

# CANOPY GROWTH

INVESTING IN THE FUTURE OF CANNABIS

CREATED BY

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DECEMBER 4<sup>TH</sup>, 2019



# Agenda

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- Executive Summary
- Industry Analysis
- Company Overview
- DCF Base Case
- DCF Bull Case
- Relative Valuation
- Risk Matrix
- Recommendation

# Recommendation

Canopy Growth Inc. (TSE:WEED)

Buy

\$29.87

Target Price

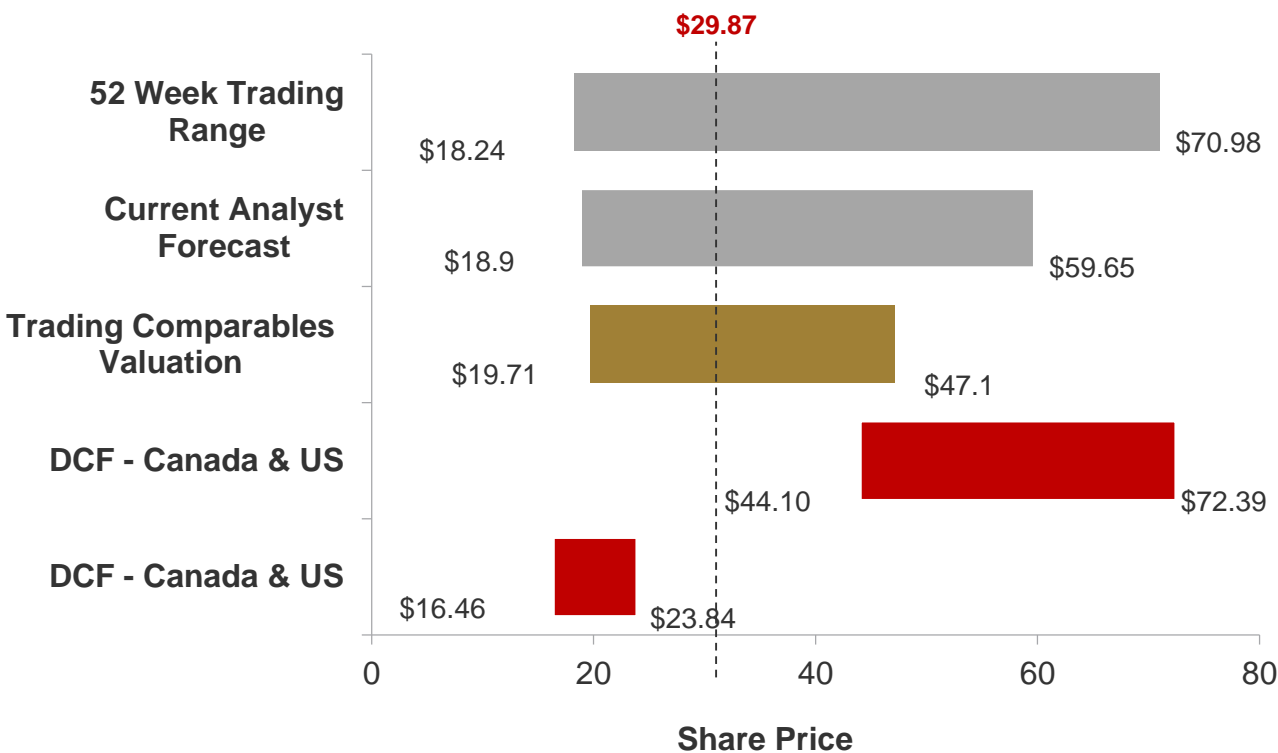
47.21%

Upside

## Investment Thesis

- **Thesis I:** Canopy’s \$2.4B in cash positions it to capture industry growth
- **Thesis II:** Strategic partnership gives advantage in emerging segments
- **Thesis III:** Low probability of massive U.S. Upside

## Valuation



Based on our projections of the company’s growth, strong industry metrics and strategic partnerships, we believe the value of the stock to be \$29.87. 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.

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case

Relative Valuation

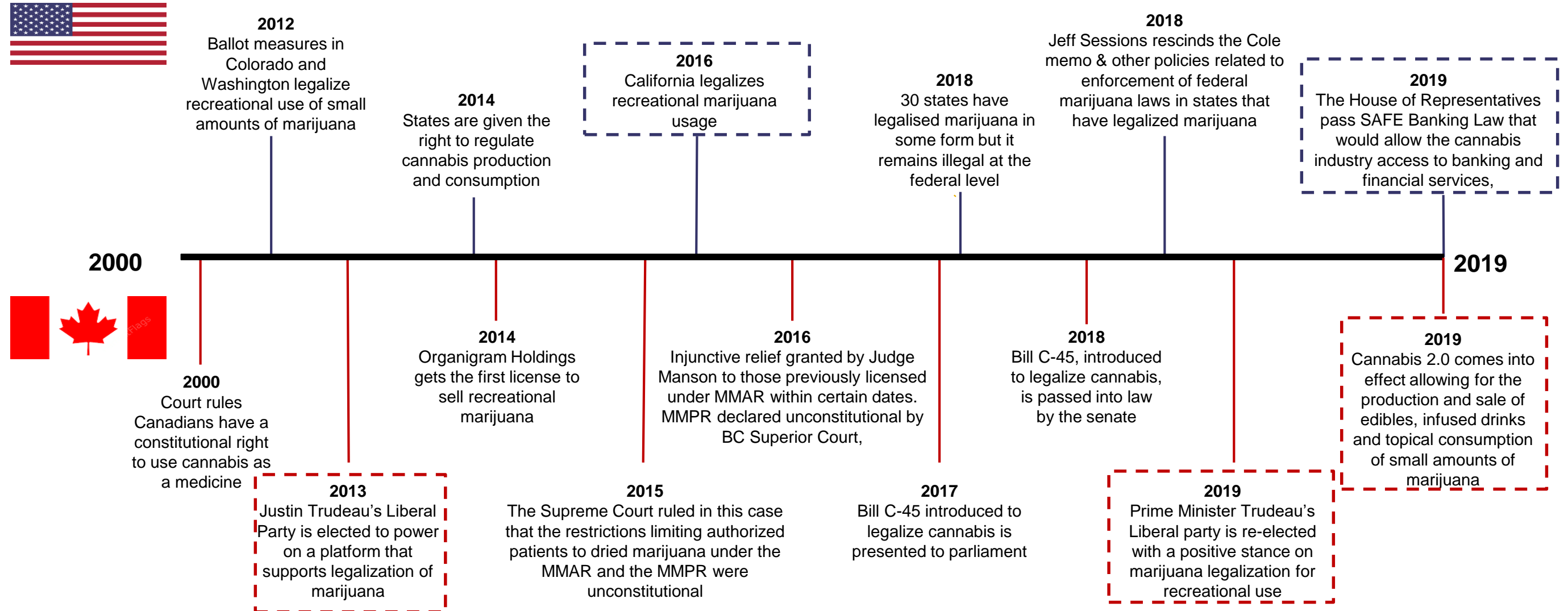
Recommendation

# **Section 1**

## **Industry Analysis**



# Industry Timeline

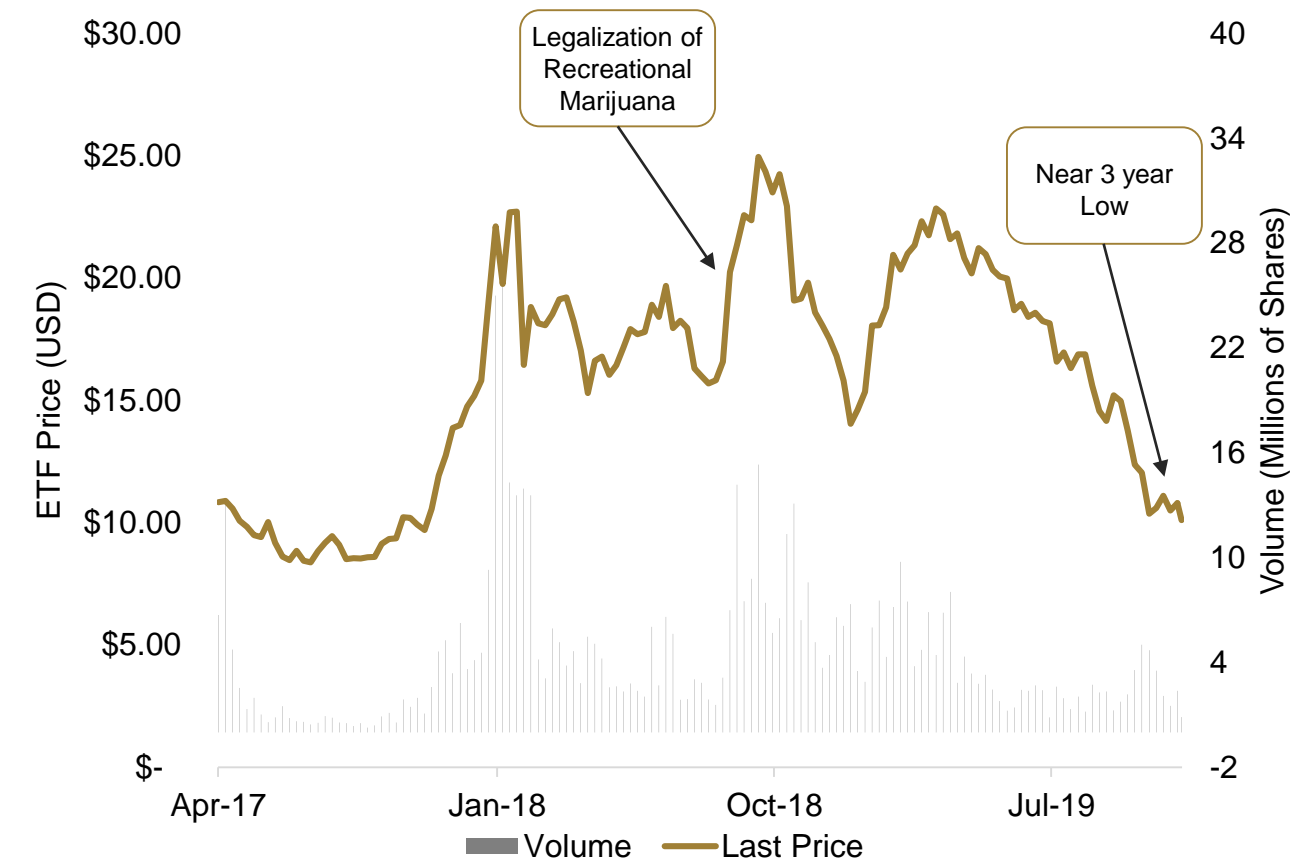


After the recreational legalization in Canada, U.S. is expected to legalize Marijuana in the following 3~5 years

# Recent Industry Performance

## Cannabis Sector Performance

Horizons Marijuana ETF (HMMJ)



## Canopy's Shares Have Underperformed Its Peers

Stock Movements	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 '17	-59%	-48%	-54%	-54%	-67%	-57%	-49%	8%

## Discussion & Analysis



Due to legislative headwinds, Canadian marijuana firms we not able to address the full demand from the market. As a result most Canadian licensed producers (LPs) did not reach the level of profitability that was projected.



Furthermore, many LPs ran into cash flow problems and were force 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 continues expansion and be able to effectively capture market share in the recreational space.



# Industry Forces

Force	Description	Statuses
Threat of Substitution	<ul style="list-style-type: none"> <li>As of Q4 2018 illicit cannabis sales made up 35% of the total market down from 45% in the third quarter</li> <li>Illicit cannabis remains ~33% cheaper at \$6.5 / gram creating an incentive for consumers to avoid legal cannabis</li> <li><b>Forward-Looking:</b> 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</li> </ul>	<p><b>HIGH</b> </p> <p><b>DECREASING</b> </p>
Threat of New Entrants	<ul style="list-style-type: none"> <li>Legislation is the largest barrier to entry, despite this 111 new companies entered the Canadian market in 2019</li> <li>Industry novelty creates opportunities for innovation, new competitors gain market share via product differentiation</li> <li><b>Forward-Looking:</b> As changes in legislation and market stabilization improve access to capital, barriers to entry will decline, increasing the threat of new entrants</li> </ul>	<p><b>HIGH</b> </p> <p><b>INCREASING</b> </p>
Competitive Rivalry	<ul style="list-style-type: none"> <li>Market share is increasingly concentrated across four established producers that currently control ~70%</li> <li>Despite high acquisition activity, the market remains fragmented with over 263 licenses producers in Canada</li> <li>Large players are acquiring at a rapid pace to capture market share, technology and licensed production facilities</li> <li>Forward-Looking: Rivalry will increase as access to capital improves and companies strive for brand dominance</li> </ul>	<p><b>MEDIUM</b> </p> <p><b>INCREASING</b> </p>
Buyer Power	<ul style="list-style-type: none"> <li>Consumer choices varies by regions; AB and BC are the most competitive markets ON &amp; QC the least competitive</li> <li>Consumers still have access to the illicit market where pricing is significantly cheaper</li> <li>The continued introduction of new competitors to this early stage market will continue to broaden consumer choice</li> <li><b>Forward-Looking:</b> The decline in the number of illegal operators will be outweighed by an increase in legal ones</li> </ul>	<p><b>MEDIUM</b> </p> <p><b>INCREASING</b> </p>
Supplier Power	<ul style="list-style-type: none"> <li>Marijuana production makes up a small proportion of the overall farming market that relies on the same producers</li> <li>Supplier concentration for fertilizer and lightbulb production is high while pesticide production remains fragmented</li> <li>Large marijuana producers hold significantly more buyer power than operators in related farming</li> <li><b>Forward-Looking:</b> As the market expands cannabis producers will have more power over suppliers</li> </ul>	<p><b>MEDIUM</b> </p> <p><b>DECREASING</b> </p>

# Supply & Demand

## Marijuana Demand Since Legalization



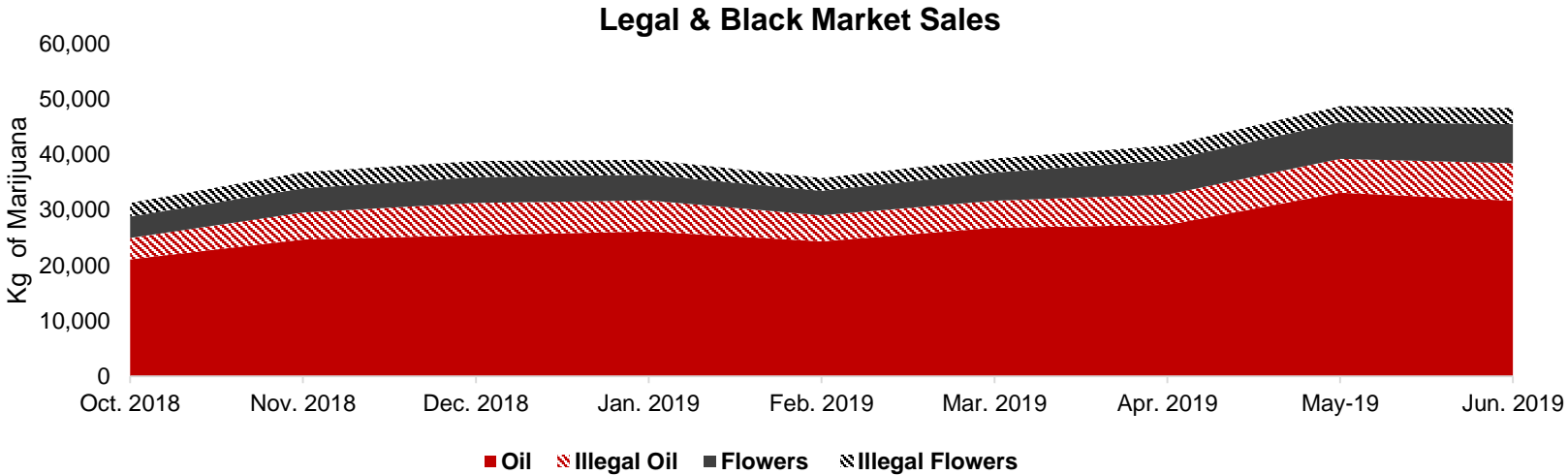
### Slow Growth:

- Canadian marijuana market has grown by 55% as of Q3 2019, well below analyst estimates.
- Slow growth in year one has sapped investor confidence.



### Illegal Market:

- States Can. voluntary surveys indicate the black market accounts for 35% of sales.
- Experts estimate 60% of sales are on the black market.



## Marijuana Supply Since Legalization



### Limited Access:

- Access has been limited in provinces like Ontario and Quebec by strict licensing legislation that has stunted retail expansion, however this is improving.



### Expensive:

- Recreational pricing is 30-40% higher than black market pricing supressing consumer demand for legal product.
- Legal prices will decline as operational efficient increases.



### Poor Quality:

- Poor quality marijuana, likely created by initial supply chain delays, has tarnished the reputation of legal products in the near term.

Cannabis Supply	British Columbia	Alberta	Nova Scotia	Ontario	Quebec
% of National Consumption	3.4%	38.23%	4.60%	35%	6.2%
Distributor	Govt (BC LDB)	Govt (AGLC)	Govt (NSLC)	Govt (OSC)	Govt (SAQ)
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. 300 licenses in the first year	Govt. Allow co-location with alcohol.	25 stores currently, Govt. aims for 150 stores by 2020.	Govt. Initially 15 stores.

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case




Relative Valuation

Recommendation









# Macro Overview

## GDP & Disposal Income

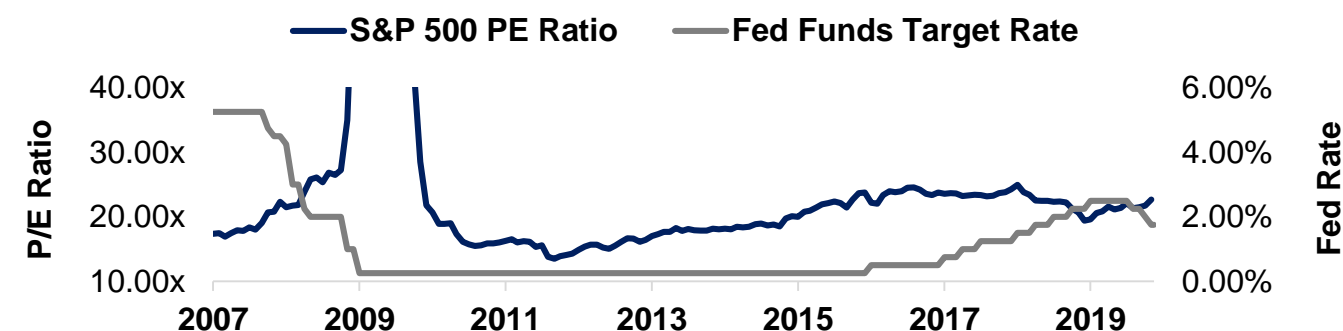
-  Canadian GDP growth since 2009 averaged a strong ~2.4% driven by expansions in the Canadian Real-estate market, financial services & insurance
-  Growth in disposable income has increased on average 3.62% per year since the crisis and reached an all time high during 2019
-  Household debt / disposable income has risen to 172% in the last decade and 48% of Canadians have less than \$200 of disposable income per month

**Forward Looking:** While GDP growth is strong, increasing debt levels may increase demand for cheaper illicit product. Our estimates align with the Federal Reserve which projects GDP growth at 2% in 2020.

## International Regulation in Canopy's Target Countries

Country	Description	Status
 Canada	Cannabis 2.0 will open the Canadian market further to allow for marijuana based edible and beverage consumption and sale.	IMPROVING
 U.S.	SAFE banking bill is awaiting debate in the Senate, broader legislation has been introduced to the house in the form of the STATES act.	IMPROVING
 Brazil	Brazil's regulator Anvisa approved medicinal cannabis-based products on December 3 <sup>rd</sup> , 2019 signifying further softening in Latin America	IMPROVING
 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	MAINTAINING
 Australia	Federal government under increasing pressure to allow states to decriminalise recreational use of cannabis similar to US state legalization	IMPROVING
 South Africa	Supreme court gave parliament 2 years to introduce formal legislation and as such we expect to see bills introduced in early 2020	IMPROVING

## Recession & Interest Rate



**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 in the next 3 years.

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case

Relative Valuation

Recommendation

## **Section 2**

### **Company Analysis**

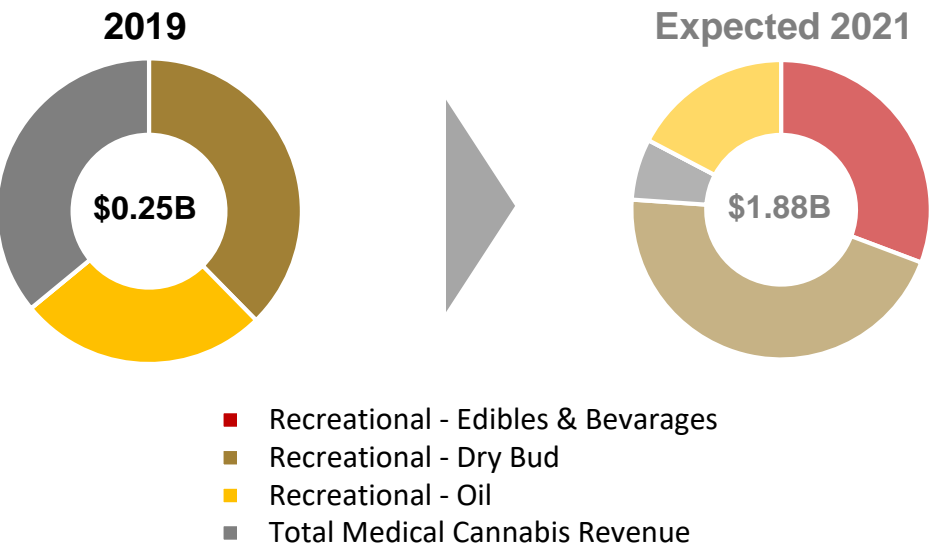


# Company Overview

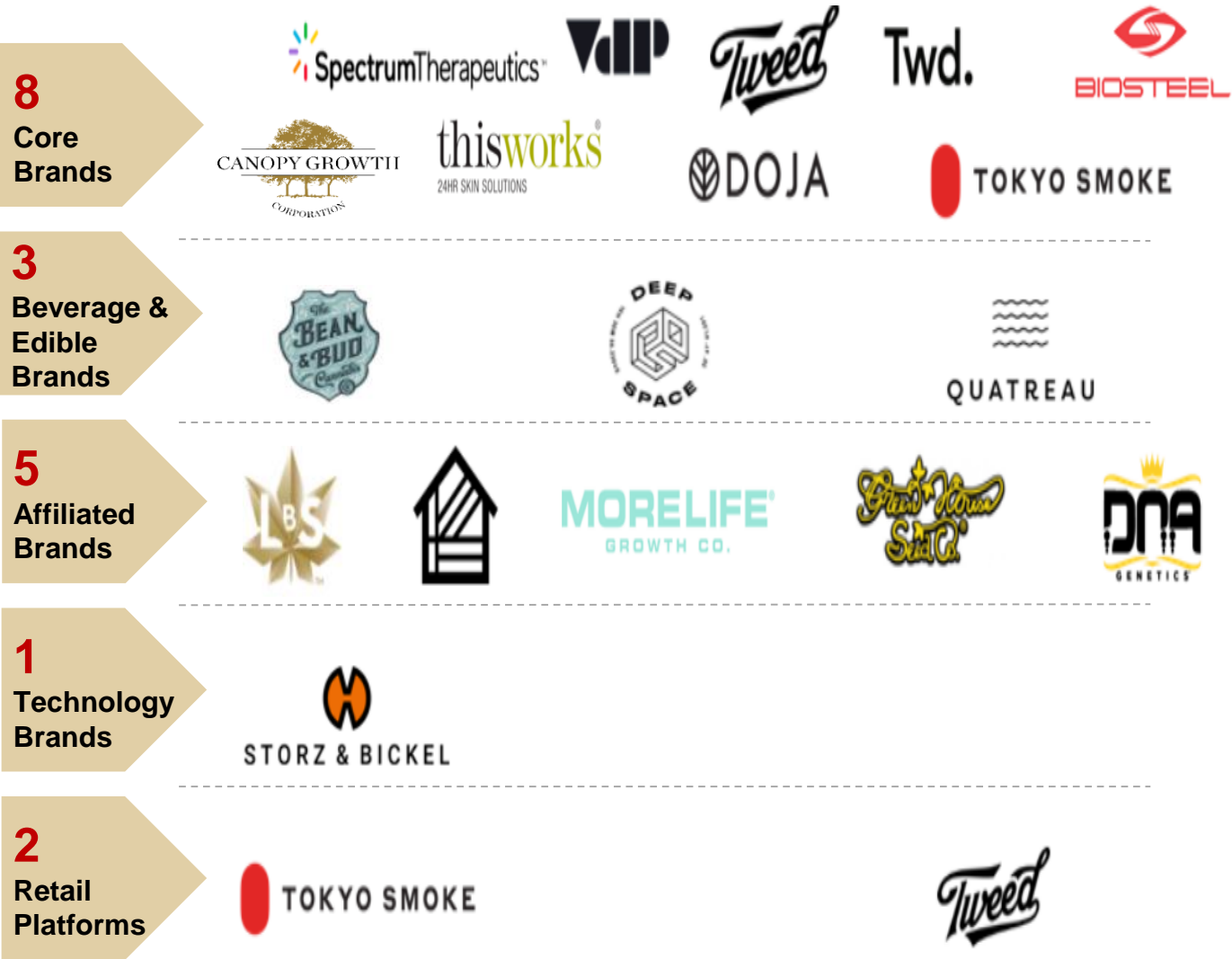
## Description

Canopy Growth is a world-leading diversified cannabis and hemp company, that produces a variety of dried flower, oil and soft gel capsule forms of cannabis for sale in Canada and were permissible by international legislation. Canopy operates a portfolio of 19 brands across 26 retail locations and 2 online sales platforms. Their medical division, Spectrum Therapeutic, operates in 15 countries, providing medical cannabis products along with industry-leading education and support programs for patients and healthcare practitioners.

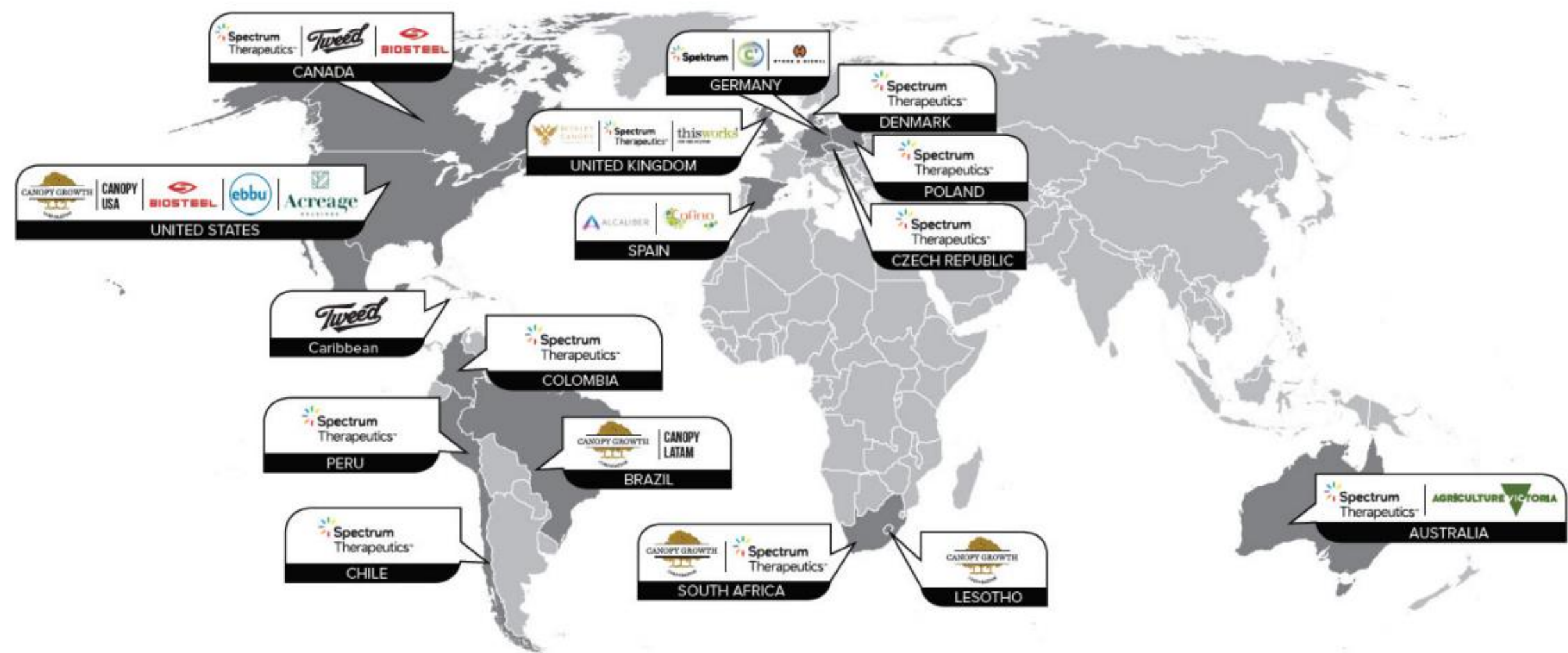
## Revenue Breakdown



## Brand Portfolio



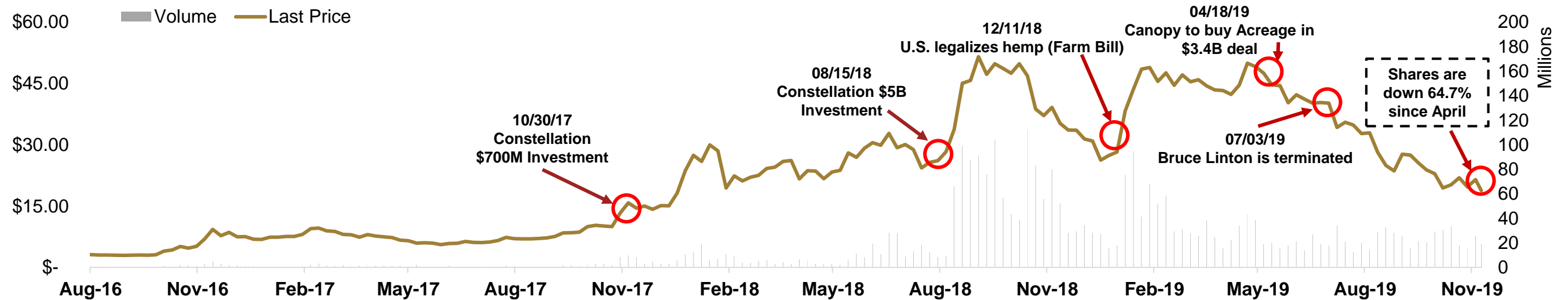
# International Footprint



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

# 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

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case






Relative Valuation

Recommendation



# Key Management Team

## Canopy In-Term Management Team

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 & 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.

Industry Analysis	Company Analysis	Financial Analysis: Base Case	Financial Analysis: Bull Case	Relative Valuation	Recommendation
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# 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
- **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.
- **Patent Portfolio:** Canopy's efforts and partnerships in medical innovation have allowed it accumulate 111 patents and file for another 270 patent.



## Opportunity (++++)

- **Diversified Brand Platform:** Canopy's diversified brand platform gives it the flexibility to shift its strategy as the marijuana market develops.
- **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.



## Weaknesses (--)

- **Profitability:** Canopy continues to burn through cash at a rate of \$300-\$400M per quarter 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.



## 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.

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case



Relative Valuation

Recommendation




# Mergers and Partnerships

## Acreage Deal

### Details

 <ul style="list-style-type: none"><li>• Canopy has the right to acquire Acreage at a 42% premium in the event of deregulation in the U.S.</li><li>• Canopy paid \$300 million for the rights which expire in 2027</li><li>• The deal is valued at \$3.4 billion</li></ul>	 <ul style="list-style-type: none"><li>• Operates ~90 dispensaries &amp; 20 cultivation sites across 20 U.S. states.</li><li>• With ~90 dispensaries we estimate that Acreage has a market share of ~7%<sup>(1)</sup></li><li>• Acreage plans to expand its footprint in the U.S. building a multi-state presence</li></ul>
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### Benefits



 <b>Market Access</b>	Canopy and Acreage executed a licensing agreement granting Acreage access to Canopy's brands, including Tweed & Tokyo Smoke, along with other IP
 <b>Brand Awareness</b>	The deal will allow Canopy to leverage the operational footprint and distribution of Acreage to further its brand awareness in the U.S.
 <b>Operational Diversity</b>	Canopy and Acreage executed a licensing agreement granting Acreage access to Canopy's brands, including Tweed & Tokyo Smoke, along with other IP

### Perspective




- While Canopy agreed to a high premium, opportunity in the U.S. market justifies the price

## Constellation Partnership

### Details

 <ul style="list-style-type: none"><li>• On August 15<sup>th</sup> '18 STZ announced \$5 billion investment in Canopy</li><li>• Deployed capital for Acreage &amp; to further global expansion, but still has \$2.7 B</li><li>• Cannabis 2.0 is expected to draw down cash reserves further</li></ul>	 <ul style="list-style-type: none"><li>• Operates ~90 dispensaries &amp; 20 cultivation sites across 20 U.S. states.</li><li>• With ~90 dispensaries we estimate that Acreage has a market share of ~7%<sup>(1)</sup></li><li>• Acreage plans to expand its footprint in the U.S. building a multi-state presence</li></ul>
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### Benefits

 <b>Capital</b>	\$5B capital influx enabled Canopy to further expansion across 30 countries & conduct \$300 million deal with Acreage that will allow for rapid U.S. expansion.
 <b>Information Advantage</b>	Constellation will be an invaluable asset when entering the cannabis beverage industry in late 2019, providing insight into operations and branding.
 <b>Investor Confidence</b>	The support of a fortune 500 company provides a level of assurance to share holders and debt holder giving Canopy increased access to capital in a dry market.

### Perspective

- This partnership has given Canopy the cash required to wait out the supply bottleneck

Industry Analysis	Company Analysis	Financial Analysis: Base Case	Financial Analysis: Bull Case	Relative Valuation	Recommendation
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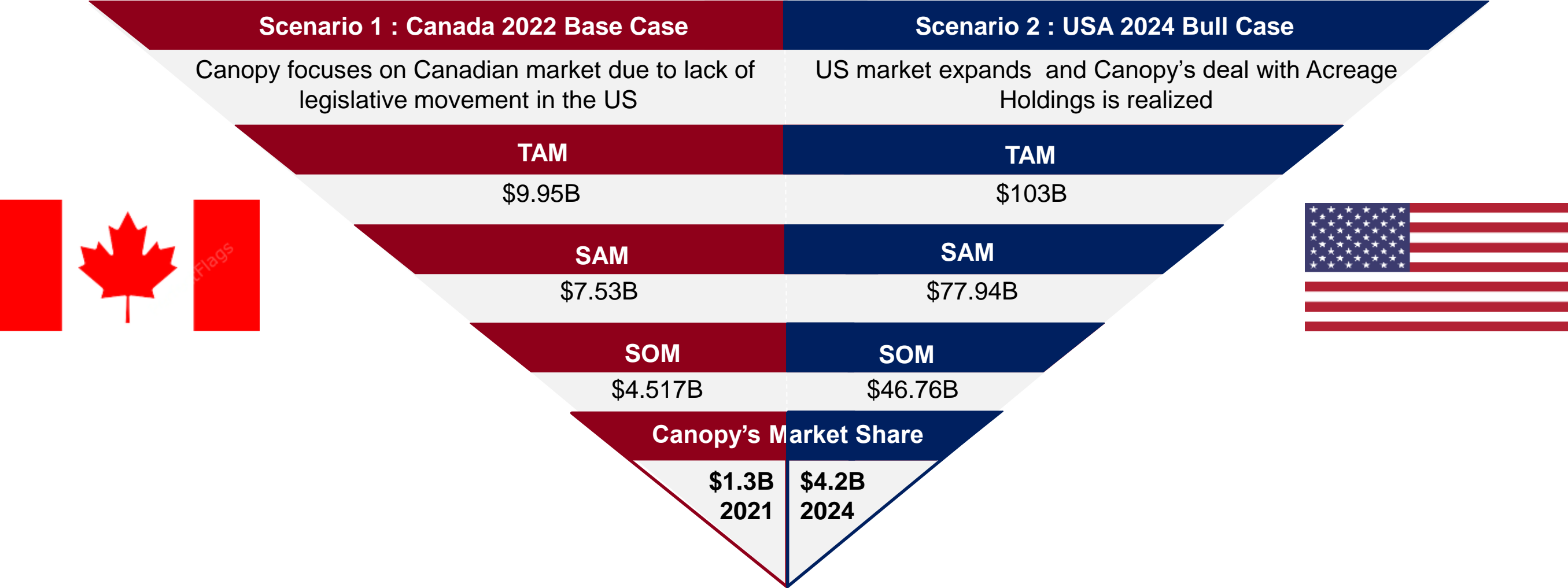


## **Section 3**

### Financial Analysis










# Scenario Analysis



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.

# DCF Assumptions

	Key Statistics	Input	Weight	Rate		Rationale
Cost of Equity	Cannabis Industry Unlevered Beta of	~1.325				<b>Volatility:</b> Cannabis sector is more volatile as it is a new industry that's full of retail investors. Furthermore, cannabis companies have a tough time raising debt due to regulatory uncertainty.
	Cannabis Industry D/E	0.147x				
	Alcohol and Tobacco Unlevered Industry Beta	~0.413				<b>Cyclical:</b> While drug and alcohol industries tend to be less cyclical and should have a lower betas, the cannabis industry has a high beta because it is so new. We expect beta to decline over time as the market stabilizes.
	Alcohol and Tobacco Industry D/E	1.482x	40.29%	18.28%		
	Risk Free Rate	1.84				<b>Capital Structure:</b> As the cannabis industry matures and access to banking increases, we will see the optimal capital structure approach those of the tobacco and alcohol industry.
	Blended Market Risk Premium	5.36%				
	Calculation: $1.325 * (1 + (1 - 26.5\%)) * 1.482 =$	18.28%				
Cost of Debt	Corporate Tax Rate	26.5%				<b>Aurora's Cost of Debt:</b> Canopy's main competitor (Aurora) raised \$200M short debt (mature in 2021) with the interest rate of ~4%.
	Interest Coverage Ratio	0				<b>Constellation's Support:</b> Constellation Brands Inc. own 35.9% of Canopy, which Canopy can leverage to gain better debt terms.
	Synthetic Rating Default Spread	19.38%	59.71%	5.84%		
	Rational: Cost of debt should be 4% – 6%. We take 5.84% to remain conservative.	5.84%				<b>Damodaran:</b> Damodaran's synthetic credit rating calculation produces a D2 rating (cost of debt of 22.85%). This is due to Canopy's negative EBIT and is not realistic. Canopy has a strong balance sheet, sitting on \$2.7B cash
WACC	Cost of Equity	18.28%				<b>Additional Risk:</b> Canopy is a new company in an uncertain regulatory environment. Investors and debtors will account for this uncertainty by increasing the WACC. Therefore, we have added 2% regulation risk premium to the WACC.
	Cost of Debt	5.84%				
	Equity Weight	40.29%		12.85%		
	Debt Weight	59.71%				
	Calculation: $18.28\% * 40.29\% + 5.84\% * 59.71\% =$	10.85%				

Source: Bloomberg Terminal, Reuters.

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case

Relative Valuation

Recommendation



## **Section 4**

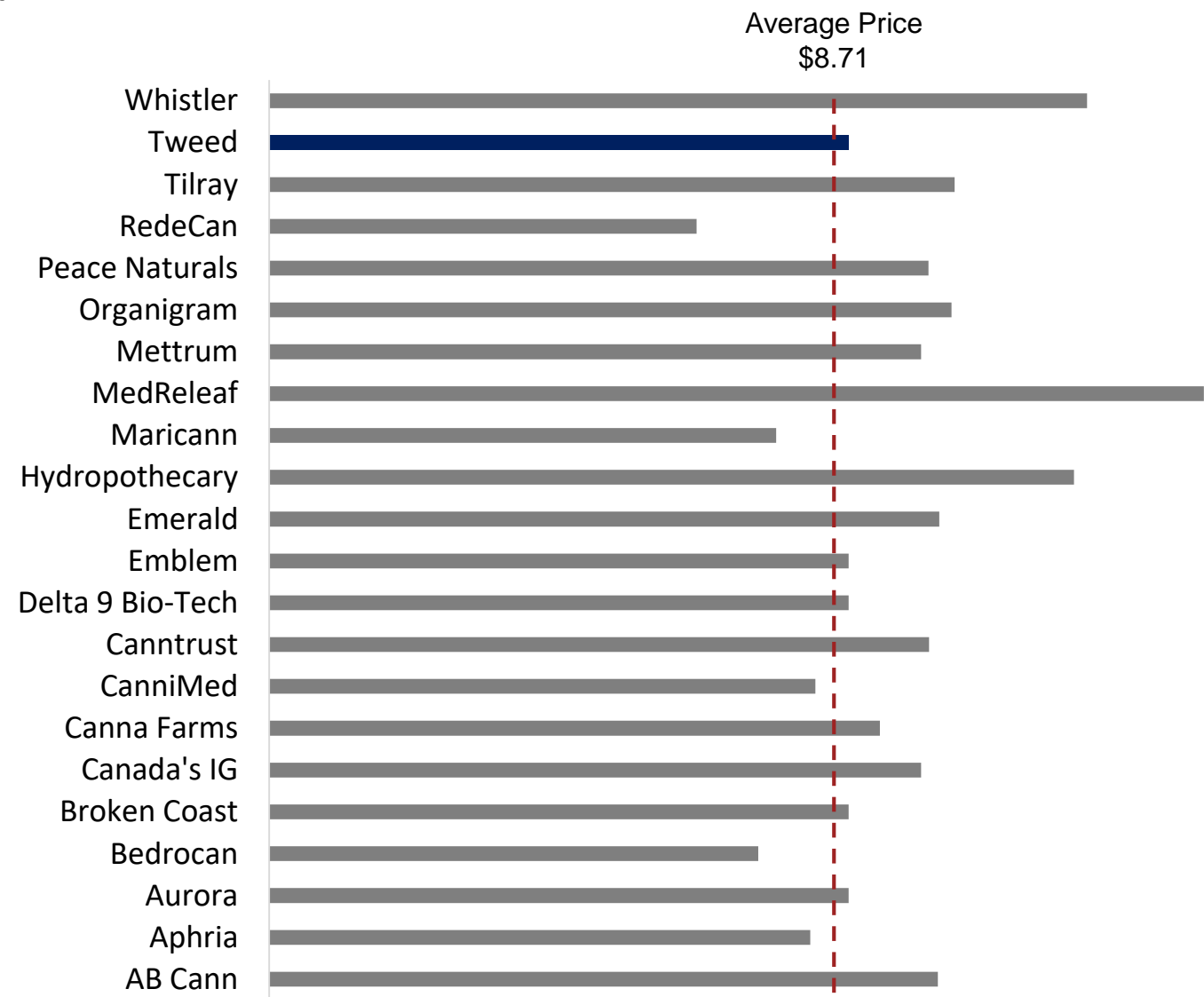
### **DCF Analysis Base Case**





# Canadian Cannabis Pricing

## LPs Average Medical Cannabis Price Per Gram

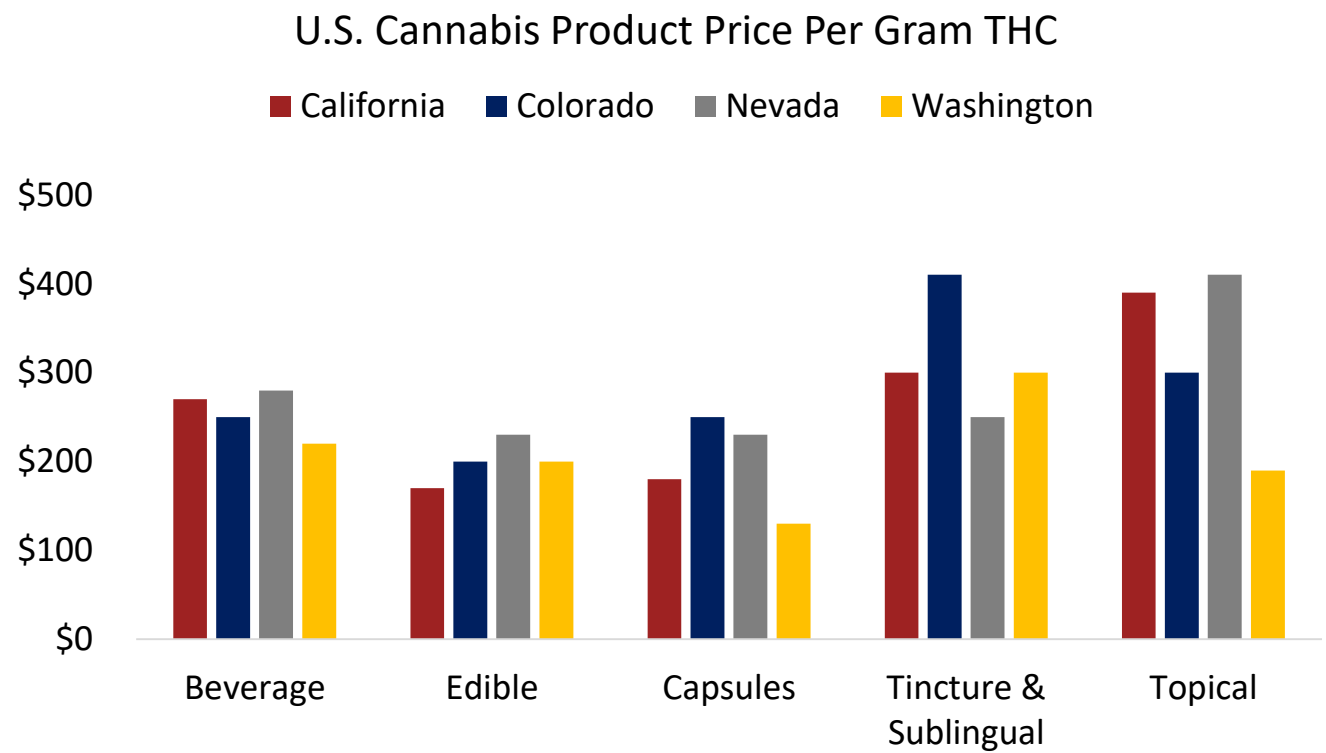
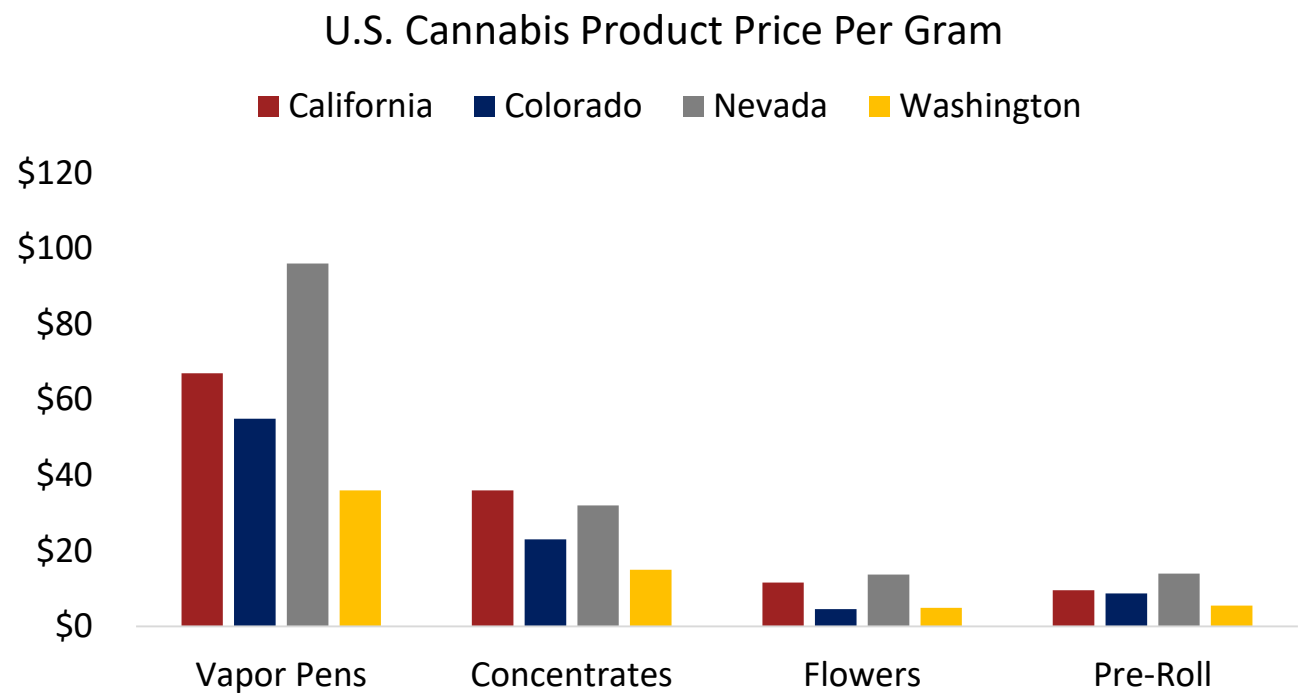


## Discussion & Analysis

- 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



# 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  $\$250 \times 0.1 \sim \$250 \times 0.3 = \$25 \sim \$75$

# Canada's Total Addressable Market

## Estimating the Total Canadian Recreational Market



## Segmenting Canadian Cannabis Market

Segment	% of Recreational Cannabis User Population	Estimated Number of Users (m)	Total Consumption (kg)	Estimated Average Selling Price (\$/g)	Total Potential Revenue to LPs (\$bn)
Medical Market	N/A	3.42	151,483	\$ 7.27	\$ 1.10
Recreational Dried Flower	40%	1.26	300,136	\$ 8.27	\$ 2.48
Recreational Oil	15%	0.47	10,232	\$ 35.00	\$ 0.36
Recreational Vape Pens	5%	0.16	37,517	\$ 40.00	\$ 1.50
Recreational Edibles	20%	0.63	30,317	\$ 20.00	\$ 0.61
Recreational Beverages	20%	0.63	30,317	\$ 35.00	\$ 1.06

Total Addressable Market for Legal in 2022 is expected to be \$7.11bn in Canada

# 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%
<b>Total</b>	<b>125,092</b>	<b>39879</b>	<b>31.88%</b>
<b>Oil Market</b>	<b>20,550</b>	<b>9,943</b>	<b>48.38%</b>
<b>Flower Market</b>	<b>104,542</b>	<b>29,936</b>	<b>28.64%</b>
<b>Recreational Market</b>	<b>92,530</b>	<b>29,796</b>	<b>32.20%</b>
<b>Medical Market</b>	<b>32,562</b>	<b>10,083</b>	<b>30.97%</b>

## Discussion & Analysis

- 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

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case

Relative Valuation

Recommendation

# DCF Model Assumptions

		As % of Revenue			Justification
Description		Long Term	Medium Term	Short Term	
Revenue	1) COGS (Recreational)	30%	35%	60%	• Recreational products are expected to earn a margin in cannabis 2.0 as they have a better product mixed (infused edibles & topical) and quantity differentiation alongside with brand effect.
	2) COGS (Medical)	25%	50%	65%	• Medical products are always expected to earn a better margins as patients prefer to use processed forms of cannabis that contain a higher percent of THC such as shatter, distillate, cherry oil. This method allows for more effective pain relief methods when compared to smoking flower.
Costs	3) Sales & Marketing	4%	10%	30%	• Proxy from Alcohol & Tobacco Companies
	4) R&D	2%	4%	5%	• Proxy from Alcohol & Tobacco Companies
	5) General & Admin	20%	25%	30%	• Proxy from Alcohol & Tobacco Companies
	6) Depreciation and Amortization	5%	8%	10%	• Proxy from Alcohol & Tobacco Companies + MD&A
	7) CAPEX	5%	10%	20%	• Proxy from Alcohol & Tobacco Companies + MD&A • 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.
NWC					
	8) Accounts Receivable	2%	5%	20%	• Proxy from Alcohol & Tobacco Companies
	9) Inventory	3%	4%	12.5%	• Proxy from Alcohol & Tobacco Companies
	10) Account Payable	5%	10%	40%	• Proxy from Alcohol & Tobacco Companies

# DCF – Canada Only

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Investment Highlights
<b>Cash Flows</b>											
EBIT	(569)	(559)	(155)	297	697	936	1,103	1,222	1,291	1,329	<ul style="list-style-type: none"><li>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</li><li>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</li><li>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</li><li>The DCF valuation is based on the given assumptions regarding Canopy's revenue and expenses. This will give Canopy a new valuation of \$17.17 which has an implied downside of 16%.</li><li>A sensitivity analysis was conducted assuming a terminal growth rate and WACC in the range of 1% - 3% and 11.85% - 13.85% respectively. This will give a price range of \$20.56 - \$14.82.</li></ul>
Taxes (Tax rate = 26.5%)	-	-	-	-	-	-	209	256	270	278	
NOPAT (a)	(569)	(559)	(155)	297	697	936	894	966	1,021	1,051	
Depreciation (b)	43	94	108	119	129	136	143	148	151	155	
CAPEX (c)	103	282	216	179	167	150	143	148	151	155	
Change in NWC (d)	9	(234)	(2)	21	74	92	48	25	27	29	
FCFF (a) + (b) - (c) - (d)	(639)	(513)	(260)	216	585	830	846	941	993	1,022	
Discount	1	1	1	2	2	2	2	3	3	3	
PV of FCFF	(566)	(403)	(181)	133	319	402	363	358	335	305	
<b>Output</b>											
Valuation Date	2019-11-22			WACC							
PV of Annual Cash Flows	\$	1,065	Terminal Growth Rate	1.00%	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	
PV of Terminal Value	\$	2,868		1.50%	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	
				2.00%	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	
				2.50%	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	
				3.00%	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	\$ 17.17	
WACC	12.85%										
Terminal Growth Rate	2.00%										
Enterprise Value	\$	3,933									
Plus: Cash	\$	2,736									
Less: Debt	\$	605									
Less: Preferred & Other	\$	271									
Equity Value	\$	5,794									
Share Outstanding	\$	338									
Implied Share Price	\$	17.17									
Implied Downside	-15.38%										
Industry Analysis	Company Analysis			Financial Analysis: Base Case			Financial Analysis: Bull Case			Relative Valuation	Recommendation

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case

Relative Valuation

Recommendation



## **Section 5**

### **DCF Analysis 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

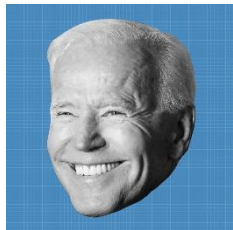
Trump has sent mixed messages on cannabis over the past few years. He has said that the issue should be determined by individual states, but also nominated an epically anti-cannabis attorney general, Jeff Sessions.



**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 show 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 gate way 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 sates have legalized recreational marijuana and currently 46 states have legalized medical marijuana to some degree

Industry Analysis

Company Analysis

Financial Analysis: Base Case

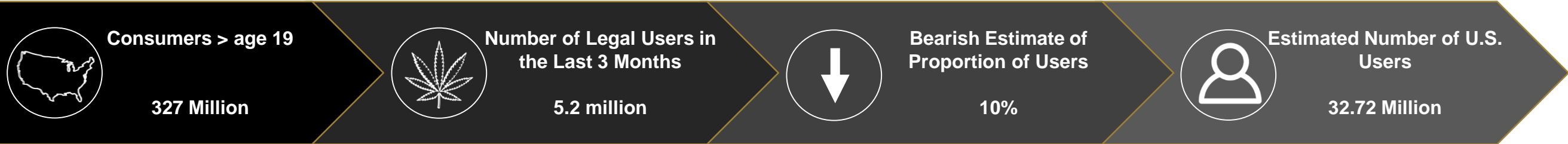
Financial Analysis: Bull Case

Relative Valuation

Recommendation

# U.S. Total Addressable Market

## Estimating the Total Canadian Recreational Market



## Segmenting Canadian Cannabis Market

Segment	% of Recreational Cannabis User Population	Estimated Number of Users (m)	Total Consumption (kg)	Estimated Average Selling Price (\$/g)	Total Potential Revenue to LP's (\$bn)
Medical Market	N/A	327	1,563,300	\$ 6.50	\$ 10.56
Recreational Dried Flower	40%	13.09	3,109,709	\$ 8.27	\$ 25.41
Recreational Oil	15%	4.91	358,284	\$ 35.00	\$ 12.54
Recreational Vape Pens	5%	1.64	388,714	\$ 40.00	\$ 11.66
Recreational Edibles	20%	6.54	314,112	\$ 20.00	\$ 7.85
Recreational Beverages	20%	6.54	314,112	\$ 35.00	\$12.56

Total Addressable Market for Legal Marijuana in 2024 is expected to be \$80 bn in the U.S.A.



# DCF – US & Canada

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>Cash Flows</b>										
EBIT	(569)	(559)	(155)	297	1,819	2,602	3,235	3,777	4,176	4,477
Taxes (Tax rate = 26.5%)	-	-	-	-	-	-	1,240	791	875	938
NOPAT (a)	(569)	(559)	(155)	297	1,819	2,602	1,996	2,986	3,301	3,539
Depreciation (b)	43	94	108	119	339	382	423	461	495	527
CAPEX (c)	103	282	216	179	440	420	423	461	495	527
Change in NWC (d)	9	(234)	(2)	21	(388)	210	111	54	72	86
FCFF (a) + (b) - (c) - (d)	(639)	(513)	(260)	216	2,105	2,354	1,884	2,932	3,230	3,453
Discount	1	1	1	2	2	2	2	3	3	3
PV of FCFF	(566)	(403)	(181)	133	1,150	1,140	808	1,115	1,088	1,031

## Output

Valuation Date	2019-11-22									
PV of Annual Cash Flows	\$ 5,315									
PV of Terminal Value	\$ 9,690									
WACC	12.85%									
Terminal Growth Rate	2.00%									
Enterprise Value	\$ 15,005									
Plus: Cash	\$ 2,736									
Less: Debt	\$ 605									
Less: Preferred & Other	\$ 271									
Equity Value	\$ 16,866									
Share Outstanding	\$ 338									
<b>Implied Share Price</b>	<b>\$ 49.97</b>									
Implied Upside	146.29%									

## WACC

		11.85%	12.35%	12.85%	13.35%	13.85%
1.00%	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97
1.50%	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97
2.00%	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97
2.50%	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97
3.00%	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97	\$ 49.97

## Investment Highlights

- In our approach to sizing the US market we took a very similar approach and used similar assumptions to the Canadian market.
- The key assumptions comes from the fact that U.S. will legalize cannabis federally by 2024.
- 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.
- 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.
- 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, with ~90 dispensaries we estimate that Acreage has a market share of ~7%.

Industry Analysis

Company Analysis

Financial Analysis: Base Case

**Financial Analysis: Bull Case**

Relative Valuation

Recommendation































## **Section 6**

### **Relative Valuation**





# RELATIVE VALUATION (COMPARISON) CONT.

Company	Overview	Cash Balance	Product Mixed	Management Team	Strategy Partnership
	<b>Canopy Growth</b> is a world-leading diversified cannabis and hemp company, offering distinct brands and curated cannabis varieties in dried flower, oil and soft gel capsule forms for sale in Canada and were permissible by international legislation.				
	<b>Aurora Cannabis Inc.</b> 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.				
	<b>OrganiGram Holdings Inc.</b> 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.				
	<b>Tilray Inc.</b> 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.				
	<b>Cronos Group Inc.</b> 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.				
	<b>Aphria Inc.</b> engages in the production and supply of medical cannabis with a focus on distribution. Aphria is one fifth the size of Canopy				

Canopy Growth Is Well Positioned To Dominate The Cannabis Industry

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case

Relative Valuation

Recommendation



# RELATIVE VALUATION (COMPARISON)

Company	Ticker	Revenue	Operation		Capacity	Profitability		Risk	Growth
			Operating Margin	Profit Margin		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%

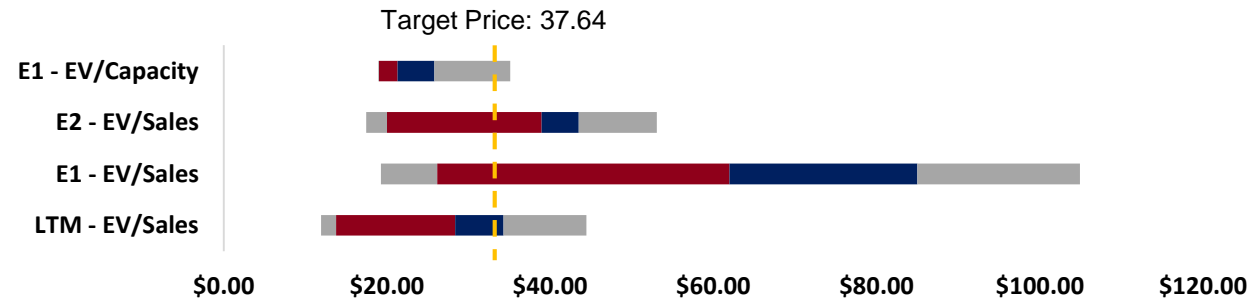
Company	Ticker	Revenue	Opeartion		Capacity	Profitability		Risk	Growth	Average Difference
			Operating Margin	Profit Margin		ROA	ROIC	Current Ratio	Revenue Growth	
Canopy	WEED	0.51B								
Aurora	ACB	0.29B	0.50	0.61	0.18	0.42	0.37	0.88	0.83	0.54
OrganiGram Holding	OGI	0.07B	2.15	1.54	0.90	1.77	2.18	0.47	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



# RELATIVE VALUATION – MUTIPLLES

Company	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



Selected Multiples for Football Field Chart						
Methodology	Minimum	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	Maximum	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
Price						\$37.64
Upside						85.49%

## Discussion & Analysis

- 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 upside 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 has not been taken positively by investors as many believes the government could further delay the fully legalization freedom of edibles market.

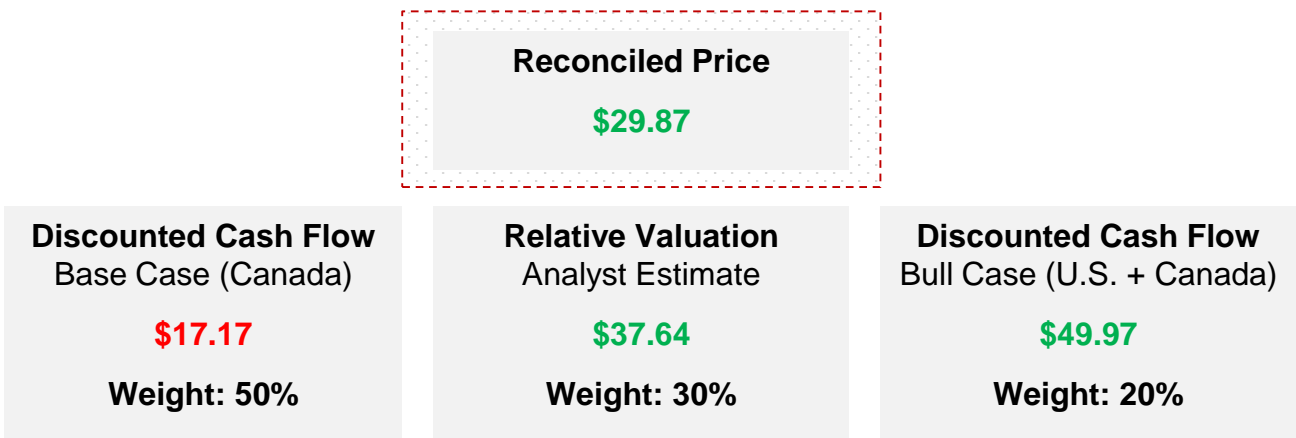
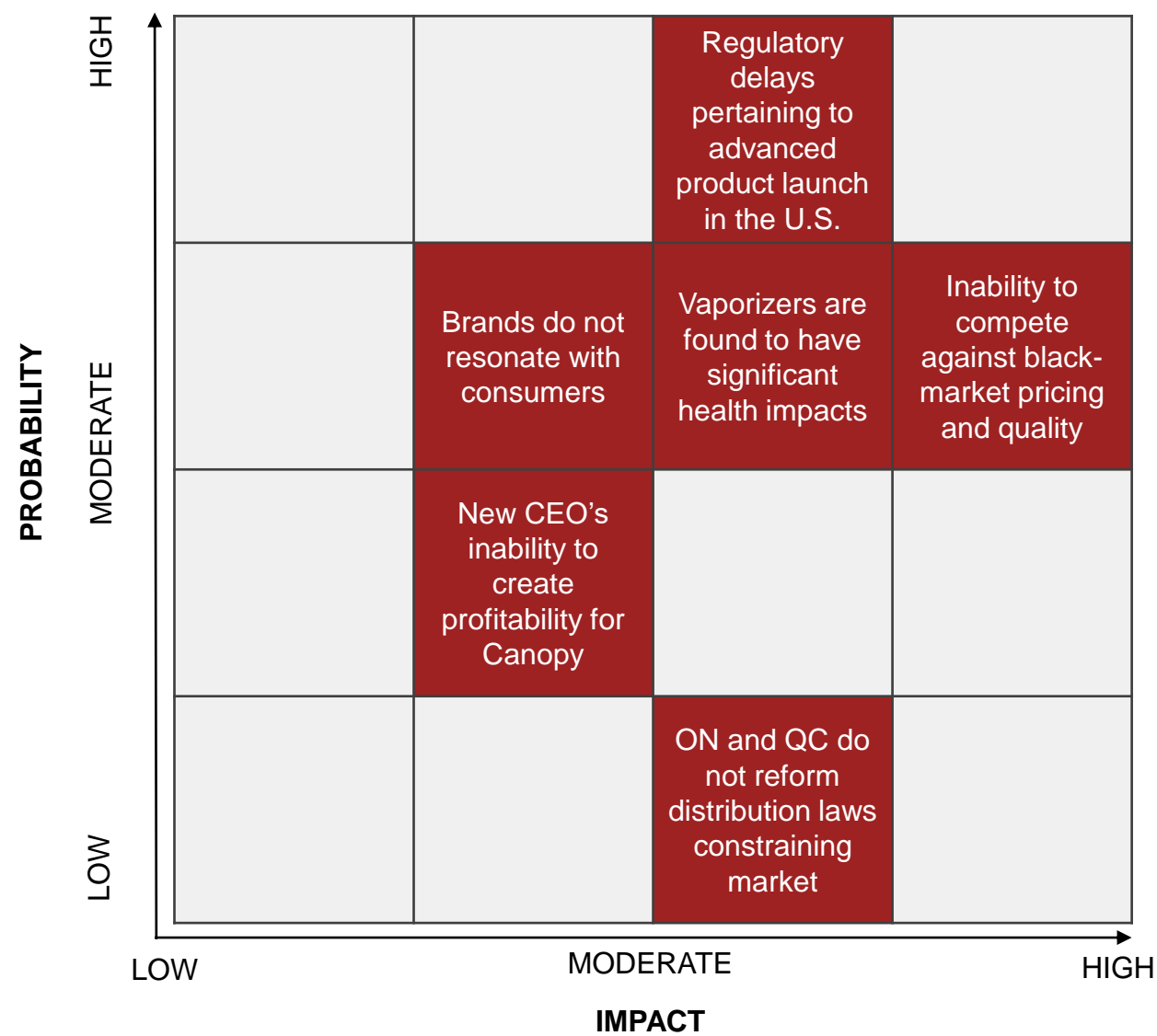


## **Section 7**

### **Risk & Reconciliation**



# BUSINESS RISK & RECONCILIATION



## Canopy In-Term Management Team

- After using both DCF and RV valuation methodologies, we chose 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 \$29.87 and a upside of 47.21%.
- 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.
- We believe the likelihood of U.S. legalization is relative low leading to a lower weight for our bull case
- The cannabis sector has become more stable compare to when it first legalize and cash flow prediction is becoming more accurate
- While significant risks remain we believe the regulatory risk and risk posed by the black market are effectively accounted for in our discount rate

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

# Recommendation

Canopy Growth Inc. (TSE:WEED)

Buy

\$29.87

Target Price

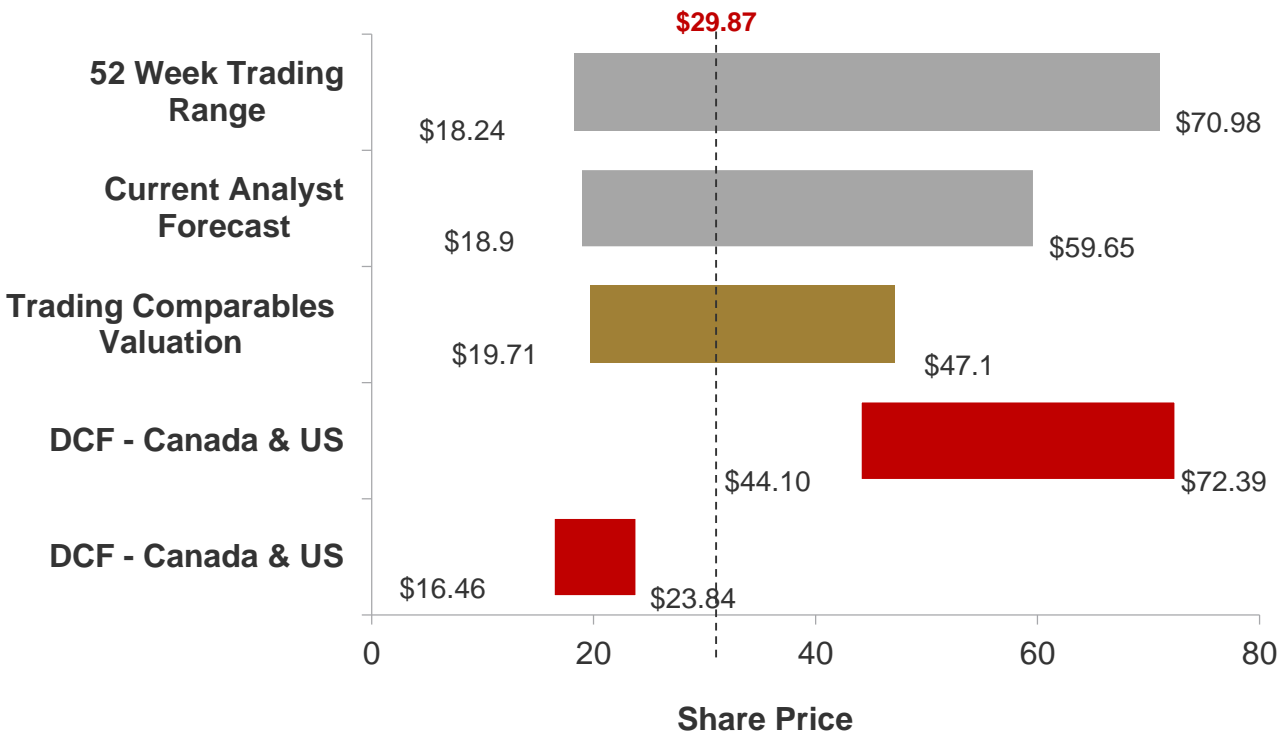
47.21%

Upside

## Investment Thesis

- **Thesis I:** Canopy’s \$2.4B in cash positions it to capture industry growth
- **Thesis II:** Strategic partnership gives advantage in emerging segments
- **Thesis III:** Low probability of massive U.S. Upside

## Valuation



Based on our projections of the company’s growth, strong industry metrics and strategic partnerships, we believe the value of the stock to be \$29.87. 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.

Industry Analysis

Company Analysis

Financial Analysis: Base Case

Financial Analysis: Bull Case

Relative Valuation

Recommendation

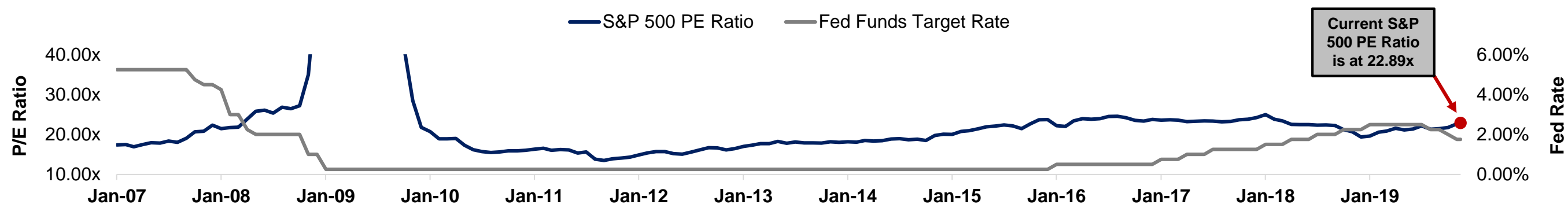
# Appendix





# 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

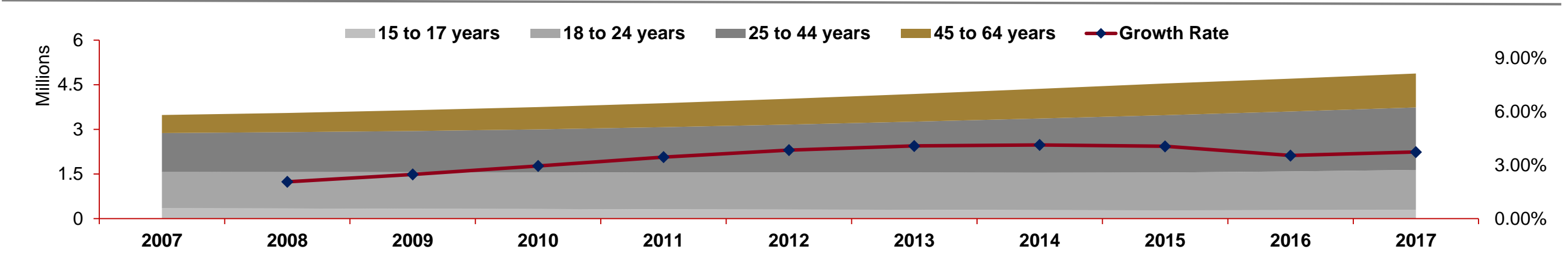
### DISCUSSION & ANALYSIS

- 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.

# 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 – 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
<b>Total</b>	<b>2,132,778</b>

## 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 patient 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.)

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## 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.

# COMPANY ANALYSIS – SWOT ANALYSIS

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## Strengths (+++)

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- **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 (--)

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- **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 (+++)

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- **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 (--)

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- **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 EDITDA until at least 2022. If operating losses continue or the company fails to meet earnings guidance further multiple contraction can be expected.



# MACROECONOMIC ANALYSIS – LEGISLATION OVERVIEW

CONTINENT	CURRENT LEGISLATION	FORWARD LOOKING
North American	<p><b>Canada:</b> recreational and medical marijuana use is legal at the federal and provincial level for production and sale.</p> <p><b>United States:</b> 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><b>Canada:</b> Cannabis 2.0 will open the Canadian market further to allow for marijuana based edible and beverage consumption and sale.</p> <p><b>United States:</b> 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><b>Germany:</b> 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><b>Denmark:</b> 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><b>Poland:</b> Legalized medical use in 2017 and the first non-state company was given licence to import in 2018</p> <p><b>Czech Republic:</b> 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><b>United Kingdom:</b> Medical cannabis was legalized in November 2018 and bulk imports began in 2019</p> <p><b>Spain:</b> In 2017 Catalonia legalized consumption via 'Cannabis Clubs'; however, consumption and medical use of cannabis remains illegal at the federal level</p>	<p><b>Germany:</b> No evidence of further legalization</p> <p><b>Denmark:</b> Data from 4-year pilot program is expected to support further medical legalization once complete in 2022</p> <p><b>Poland:</b> No evidence of further legalization</p> <p><b>Czech Republic:</b> No evidence of further legalization</p> <p><b>United Kingdom:</b> Minimal progress expected due to parliamentary gridlock caused by Brexit</p> <p><b>Spain:</b> 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><b>South Africa:</b> In September of 2018 the South African Supreme Court legalized recreational use of cannabis; however, large scale cultivation and distribution remains illegal</p> <p><b>Lesotho:</b> 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><b>South Africa:</b> 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><b>Lesotho:</b> More stringent laws around license distribution are set to come into effect later this year; however, existing producers will be grandfathered in</p>
	<p><b>Peru:</b> Medical cannabis was legalized in 2017, and recreational use has been decriminalised, industrial production remains illegal</p> <p><b>Colombia:</b> Medical cannabis was formally legalised in 2015, recreational and industrial cultivation and use has been legal since 1986</p> <p><b>Chile:</b> Medical cannabis oil was legalized in 2015, marijuana has been decriminalized up to 10g and industrial cultivation is legal</p> <p><b>Brazil:</b> 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><b>Cayman Islands:</b> Medical cannabis use was legalized in 2016, recreational cannabis and industrial hemp cultivation remains illegal</p>	<p><b>Peru:</b> Law 30.681 proposes to expand the breadth of legal imports to include resins, dyes, oils and extracts</p> <p><b>Columbia:</b> Fully legal</p> <p><b>Chile:</b> Fully legal</p> <p><b>Brazil:</b> Landmark supreme court case involving a review of cannabis decriminalization is set to take place in November of 2019</p> <p><b>Cayman Islands:</b> Increasing public tolerance; however, there is no evidence of further legislative change</p>
Australia	<p><b>Australia:</b> Medical cannabis was legalized in 2016 and 74 licenses have been granted to domestic producers</p>	<p><b>Australia:</b> 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.

# 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 15<sup>th</sup> , 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

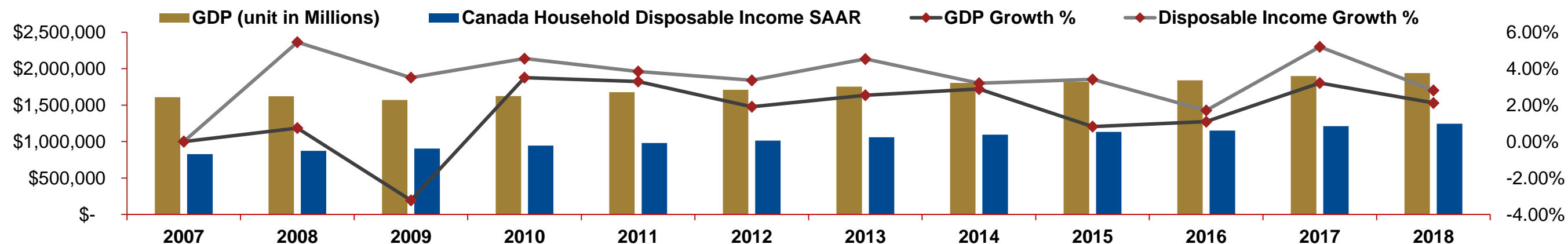
- Canopy has the right to acquire Acreage when cannabis is federally legal in U.S. regarding cultivation, distribution, and possession of marijuana.
- Acreage is headquartered in New York City and is a leading vertically-integrated, multi-state operator in U.S cannabis. Acreage owns licences to operate 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



# 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.

# 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
<b>Medium</b>	<b>1.435</b>		<b>0.147</b>		<b>1.325</b>
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
<b>Medium</b>	<b>0.779</b>		<b>1.482</b>		<b>0.413</b>
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 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%
<b>2.5</b>	<b>2.999999</b>	<b>B1/B+</b>	<b>4.50%</b>
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%
<b>Estimated After Tax Cost of Debt</b>	<b>7.44%</b>

## 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

# 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.

# 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

# 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

# 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

# CANOPY'S COST 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.



# 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%
<b>Change in AR (a)</b>		\$ 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%
<b>Change in Inventory (b)</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%
<b>Change in Prepaid Expenses (c)</b>		-	(\$ 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%
<b>Change in Prepaid Expenses (d)</b>		-	-	\$ 6	\$ 41	\$ 143	\$ 110	\$ 265	(\$ 22)	(\$ 62)	(\$ 90)	(\$ 114)	(\$ 44)	(\$ 22)	(\$ 25)	(\$ 27)
<b>Change in NWC (a) + (b) + (c) - (d)</b>							(\$ 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)

# 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
<i>Dried Flower % Growth</i>						10.00%	7.00%	5.00%	3.00%	2.00%
<i>Vape Pens % Growth</i>						10.00%	7.00%	5.00%	3.00%	2.00%
<i>Concentrates % Growth</i>						5.00%	4.00%	3.00%	2.00%	2.00%
<i>Edibles % Growth</i>						10.00%	7.00%	5.00%	3.00%	2.00%
<i>Cannabis Beverages % Growth</i>						10.00%	7.00%	5.00%	3.00%	2.00%
<i>Medical % Growth</i>		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)

# 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										

# 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										



# 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