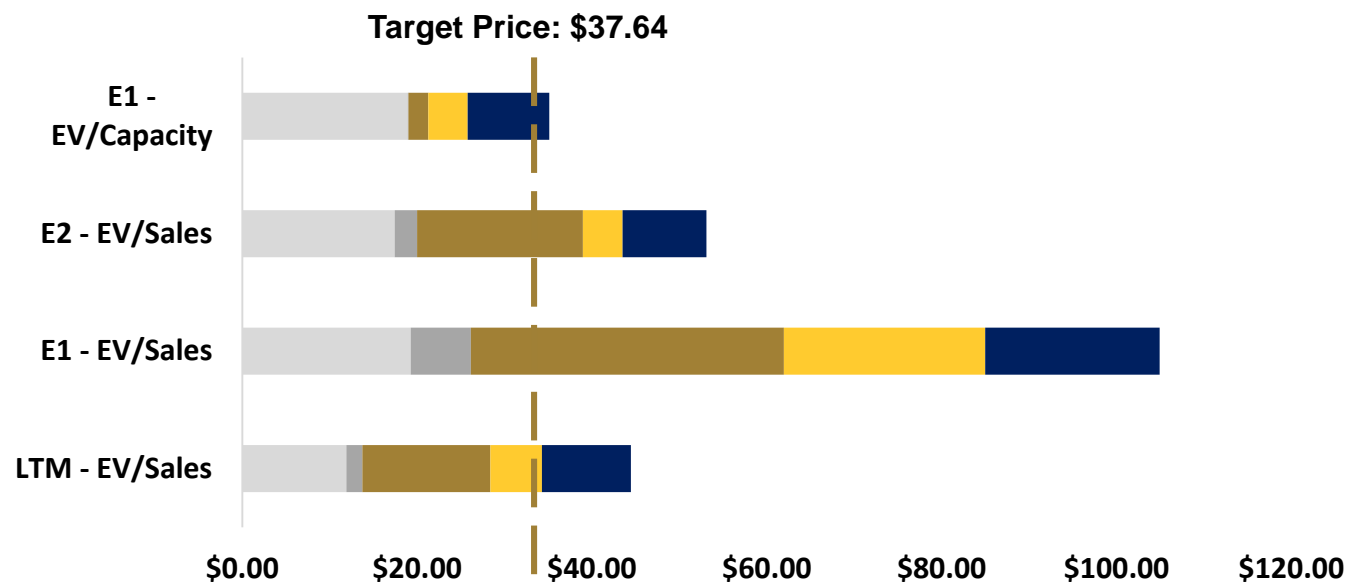
OrganiGram Holding	LTM - EV/Sales	E1 - EV/Sales	E2 - EV/Sales	EV/ Capacity (\$000)	E1 EV/Capacity(\$000)	LTM - P/B
Canopy Growth	9.47x	3.76x	3.26x	1.64x	1.26x	1.32x
Aurora	12.85x	8.74x	4.77x	3.24x	0.82x	0.83x
OrganiGram Holding	7.14x	5.38x	2.88x	20.47x	0.89x	1.39x
Tilray	14.77x	11.56x	6.39x	9.87x	1.54x	4.81x
Cronos	82.11x	57.71x	16.82x	8.08x	3.50x	1.34x
Aphria	4.06x	2.40x	1.81x	1.26x	0.79x	0.82x
HEXO	127.14x	52.56x	2.55x	1.96x	0.15x	0.78x
Green Organic Dutchman Holding	19.68x	9.50x	1.31x	14.40x	0.12x	0.48x
Average	34.65x	18.95x	4.97x	7.62x	1.13x	1.47x
Minimum	4.06x	2.40x	1.31x	1.26x	0.12x	0.48x
25th percentile	7.72x	4.17x	1.99x	1.72x	0.31x	0.79x
Medium	13.81x	9.12x	3.07x	5.66x	0.85x	1.08x
75th percentile	38.41x	23.86x	5.26x	11.23x	1.35x	1.36x
Maximum	127.14x	57.71x	16.82x	20.47x	3.50x	4.81x

RELATIVE VALUATION – MULTIPLES

Comparable Company	EV	Capacity (sq. ft) as March 2019	Forward Capacity (sq. ft)	LTM - Sales	E1 - Sales	E2 - Sales
Canopy Growth	7,072,400,000	4,300,000	5,600,000	517,082,711	1,879,465,939	2,169,118,135
Aurora	3,771,400,000	1,164,500	4,605,200	293,500,000	431,700,000	790,200,000
OrganiGram Holding	474,800,000	23,200	533,000	66,500,000	88,300,000	164,900,000
Tilray	2,003,100,000	203,000	1,300,000	135,600,000	173,300,000	313,300,000
Cronos	2,873,900,000	355,500	822,000	35,000,000	49,800,000	170,900,000
Aphria	1,421,300,000	1,125,964	1,806,938	349,900,000	591,100,000	786,600,000

Comparable Company	LTM - EV/Sales	E1 - EV/Sales	E2 - EV/Sales	EV/ Capacity (\$000)	E1 EV/Capacity(\$000)	LTM - P/B
Canopy Growth	10.08x	2.77x	2.40x	1.21x	0.93x	1.32x
Aurora	14.91x	10.13x	5.54x	3.76x	0.95x	0.83x
OrganiGram Holding	6.56x	4.94x	2.65x	18.81x	0.82x	1.39x
Tilray	17.09x	13.38x	7.40x	11.42x	1.78x	4.81x
Cronos	25.40x	17.85x	5.20x	2.50x	1.08x	1.34x
Aphria	4.17x	2.47x	1.86x	1.30x	0.81x	0.82x
Average	13.63x	9.75x	4.53x	7.56x	1.09x	1.84x
Minimum	4.17x	2.47x	1.86x	1.30x	0.81x	0.82x
25th percentile	5.37x	3.71x	2.25x	1.90x	0.81x	0.83x
Medium	14.91x	10.13x	5.20x	3.76x	0.95x	1.34x
75th percentile	18.76x	14.27x	5.91x	12.90x	1.22x	2.07x
Maximum	25.40x	17.85x	7.40x	18.81x	1.78x	4.81x

RELATIVE VALUATION – FOOTBALL FIELD CHART



Selected Multiples for Football Field Chart						
Methodology Name	Minimum Point	25 th Percentile Point	Median Point	75 th Percentile Point	Maximum Point	Share Price
Top Comparable						
LTM - EV/Sales	\$11.91	\$1.83	\$14.62	\$5.90	\$10.18	\$28.36
E1 - EV/Sales	\$19.26	\$6.89	\$35.80	\$23.03	\$19.94	\$61.96
E2 - EV/Sales	\$17.44	\$2.55	\$18.96	\$4.55	\$9.57	\$38.95
E1 - EV/Capacity	\$18.92	\$0.09	\$2.27	\$4.51	\$9.31	\$21.28
Share Price						\$37.64
Upside						85.49%

Methodology

- The implied share price was calculated using the medium percentile point based on comparable multiples.
- From there we expect a target price of \$37.64 which implied a downside of 85.49%.
- Both forward and trailing multiples showed that Canopy is cheaper than its peers.
- This variation can be explained by the fact that Canopy has dropped more than any of its peers recently and their heavy investment in edibles is not in favourite as many believes the government could further delay the fully legalization freedom of edibles market.

7. Risk & Reconciliation

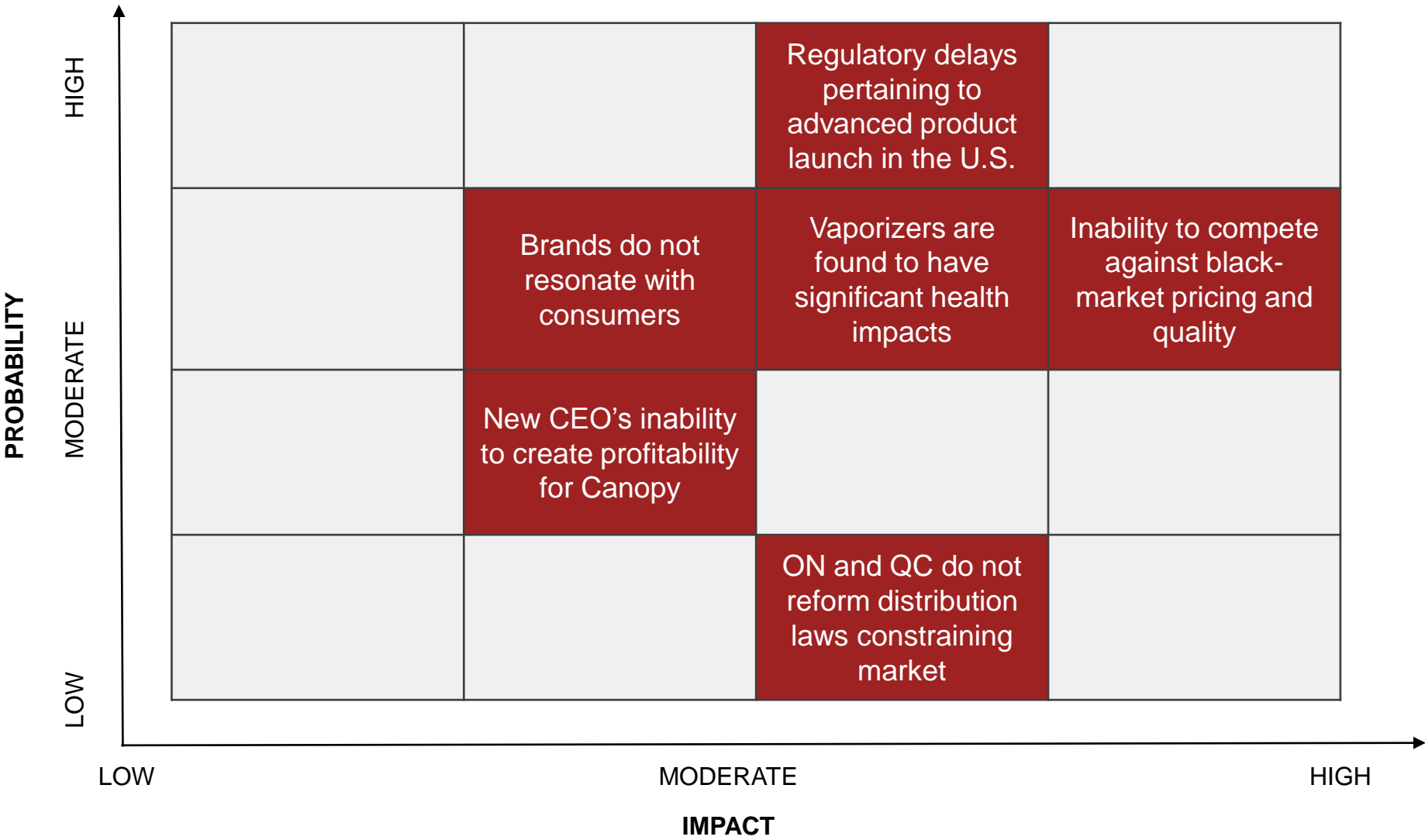


RECONCILIATION

	Reconciled Price \$32.76	
Discounted Cash Flow – Base Case (Canada) \$19.95 Weight: 50%	Relative Valuation – Analyst Estimate \$37.64 Weight: 30%	Discounted Cash Flow – Bull Case (U.S. + Canada) \$57.48 Weight: 20%

- After using both DCF and RV valuation methodologies, we choose to weight the DCF – base case estimate 50%, the DCF – bull case predication 20%, the RV – analyst estimate 30%, This give us a final reconciled price of \$32.76 and a upside of 61.7%.
- The decision to weight the DCF price more heavily comes from the fact that most company in this industry are still EBIT negative which give analyst a limited choice between multiples for relative valuation.
- Furthermore, we believe the likelihood of U.S. legalization is relative low which should earn a lower weight.
- Fundamentally speaking, the cannabis sector has become more stable compare to when it first legalize and cash flow prediction is becoming more accurate, furthermore, being able to show case when the company will turn profitable is the most important question to answer in this sector at this moment.

BUSINESS RISK



While the majority of these risks can be mitigated by Canopy’s strong core operations, the threat of illegal supply

EXECUTIVE SUMMARY – RECOMMENDATION

Buy

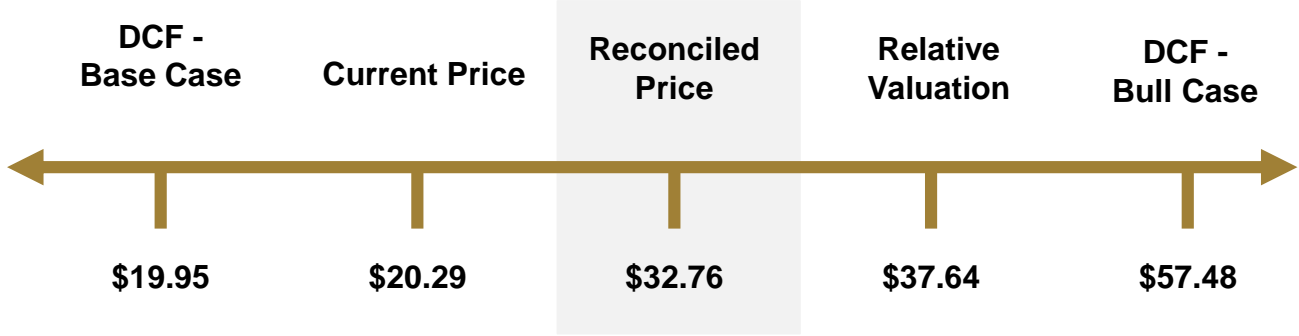
Canopy Growth Inc. (TSE:WEED)

\$32.76 **61.7%**
Target Price Upside

Valuation

Key Assumptions:

WACC	11.8%
Terminal Growth Value	2%
Corporate Tax Rate	26.5%



Investment Thesis

- Thesis I: Cash Positions Canopy to Capture Rapid Industry Growth
- Thesis II: Strategic Partnership Gives Advantage in Emerging Segments
- Thesis III: Low Probability of Massive U.S. Upside

Based on our projections of the companies growth, strong industry metrics and strategic partnerships, we believe the value of the stock to be \$32.76. While the cannabis is highly competitive, we believe Canopy has a strong business model that will appeal to consumer and allow them to gain market share.

APPENDIX 1 – INCOME STATEMENT – BASE CASE

Income Statement (Units in Millions)																
	Historical						Prediction									
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenues	\$ 1	\$ 2	\$ 13	\$ 40	\$ 78	\$ 253	\$ 517	\$ 1,879	\$ 2,161	\$ 2,382	\$ 2,574	\$ 2,726	\$ 2,859	\$ 2,953	\$ 3,026	\$ 3,091
Recreational - Edibles & Beverages	-	-	-	-	-	-	-	\$ 567	\$ 715	\$ 798	\$ 850	\$ 897	\$ 925	\$ 931	\$ 925	\$ 874
Recreational - Dry Bud	-	-	-	-	-	\$ 83	-	\$ 836	\$ 947	\$ 1,068	\$ 1,198	\$ 1,298	\$ 1,404	\$ 1,497	\$ 1,583	\$ 1,730
Recreational - Oil	-	-	-	-	-	\$ 58	-	\$ 122	\$ 142	\$ 158	\$ 169	\$ 175	\$ 178	\$ 177	\$ 174	\$ 164
Other Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Medical Cannabis Revenue	-	-	-	-	\$ 74	\$ 79	-	\$ 319	\$ 321	\$ 322	\$ 319	\$ 316	\$ 312	\$ 307	\$ 301	\$ 279
Medical - Oil	-	-	-	-	\$ 59	\$ 51	-	-	-	-	-	-	-	-	-	-
Medical - Dry Bud	-	-	-	-	\$ 16	\$ 28	-	-	-	-	-	-	-	-	-	-
Other Revenue from different Countries	-	-	-	-	\$ 4	\$ 34	-	\$ 35	\$ 36	\$ 37	\$ 38	\$ 39	\$ 41	\$ 42	\$ 43	\$ 44
Excises Taxes	-	-	-	-	-	\$ 27	-	-	-	-	-	-	-	-	-	-
Net Revenue	\$ 1	\$ 2	\$ 13	\$ 40	\$ 78	\$ 226	\$ 495	\$ 1,879	\$ 2,161	\$ 2,382	\$ 2,574	\$ 2,726	\$ 2,859	\$ 2,953	\$ 3,026	\$ 3,091
COGS	\$ 1	\$ 8	\$ 32	\$ 15	\$ 40	\$ 175	\$ 336	\$ 1,123	\$ 1,095	\$ 990	\$ 834	\$ 822	\$ 798	\$ 786	\$ 797	\$ 804
COGS of Medical	-	-	-	-	-	-	-	\$ 915	\$ 902	\$ 809	\$ 665	\$ 664	\$ 652	\$ 651	\$ 671	\$ 692
COGS of Recreational	-	-	-	-	-	-	-	\$ 208	\$ 192	\$ 180	\$ 169	\$ 158	\$ 147	\$ 135	\$ 126	\$ 112
Gross Margin Before the Undernoted	\$ 0	(\$ 6)	(\$ 20)	\$ 25	\$ 38	\$ 51	\$ 159	\$ 757	\$ 1,067	\$ 1,393	\$ 1,740	\$ 1,904	\$ 2,061	\$ 2,167	\$ 2,229	\$ 2,288
Fair Value Change in Biological Assets	-	(\$ 9)	(\$ 39)	\$ 35	\$ 68	\$ 130	-	-	-	-	-	-	-	-	-	-
Unrealized Gain on Change in Fair Value of Biological Assets	-	-	-	\$ 49	\$ 97	\$ 168	-	-	-	-	-	-	-	-	-	-
Gross Margin	\$ 0	\$ 3	\$ 19	\$ 39	\$ 67	\$ 89	\$ 159	\$ 757	\$ 1,067	\$ 1,393	\$ 1,740	\$ 1,904	\$ 2,061	\$ 2,167	\$ 2,229	\$ 2,288
Operation Expenses	\$ 8	\$ 11	\$ 21	\$ 53	\$ 149	\$ 666	\$ 728	\$ 1,316	\$ 1,221	\$ 1,096	\$ 1,042	\$ 968	\$ 958	\$ 945	\$ 938	\$ 958
Sales and Marketing	\$ 2	\$ 3	\$ 6	\$ 13	\$ 38	\$ 154	\$ 204	\$ 564	\$ 432	\$ 298	\$ 257	\$ 204	\$ 172	\$ 148	\$ 121	\$ 124
R&D	\$ 0	\$ 0	\$ 1	\$ 1	\$ 1	\$ 15	\$ 37	\$ 94	\$ 97	\$ 95	\$ 90	\$ 82	\$ 71	\$ 59	\$ 61	\$ 62
General and Administration	\$ 4	\$ 5	\$ 8	\$ 17	\$ 44	\$ 168	\$ 249	\$ 564	\$ 584	\$ 584	\$ 566	\$ 545	\$ 572	\$ 591	\$ 605	\$ 618
Acquisition - related Costs	-	-	\$ 1	\$ 7	\$ 3	\$ 23	\$ 16	-	-	-	-	-	-	-	-	-
Share-based compensation expense	\$ 1	\$ 2	\$ 3	\$ 8	\$ 30	\$ 183	\$ 161	-	-	-	-	-	-	-	-	-
Share-based compensation expense related to acquisition milestones	\$ 1	\$ 1	\$ 0	\$ 1	\$ 19	\$ 100	\$ 19	-	-	-	-	-	-	-	-	-
Depreciation and amortization	-	\$ 1	\$ 2	\$ 6	\$ 13	\$ 22	\$ 43	\$ 94	\$ 108	\$ 119	\$ 129	\$ 136	\$ 143	\$ 148	\$ 151	\$ 155
Loss from operations/Operating Income	(\$ 8)	(\$ 8)	(\$ 2)	(\$ 14)	(\$ 82)	(\$ 577)	(\$ 569)	(\$ 559)	(\$ 155)	\$ 297	\$ 697	\$ 936	\$ 1,103	\$ 1,222	\$ 1,291	\$ 1,329
Share of loss on equity investments	-	-	(\$)	(\$)	(\$ 1)	(\$ 11)	-	-	-	-	-	-	-	-	-	-
Other (expense) income, net	-	-	-	\$ 4	\$ 31	(\$ 70)	-	-	-	-	-	-	-	-	-	-
Total other (expense) income, net	-	-	(\$)	\$ 4	\$ 30	(\$ 81)	-	-	-	-	-	-	-	-	-	-
Reverse Acquisition Transaction Cost	\$ 0	\$ 0	\$ 0	-	-	-	-	-	-	-	-	-	-	-	-	-
Listing Expense	\$ 1	\$ 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss before income taxes/ EBIT	(\$ 9)	(\$ 9)	(\$ 3)	(\$ 10)	(\$ 52)	(\$ 658)	(\$ 569)	(\$ 559)	(\$ 155)	\$ 297	\$ 697	\$ 936	\$ 1,103	\$ 1,222	\$ 1,291	\$ 1,329
Interest Income	\$ 0	\$ 0	(\$)	-	-	-	-	-	-	-	-	-	-	-	-	-
Income tax expense	-	-	\$ 0	(\$ 3)	\$ 2	\$ 12	-	-	-	-	-	-	\$ 209	\$ 256	\$ 270	\$ 278
Net Loss/Net Income	(\$ 9)	(\$ 9)	(\$ 3)	(\$ 8)	(\$ 54)	(\$ 670)	(\$ 569)	(\$ 559)	(\$ 155)	\$ 297	\$ 697	\$ 936	\$ 894	\$ 966	\$ 1,021	\$ 1,051
Net (loss) income attributable to:																
Canopy Growth Corporation	(\$ 9)	(\$ 9)	(\$ 3)	(\$ 8)	(\$ 70)	(\$ 685)										
Non-controlling interests	-	-	-	(\$)	\$ 16	\$ 15										

APPENDIX 2 – RISK FREE RATE

Damodaran

Year	T-Bond	Market Premium
2000	5.11%	2.87%
2001	5.05%	3.62%
2002	3.81%	4.10%
2003	4.25%	3.69%
2004	4.22%	3.65%
2005	4.39%	4.08%
2006	4.70%	4.16%
2007	4.02%	4.37%
2008	2.21%	6.43%
2009	3.84%	4.36%
2010	3.29%	5.20%
2011	1.88%	6.01%
2012	1.76%	5.78%
2013	3.04%	4.96%
2014	2.17%	5.78%
2015	2.27%	6.12%
2016	2.45%	5.69%
Average	3.44%	4.76%

APPENDIX 3 – INCOME STATEMENT – BULL CASE

Income Statement (Units in Millions)																
	Historical						Prediction									
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenues	\$ 1	\$ 2	\$ 13	\$ 40	\$ 78	\$ 253	\$ 517	\$ 1,879	\$ 2,161	\$ 2,382	\$ 6,772	\$ 7,639	\$ 8,466	\$ 9,221	\$ 9,897	\$ 10,547
Recreational - Edibles & Beverages	-	-	-	-	-	-	-	\$ 567	\$ 715	\$ 798	\$ 2,060	\$ 2,263	\$ 2,433	\$ 2,569	\$ 2,674	\$ 2,731
Recreational - Dry Bud	-	-	-	-	-	\$ 83	-	\$ 836	\$ 947	\$ 1,068	\$ 3,051	\$ 3,540	\$ 4,021	\$ 4,474	\$ 4,886	\$ 5,340
Recreational - Oil	-	-	-	-	-	\$ 58	-	\$ 122	\$ 142	\$ 158	\$ 796	\$ 899	\$ 1,000	\$ 1,094	\$ 1,181	\$ 1,265
Other Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Medical Cannabis Revenue	-	-	-	-	\$ 74	\$ 79	-	\$ 319	\$ 321	\$ 322	\$ 827	\$ 897	\$ 972	\$ 1,043	\$ 1,113	\$ 1,167
Medical - Oil	-	-	-	-	\$ 59	\$ 51	-	-	-	-	-	-	-	-	-	-
Medical - Dry Bud	-	-	-	-	\$ 16	\$ 28	-	-	-	-	-	-	-	-	-	-
Other Revenue from different Countries	-	-	-	-	\$ 4	\$ 34	-	\$ 35	\$ 36	\$ 37	\$ 38	\$ 39	\$ 41	\$ 42	\$ 43	\$ 44
Excises Taxes	-	-	-	-	-	\$ 27	-	-	-	-	-	-	-	-	-	-
Net Revenue	\$ 1	\$ 2	\$ 13	\$ 40	\$ 78	\$ 226	\$ 495	\$ 1,879	\$ 2,161	\$ 2,382	\$ 6,772	\$ 7,639	\$ 8,466	\$ 9,221	\$ 9,897	\$ 10,547
COGS	\$ 1	\$ 8	\$ 32	\$ 15	\$ 40	\$ 175	\$ 336	\$ 1,123	\$ 1,095	\$ 990	\$ 2,210	\$ 2,325	\$ 2,395	\$ 2,493	\$ 2,653	\$ 2,801
COGS of Medical	-	-	-	-	-	-	-	\$ 915	\$ 902	\$ 809	\$ 1,772	\$ 1,877	\$ 1,938	\$ 2,034	\$ 2,185	\$ 2,334
COGS of Recreational	-	-	-	-	-	-	-	\$ 208	\$ 192	\$ 180	\$ 438	\$ 449	\$ 457	\$ 459	\$ 467	\$ 467
Gross Margin Before the Undernoted	\$ 0	(\$ 6)	(\$ 20)	\$ 25	\$ 38	\$ 51	\$ 159	\$ 757	\$ 1,067	\$ 1,393	\$ 4,562	\$ 5,314	\$ 6,071	\$ 6,728	\$ 7,245	\$ 7,746
Fair Value Change in Biological Assets	-	(\$ 9)	(\$ 39)	\$ 35	\$ 68	\$ 130	-	-	-	-	-	-	-	-	-	-
Unrealized Gain on Change in Fair Value of Biological Assets	-	-	-	\$ 49	\$ 97	\$ 168	-	-	-	-	-	-	-	-	-	-
Gross Margin	\$ 0	\$ 3	\$ 19	\$ 39	\$ 67	\$ 89	\$ 159	\$ 757	\$ 1,067	\$ 1,393	\$ 4,562	\$ 5,314	\$ 6,071	\$ 6,728	\$ 7,245	\$ 7,746
Operation Expenses	\$ 8	\$ 11	\$ 21	\$ 53	\$ 149	\$ 666	\$ 728	\$ 1,316	\$ 1,221	\$ 1,096	\$ 2,743	\$ 2,712	\$ 2,836	\$ 2,951	\$ 3,068	\$ 3,269
Sales and Marketing	\$ 2	\$ 3	\$ 6	\$ 13	\$ 38	\$ 154	\$ 204	\$ 564	\$ 432	\$ 298	\$ 677	\$ 573	\$ 508	\$ 461	\$ 396	\$ 422
R&D	\$ 0	\$ 0	\$ 1	\$ 1	\$ 1	\$ 15	\$ 37	\$ 94	\$ 97	\$ 95	\$ 237	\$ 229	\$ 212	\$ 184	\$ 198	\$ 211
General and Administration	\$ 4	\$ 5	\$ 8	\$ 17	\$ 44	\$ 168	\$ 249	\$ 564	\$ 584	\$ 584	\$ 1,490	\$ 1,528	\$ 1,693	\$ 1,844	\$ 1,979	\$ 2,109
Acquisition - related Costs	-	-	\$ 1	\$ 7	\$ 3	\$ 23	\$ 16	-	-	-	-	-	-	-	-	-
Share-based compensation expense	\$ 1	\$ 2	\$ 3	\$ 8	\$ 30	\$ 183	\$ 161	-	-	-	-	-	-	-	-	-
Share-based compensation expense related to acquisition milestones	\$ 1	\$ 1	\$ 0	\$ 1	\$ 19	\$ 100	\$ 19	-	-	-	-	-	-	-	-	-
Depreciation and amortization	-	\$ 1	\$ 2	\$ 6	\$ 13	\$ 22	\$ 43	\$ 94	\$ 108	\$ 119	\$ 339	\$ 382	\$ 423	\$ 461	\$ 495	\$ 527
Loss from operations/Operating Income	(\$ 8)	(\$ 8)	(\$ 2)	(\$ 14)	(\$ 82)	(\$ 577)	(\$ 569)	(\$ 559)	(\$ 155)	\$ 297	\$ 1,819	\$ 2,602	\$ 3,235	\$ 3,777	\$ 4,176	\$ 4,477
Share of loss on equity investments	-	-	(\$)	(\$)	(\$ 1)	(\$ 11)	-	-	-	-	-	-	-	-	-	-
Other (expense) income, net	-	-	-	\$ 4	\$ 31	(\$ 70)	-	-	-	-	-	-	-	-	-	-
Total other (expense) income, net	-	-	(\$)	\$ 4	\$ 30	(\$ 81)	-	-	-	-	-	-	-	-	-	-
Reverse Acquisition Transaction Cost	\$ 0	\$ 0	\$ 0	-	-	-	-	-	-	-	-	-	-	-	-	-
Listing Expense	\$ 1	\$ 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss before income taxes/ EBIT	(\$ 9)	(\$ 9)	(\$ 3)	(\$ 10)	(\$ 52)	(\$ 658)	(\$ 569)	(\$ 559)	(\$ 155)	\$ 297	\$ 1,819	\$ 2,602	\$ 3,235	\$ 3,777	\$ 4,176	\$ 4,477
Interest Income	\$ 0	\$ 0	(\$)	-	-	-	-	-	-	-	-	-	-	-	-	-
Income tax expense	-	-	\$ 0	(\$ 3)	\$ 2	\$ 12	-	-	-	-	-	-	\$ 1,240	\$ 791	\$ 875	\$ 938
Net Loss/Net Income	(\$ 9)	(\$ 9)	(\$ 3)	(\$ 8)	(\$ 54)	(\$ 670)	(\$ 569)	(\$ 559)	(\$ 155)	\$ 297	\$ 1,819	\$ 2,602	\$ 1,996	\$ 2,986	\$ 3,301	\$ 3,539
Net (loss) income attributable to:																
Canopy Growth Corporation	(\$ 9)	(\$ 9)	(\$ 3)	(\$ 8)	(\$ 70)	(\$ 685)										
Non-controlling interests	-	-	-	(\$)	\$ 16	\$ 15										

APPENDIX 4 – NOL & NWC – BULL CASE

Net Operating Losses (NOL)																
	2014	2015	2016	2017	2018	2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
NOL's - BOP	(\$ 9)	(\$ 9)	(\$ 18)	(\$ 22)	(\$ 29)	(\$ 83)	(\$ 754)	(\$ 1323)	(\$ 1882)	(\$ 2036)	(\$ 1739)	\$ 80	\$ 2,682	\$ 4,678	\$ 7,664	\$ 10,965
Plus: Additions	-	(\$ 9)	(\$ 3)	(\$ 8)	(\$ 54)	(\$ 670)	(\$ 569)	(\$ 559)	(\$ 155)	-	-	-	-	-	-	-
Less: Utilizations	-	-	-	-	-	-	-	-	-	\$ 297	\$ 1,819	\$ 2,602	\$ 1,996	\$ 2,986	\$ 3,301	\$ 3,539
NOL's - EOP	(\$ 9)	(\$ 18)	(\$ 22)	(\$ 29)	(\$ 83)	(\$ 754)	(\$ 1323)	(\$ 1882)	(\$ 2036)	(\$ 1739)	\$ 80	\$ 2,682	\$ 4,678	\$ 7,664	\$ 10,965	\$ 14,504
Pre Tax Income	-	(\$ 9)	(\$ 3)	(\$ 8)	(\$ 54)	(\$ 670)	(\$ 569)	(\$ 559)	(\$ 155)	\$ 297	\$ 1,819	\$ 2,602	\$ 1,996	\$ 2,986	\$ 3,301	\$ 3,539
Taxable Income	-	-	-	-	-	-	-	-	-	-	-	-	\$ 4,678	\$ 2,986	\$ 3,301	\$ 3,539
Tax Rate	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%
Tax Expense	-	-	-	-	-	-	-	-	-	-	-	-	\$ 1,240	\$ 791	\$ 875	\$ 938

Net Working Capital																
	2014	2015	2016	2017	2018	2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Accounts Receivable	\$ 0	\$ 0	\$ 1	\$ 3	\$ 6	\$ 62	\$ 103	\$ 282	\$ 216	\$ 191	\$ 474	\$ 458	\$ 423	\$ 277	\$ 198	\$ 211
% of Revenue	17.46%	12.65%	8.66%	7.02%	7.56%	24.39%	20.00%	15.00%	10.00%	8.00%	7.00%	6.00%	5.00%	3.00%	2.00%	2.00%
Change in AR (a)		\$ 0	\$ 1	\$ 2	\$ 3	\$ 56	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Inventory	\$ 1	\$ 5	\$ 20	\$ 5	\$ 27	\$ 38	\$ 65	\$ 188	\$ 162	\$ 119	\$ 271	\$ 229	\$ 254	\$ 277	\$ 297	\$ 316
% of Revenue	87.28%	210.88%	160.64%	12.78%	33.97%	15.00%	12.50%	10.00%	7.50%	5.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Change in Inventory (b)		\$ 4	\$ 15	(\$ 15)	\$ 21	\$ 12	\$ 27	\$ 123	(\$ 26)	(\$ 43)	\$ 152	(\$ 42)	\$ 25	\$ 23	\$ 20	\$ 19
Prepaid Expenses and other	\$ 1	\$ 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% of Revenue	69.83%	33.74%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Change in Prepaid Expenses (c)		-	(\$ 1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Account Payable	-	-	-	\$ 6	\$ 46	\$ 189	\$ 207	\$ 564	\$ 540	\$ 476	\$ 1,016	\$ 764	\$ 677	\$ 645	\$ 594	\$ 527
% of Revenue	0.00%	0.00%	0.00%	14.29%	59.23%	74.55%	40.00%	30.00%	25.00%	20.00%	15.00%	10.00%	8.00%	7.00%	6.00%	5.00%
Change in Prepaid Expenses (d)		-	-	\$ 6	\$ 41	\$ 143	\$ 18	\$ 357	(\$ 24)	(\$ 64)	\$ 539	(\$ 252)	(\$ 87)	(\$ 32)	(\$ 52)	(\$ 67)
Change in NWC (a) + (b) + (c) - (d)							\$ 9	(\$ 234)	(\$ 2)	\$ 21	(\$ 388)	\$ 210	\$ 111	\$ 54	\$ 72	\$ 86

APPENDIX 5- PROXY FOR CHANGE IN NWC

Philip Morris	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenue	\$ 20,794	\$ 22,810	\$ 25,705	\$ 25,035	\$ 27,208	\$ 31,097	\$ 31,377	\$ 31,217	\$ 29,767	\$ 26,794	\$ 26,685	\$ 28,748	\$ 29,625
Accounts Receivable	\$ 2,808	\$ 83	\$ 44	\$ 96	\$ 85	\$ 268	\$ 193	\$ 115	\$ 124	\$ 124	\$ 151	\$ 142	\$ 142
Accounts Receivable % of Revenue	13.50%	0.36%	0.17%	0.38%	0.31%	0.86%	0.62%	0.37%	0.42%	0.46%	0.57%	0.49%	0.48%
Inventory	\$ 3,188	\$ 233	\$ 197	\$ 367	\$ 384	\$ 359	\$ 348	\$ 372	\$ 420	\$ 449	\$ 483	\$ 554	\$ 558
Inventory % of Revenue	15.33%	1.02%	0.77%	1.47%	1.41%	1.15%	1.11%	1.19%	1.41%	1.68%	1.81%	1.93%	1.88%
Prepaid Expenses and other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid Expenses and other % of Revenue	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Account Payable	\$ 672	\$ 819	\$ 1,013	\$ 670	\$ 835	\$ 1,031	\$ 1,103	\$ 1,274	\$ 1,242	\$ 1,289	\$ 1,666	\$ 2,242	\$ 2,068
Account Payable % of Revenue	3.23%	3.59%	3.94%	2.68%	3.07%	3.32%	3.52%	4.08%	4.17%	4.81%	6.24%	7.80%	6.98%
Constellation Brands	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenue	\$ 3,773	\$ 3,655	\$ 3,365	\$ 3,332	\$ 2,654	\$ 2,796	\$ 4,868	\$ 6,028	\$ 6,548	\$ 7,332	\$ 7,580	\$ 8,116	2303.4
Accounts Receivable	\$ 772	\$ 881	\$ 732	\$ 525	\$ 515	\$ 417	\$ 438	\$ 472	\$ 626	\$ 599	\$ 733	\$ 737	\$ 776
Accounts Receivable % of Revenue	20.46%	24.11%	21.74%	15.74%	19.39%	14.93%	8.99%	7.83%	9.56%	8.17%	9.66%	9.08%	33.70%
Inventory	\$ 541	\$ 577	\$ 672	\$ 552	\$ 549	\$ 319	\$ 279	\$ 267	\$ 421	\$ 477	\$ 526	\$ 545	\$ 540
Inventory % of Revenue	14.33%	15.79%	19.98%	16.58%	20.67%	11.41%	5.72%	4.43%	6.42%	6.51%	6.94%	6.72%	23.46%
Prepaid Expenses and other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid Expenses and other % of Revenue	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Account Payable	\$ 313	\$ 376	\$ 349	\$ 289	\$ 269	\$ 129	\$ 131	\$ 209	\$ 295	\$ 286	\$ 429	\$ 560	\$ 592
Account Payable % of Revenue	8.29%	10.29%	10.38%	8.66%	10.13%	4.62%	2.68%	3.47%	4.51%	3.90%	5.66%	6.90%	25.71%
Altria	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenue	\$ 35,968	\$ 15,212	\$ 15,957	\$ 16,824	\$ 16,892	\$ 16,619	\$ 17,500	\$ 17,663	\$ 17,945	\$ 18,854	\$ 19,337	\$ 19,494	\$ 19,627
Accounts Receivable	\$ 2,808	\$ 83	\$ 44	\$ 96	\$ 85	\$ 268	\$ 193	\$ 115	\$ 124	\$ 124	\$ 151	\$ 142	\$ 142
Accounts Receivable % of Revenue	7.81%	0.55%	0.28%	0.57%	0.50%	1.61%	1.10%	0.65%	0.69%	0.66%	0.78%	0.73%	0.72%
Inventory	\$ 3,188	\$ 233	\$ 197	\$ 367	\$ 384	\$ 359	\$ 348	\$ 372	\$ 420	\$ 449	\$ 483	\$ 554	\$ 558
Inventory % of Revenue	8.86%	1.53%	1.23%	2.18%	2.27%	2.16%	1.99%	2.11%	2.34%	2.38%	2.50%	2.84%	2.84%
Prepaid Expenses and other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid Expenses and other % of Revenue	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Account Payable	\$ 1,414	\$ 611	\$ 494	\$ 494	\$ 529	\$ 503	\$ 451	\$ 409	\$ 416	\$ 400	\$ 425	\$ 374	\$ 399
Account Payable % of Revenue	3.93%	4.02%	3.10%	2.94%	3.13%	3.03%	2.58%	2.32%	2.32%	2.12%	2.20%	1.92%	2.03%

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