

Aphria Updated Forecast, Demand Curves, Target and Recommendation

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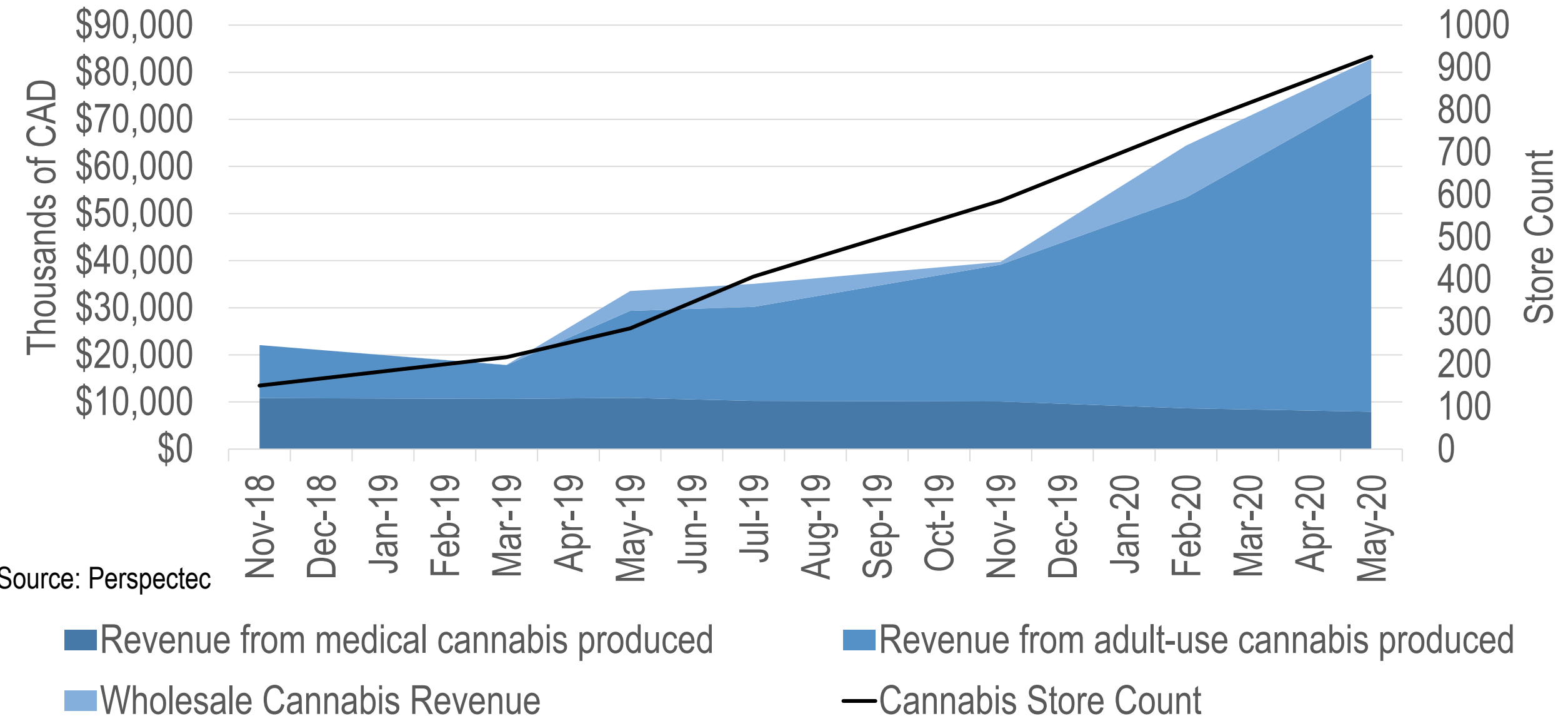
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Rating: **HOLD** Price Target: **\$5** by **March 2021**

Aphria Inc. (April 29, 2020 – **APHA.TO** \$5.08)

Recreational Cannabis Products Have Been Driven by a Growth in Ontario, B.C. and Alberta Physical Locations



COVID-19 Will be a Headwind, but Cannabis Buyers Stocked Up

“Not unlike major grocery retailers, Sessions Cannabis has seen a significant increase in sales this week due to growing concerns regarding COVID-19 social distancing protocols.”

- Sessions Cannabis CEO Steven Fry



COVID-19 Will be a Headwind, but Buyers Stocked up on Products, Including Edibles

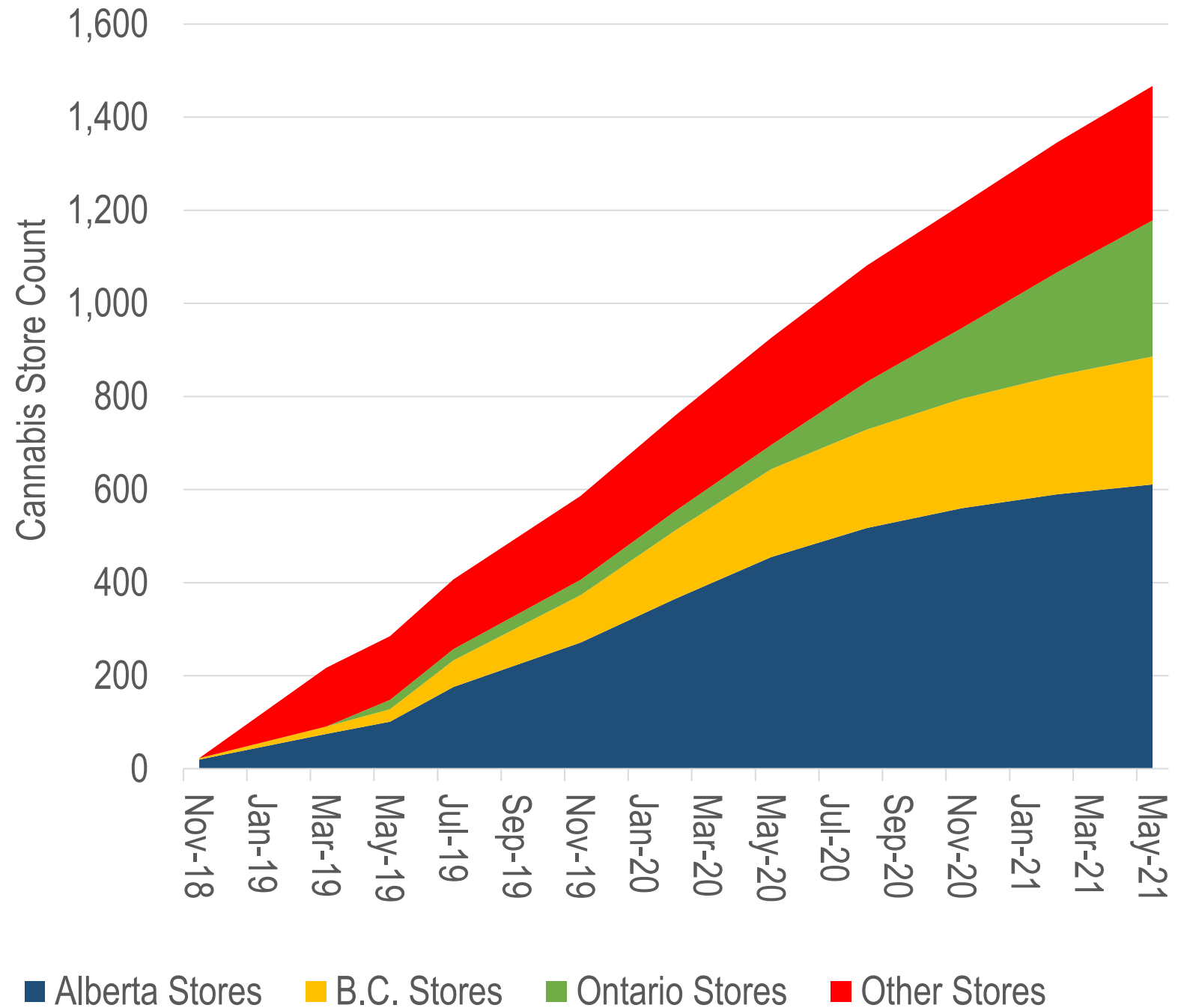
*“We experienced an unprecedented demand for cannabis over the weekend with sales up 20% over the previous one and a record number of customers served. The supply chain remains in place, stores are stocked and **we have seen an uptick in edible purchases.**”*

- Spiritleaf (46 stores) CEO Darren Bondar, March 16, 2020



Future Near-Term Growth Will Come from More Ontario Stores

Source: Perspectec, OCS, and Financial Post



COVID-19 Will be a Headwind, but Online Sales have Picked up the Slack after a 4-day shutdown

Daily online orders hovered in the mid-2,000 range for the first half of March, and abruptly tripled to 6,042 on March 16, the same day that Prime Minister Justin Trudeau announced Canada would restrict entry at the U.S. border.

Orders averaged just below 5,000 a day until April 3 when they shot to a high of 13,691 - the same day Ontario declared cannabis stores were not an essential business. Those stores were able to re-open four days later but only with curbside and delivery service.

Nearly two weeks later, daily sales have held steady around the 9,000 level (of orders), almost five times the amount made prior to the pandemic. More than one-third of all orders are classified as new OCS customers, the data showed.

"It's going to stabilize, but I don't think we're going to be going back to 2,300 orders a day," Mara said.

- Article from BNN Bloomberg April 16, 2020



COVID-19 Will be a Headwind, but Most Large Provinces have Remained Opened

Quebec, British Columbia and Alberta cannabis retailers made the list of businesses allowed to remain operational. The three provinces comprise 47% of the country's population.

Most other provinces and territories enjoy similar situations, including some that do not have privately owned dispensaries, but are allowing government-run dispensaries to continue to operate.

Like Ontario, Newfoundland and Labrador and Prince Edward Island have temporarily closed cannabis businesses. They are allowing allow sales to continue through home delivery.

Upcoming Acceleration in Ontario Stores Openings

*“The Alcohol and Gaming Commission of Ontario (AGCO) will begin accepting operator license applications from prospective retailers on January 6, 2020, followed by store authorization applications on March 2, 2020. **Store authorizations from this open application process are expected to be issued beginning in April, at an initial rate of approximately 20 per month.**”*

- Press Release from the Ministry of the Ontario Attorney General (Headed by Doug Downey) on December 12, 2019. No noted changes since COVID-19.



Vape and Edibles represented 12% and 2% of Ontario Sales Respectively in January 2020

The Ontario Cannabis Store generated approximately \$4.3 million in sales from cannabis 2.0 products last month, according to a statement issued by the provincial retailer Friday afternoon.

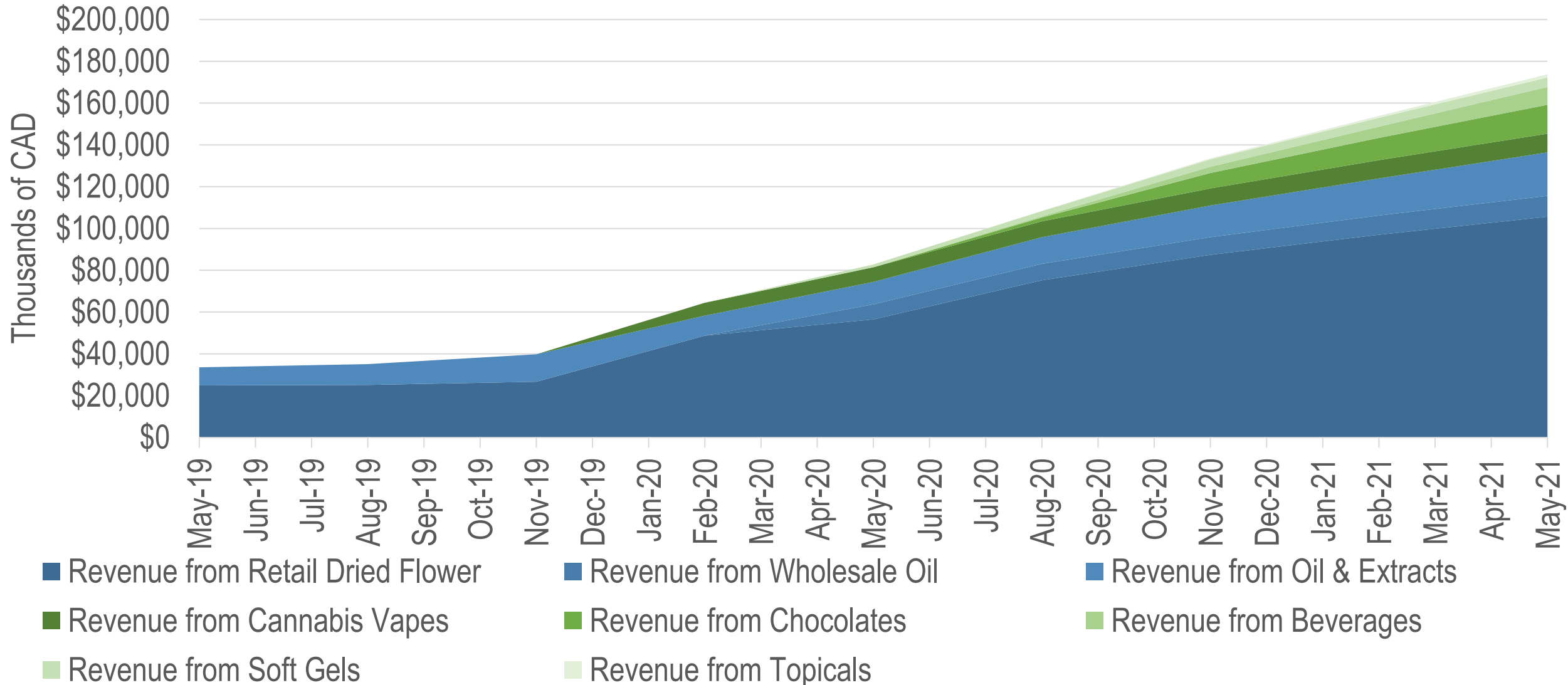
\$3.77 million came from sales of vape products and an additional \$569,000 was generated from sales of edibles for the month of January vs. \$33 million in total Ontario Cannabis Sales

The figures included sales to retailers across the province and online sales through OCS.ca.



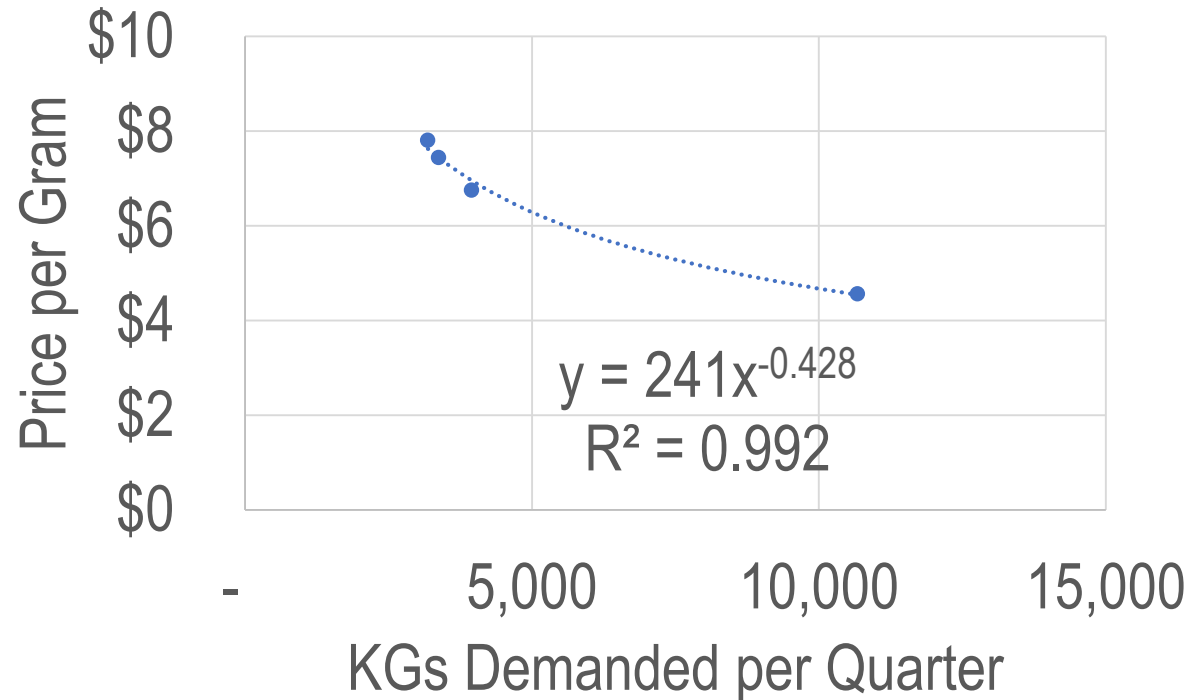
Lower Prices and New Products Will Drive Aphria's Cannabis Revenue Growth

Source: Perspectec

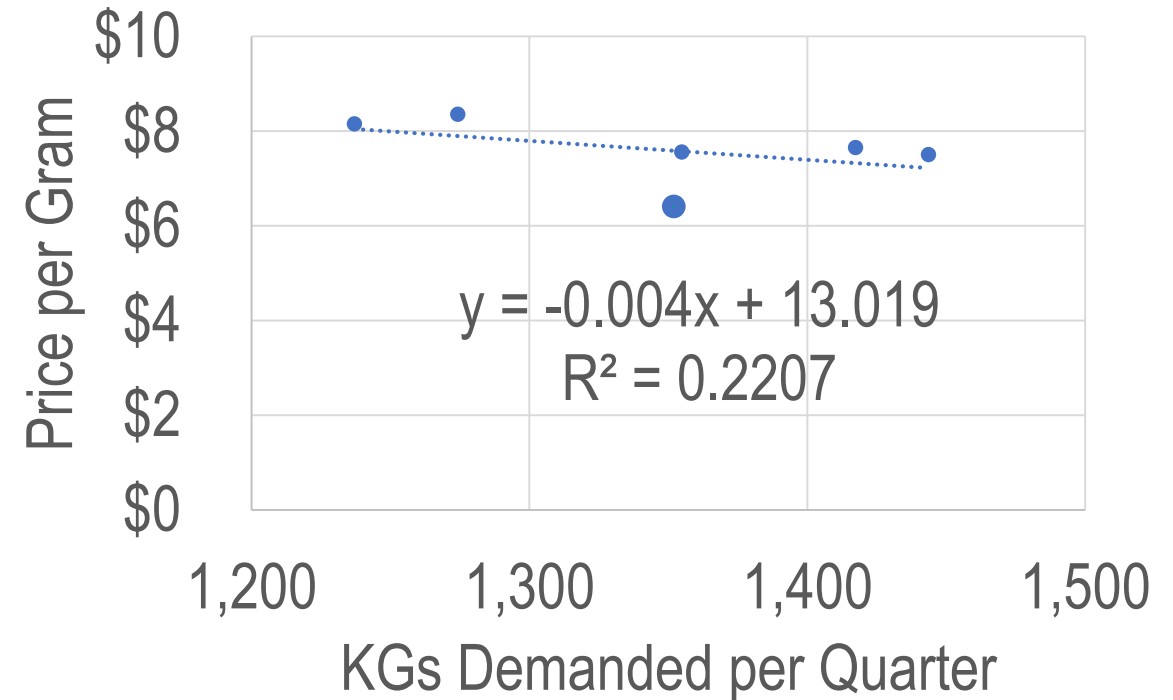


Recreational Adult Flower is Gradually Moving Higher While Medical Demand is Decreasing

**Perspectec's Current Aphria
Demand Curve for Adult
Recreational Dried Flower**



**Demand Curve for Medical
Dried Flower is Moving Lower
(large dot is latest data point)**



Source: Perspectec

Perspectec Forecasts Elastic Pricing with Lower Prices Driving Revenue Growth

	Recreational ASP	Recreational KGs Equivalent Sold	Dried Flower Retail ASP (\$)	Dried Flower KGs Equivalents	Oil ASP	Oil KGs Equivalents (\$'000s)	Vape ASP per Gram	Cannabis Vapes KGs Equivalent s (\$'000s)	Distillates ASP per Gram	Distillates KGs Equivalents (\$'000s)	Beverage ASP per Gram	Beverages KGs Equivalents (\$'000s)	Soft Gel ASP per Gram	Soft Gels KGs Equivalents (\$'000s)	Topical ASP per Gram	Topicals KGs Equivalents (\$'000s)
Fiscal Q3/20 Results	\$5.47	8,171	\$4.57	10,673	\$4.03	2,360	\$6.27	981	\$4.03	n/a	\$5.75	n/a	\$4.60	n/a	n/a	n/a
<i>Q3/20 Y/Y Change</i>	-21%	1158%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Q4/20 Perspectec Estimate	\$4.04	16,716	\$4.07	13,875	\$4.15	2,596	\$5.27	1,324	\$3.90	n/a	\$5.46	n/a	\$4.37	300	\$5.75	n/a
<i>Q4/20 Y/Y Change</i>	-29%	418%	-48%	336%	15%	9%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Q1/21 Perspectec Estimate	\$3.36	27,734	\$3.29	22,893	\$3.65	3,505	\$4.96	1,523	\$3.79	500	\$5.19	100	\$4.15	600	\$5.46	20
<i>Q1/21 Y/Y Change</i>	-44%	736%	-56%	579%	-5%	35%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FY2019 Results	\$5.68	6,504	\$7.81	3,185	\$3.62	2,390	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FY2020 Perspectec Estimate	\$4.78	33,770	\$4.93	31,867	\$4.06	10,669	\$5.70	2,306	n/a	n/a	n/a	n/a	\$4.37	300	n/a	n/a
<i>FY2020 Y/Y Change</i>	-16%	419%	-37%	901%	12%	346%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FY2021 Perspectec Estimate	\$2.96	171,751	\$2.81	129,795	\$2.93	22,692	\$4.61	7,225	\$3.55	9,490	\$4.62	3,778	\$3.79	3,885	\$4.86	640
<i>FY2021 Y/Y Change</i>	-38%	409%	-43%	307%	-28%	113%	-19%	213%	n/a	n/a	n/a	n/a	-13%	1195%	n/a	n/a
Q1/15 Perspectec Estimate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>FY2020 Y/Y Change</i>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Perspectec

New Products will cause Gross Profit to Increase in fiscal 2020 and 2021

New High Gross Margin Products and More Stores will Push F2021 EBITDA Over \$25 Million

	Revenue (\$'000s)	KGs Equivalent Sold from Production	ASP per gram and gram equivalent (\$)	Production costs per gram equivalent	Gross Profit (%)	Adjusted EBITDA (\$'000s)	Adjusted EBITDA Margin (%)	Adjusted Diluted EPS	Perspectec Free Cash Flow (\$'000s)
Fiscal Q3/20 Results	144,424	9,572	3.41	1.19	41.3%	\$5,736	8%	-\$0.00	-\$6,907
<i>Q3/20 Results vs. Perspectec Est.</i>	286%	45%	-12%	-31%	-4010 bps	14%	-64%	1,068%	168%
Fiscal Q4/20 Perspectec Estimate	151,263	18,095	5.49	1.25	29.7%	-\$9,866	-8%	-\$0.07	-\$23,233
<i>Q4/20 Results vs. Perspectec Est.</i>	264%	106%	-2%	-23%	-3763 bps	117%	-24%	-1,320%	410%
Fiscal Q4/20 Consensus	148,460							-\$0.03	
<i>Q4/20 Perspectec Est. vs. Consensus</i>	2%	n/a	n/a	n/a	n/a	n/a	n/a	119%	n/a
Fiscal Q1/21 Perspectec Estimate	167,048	29,141	4.11	1.11	40.7%	\$7,290	3%	\$0.01	-\$7,432
<i>Q1/21 Results vs. Perspectec Est.</i>	228%	140%	-19%	-16%	-2959 bps	206%	-41%	-54%	-412%
Fiscal Q1/21 Consensus	154,890							-\$0.02	
<i>Q1/21 Perspectec Est. vs. Consensus</i>	8%	n/a	n/a	n/a	n/a	n/a	n/a	-154%	n/a
FY2020 Perspectec Estimate	542,408	40,498	5.17	1.50	34.9%	-\$1,183	8%	-\$0.10	-\$105,979
<i>FY2020 Perspectec Est. Change</i>	129%	216%	-4%	-39%	413 bps	6%			426%
Fiscal FY2020 Consensus	539,600							\$0.00	
<i>FY2020 Perspectec Est. vs. Consensus</i>	1%							#DIV/0!	
Fiscal FY2021 Perspectec Estimate	749,530	177,505	3.30	1.02	41.9%	\$25,896	2%	\$0.10	-\$14,958
<i>FY2020 Perspectec Est. Change</i>	38%	338%	-36%	-32%	697 bps	-2289%			-86%
Fiscal FY2021 Consensus	685,430							\$0.02	
<i>FY2021 Perspectec Est. vs. Consensus</i>	9%							378%	

However there
is a large
disconnect
between Cash
Flow & EBITDA

Source: Perspectec

Aphria's Metric for Profitability	FY2019	FY2020	FY2021
Net Income (Loss)	(18,871)	577	23,486
Income tax expense (recovery)	854	1,122	8,468
Transaction costs	(23,259)	(4,904)	(4,000)
Unrealized loss on derivative liability	(415)	0	0
Unrealized Loss (Gain) on LT investments	(19,651)	28,144	0
Finance income	(6,575)	25,996	37,345
Deferred gain on sale of intellectual property recognized	340	0	0
Gain on sale of equity investee	9,579	0	0
Amortization	(4,133)	(10,601)	(15,553)
Impairment of intangible asset	(58,039)	0	0
Share-based compensation	(26,080)	(22,771)	(20,504)
Fair value adjustment on sale of inventory	27,724	61,990	193,029
Fair value adjustment on growth of biological assets	(40,607)	(125,808)	(289,543)
Profit (loss) from equity accounted investee	(46,649)	0	0
Gain on dilution of ownership in equity accounted investee	2,210	0	0
Gain on sale of capital assets	(55)	0	0
Unrealized loss on financial liability	(911)	0	0
Unrealized gain on convertible notes receivable	3,399	7,569	0
Gain on marketable securities	178	338	0
Removing Adjusted EBITDA from Aphria International	25,280	38,904	53,477
Adjusted EBITDA	(28,364)	(1,183)	25,896

Aphria's Valuation is Based on a Fiscal 2021 EBITDA Forecast

50x Fiscal 2021 EBITDA of C\$26 million = \$1.3 billion
divided by 257 million shares = **\$5.05 per share**

Perspectec's Metric for Profitability	FY2019	FY2020	FY2021
Net cash provided by (used in) operating activities	(55,605)	(163,051)	(39,539)
Less: Fair value adjustment on sale of inventory	(27,724)	(61,990)	(193,029)
Less: Fair value adjustment on growth of biological ass	40,607	125,808	289,543
Less: Non-Cash Working Capital	21,491	133,312	39,653
Investment in capital assets	(205,965)	0	0
Investment in intangible assets, net of shares issued	0	0	0
Investment in capital and intangible assets	0	0	(130,000)
Purchase of equity investments	0	0	0
Proceeds from disposal of capital assets	55	1,673	0
Proceeds from long term investments and equity inve	110,213	31,177	20,000
Net cash paid on business acquisitions	(23,557)	(34,722)	0
Net cash received on business acquisition	0	0	0
Net cash paid on investment in CannInvest Africa Ltd	0	0	0
Net cash acquired in reverse takeover	0	0	0
Proceeds from non-controlling interest	0	0	0
Repayment of lease liabilities	0	(1,289)	(1,587)
Perspectec Free Cash Flow	(140,485)	(105,979)	(14,958)

We estimate Aphria will continue to Burn Cash from its business and related business activities.

We do not believe Aphria is investible yet, as further dilution and/or higher interest payments will be required to grow to a level of profitability.

Recommendation, Valuation and Target Price

We believe Aphria will continue to trade at 50x Fiscal 2021 EBITDA of C\$26 million. 50x is a reasonable premium based on the future growth of cannabis derivate products and the future export market. However a certain reasonable level of profitability needs to be achieved for investors to buy-in on Aphria's vision.

= \$1.3 billion

/ 257 million diluted shares outstanding

= **\$5 Target Price**

Because risks on material cash flow remain high, we do not recommend investors buy APHA.TO now. We rate Aphria a HOLD.

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Aphria Inc. (APHA.TO - Toronto)

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BUY		
HOLD/NEUTRAL	✓	✓
SELL		

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