



Ubika Marijuana 20 Index

May 17, 2018



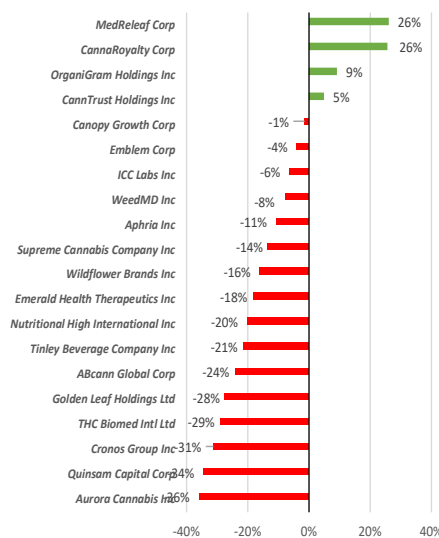
Ubika Marijuana 20 Index March 19 - May 17

| | |
|--------|---------------------|
| UMJ20: | -15.1% (142.9% Y/Y) |
| TSX-V: | -5.6% (-3.3% Y/Y) |
| HMMJ: | -10.4% (81.3% Y/Y) |

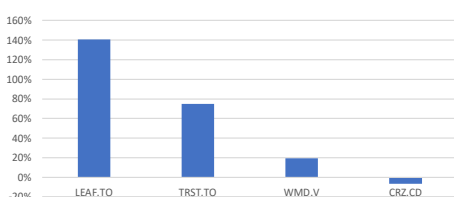
Dollar amounts in CAD unless otherwise stated.



UMJ20: Performance Distribution



Top Volume Gainers (m/m)



Chris Thompson | Head of Research | Ubika Research | Chris@UbikaResearch.com | 1 (416) 574-0469
Patrick Smith | Analyst | Ubika Research | Patrick@UbikaResearch.com | 1 (647) 444-5506
Richard Waxman | Associate | Ubika Research | Richard@UbikaResearch.com | 1 (647) 770-2185

Cannabis Sector Spotlight

The Ubika Marijuana Index continues to outperform on a year-over-year basis, sprouting 143% higher since this time last year. Comparatively, the Horizons Marijuana Life Sciences Index (HMMJ) climbed 81% while the TSXV declined 3% YoY.

This report examines a growing Canadian marijuana company that has caught our attention with its vertically-integrated business model. Sunniva Inc. (CSE:SNN, OTCQX:SNNVF), a cannabis developer of medical marijuana with operations in British Columbia and California, has underperformed its benchmark, the HMMJ, (11% decline vs 8% decline) since it began trading in January 2018. The full report can be found below.

Industry Highlights

- In May 2018, Prime Minister Trudeau stated that cannabis would be legal by summer 2018, despite requests by the Senate's Aboriginal People's committee for a delay.** The senators suggested a year-long delay on the implementation of the decriminalization law (Bill C45), to allow for "culturally-sensitive materials" and special licencing arrangements for aboriginal communities to be included in the new law. Other stakeholders such as the Canadian Real Estate Association have also raised concerns about small scale grow-ops affecting property values and suggested a restriction on home-growing.
- Aurora Cannabis Inc.'s shares were briefly halted on Thursday, May 3, 2018, when the Company confirmed that it had entered into negotiations to purchase MedReleaf Corp. (TSX:LEAF).** On May 14, 2018, Aurora confirmed that it had reached an agreement to purchase MedReleaf for \$3.2B in an all-stock deal. The combined company's market cap could be as much as \$7.5B, and have production capacity of 570,000 kg, making it the largest company in the cannabis space by both measures. The acquisition price implies a 23x 2019 EV/sales, 9x 2020 EV/sales, 82x 2019 EV/EBITDA, and 23x 2020 EV/EBITDA.
- On May 14, 2018, Canopy Growth Corp. (TSX:WEED) announced that it had applied to list its common shares on the New York Stock Exchange (NYSE) under the ticker CGC.** If approved, Canopy would be the first cannabis producer to list on the NYSE. Another Canadian marijuana producer, Cronos Group Inc. (NASDAQ:CRON, TSXV:CRON), already trades on the NASDAQ. However, Canopy CEO Bruce Linton noted in the announcement that he believed the additional history and credibility of the NYSE would attract more institutional investors.



Upcoming Catalysts:

- **While the Trudeau administration originally aimed to have full legalization by July 1, it may prove to be an unrealistic timeline.** Bill C-45 currently remains in committee (Senate) following its second reading. Several stakeholder groups have pushed back against the rapid timeline, citing social and logistical deficiencies in the legislation. If legalization is delayed, it could have serious effects on companies that expect to sell recreational product in the near future. The Senate expects a final reading on June 7, 2018. However, there may be a trade off as medicinal-focused companies such as SNN should continue to grow, regardless of the outcome. Though, a definitive delay in legalization may affect the cannabis markets, which could possibly precipitate another market correction, regardless of fundamental analysis.
- **Lastly, continued industry consolidation in the lead up to Canadian recreational legalization may result in attractive valuations as companies vie for economies of scale and distribution infrastructure.** Aurora Cannabis has reached an agreement to purchase MedReleaf, but this is likely not the only M&A we will see in the near future in this industry.

Spotlight:

Sunniva Inc. (CSE:SNN, OTCQX:SNNVF)

Sunniva (SNN) is a Canada-based cannabis developer of medical marijuana. The Company's stock has declined 11% YTD following its IPO in January 2018, underperforming the HMMJ index, which was down 8% over the same period.

Licensed to produce and sell its products in the world's two largest legal cannabis markets - Canada and California, SNN is vertically integrated through its subsidiaries, operating purpose-built greenhouses, specialized cannabis clinics and a vaporizer-device business. This vertical integration allows the Company to generate revenue from multiple operating segments/verticals.

Sunniva was busy last year, acquiring both Natural Health Services (NHS), a large network of cannabis clinics for \$22.5M, and Vapor Connoisseur (VC), a vaporizer distributor for \$6.5M. Both acquisitions ensure steady top-line growth during the greenhouse buildout, contributing \$11.3M and \$4.8M, in 2017, respectively.

The Company's operating segments, which includes its greenhouse operations, network of cannabis clinics and its cannabis paraphernalia distributor, can be seen in the image below. The greenhouses are under construction and are scheduled to commence operations in Q3/2018. The other two operating segments are already generating revenue (Figure 2).

SNN has committed to a two-phase construction program at its Sunniva cGMP California greenhouse. Phase One construction is currently underway on the 325,000 sq. ft. facility in Cathedral City, California. The Company estimates annual production of 60,000+ kg/year of premium cannabis product when the first phase becomes fully operational.

Phase Two of the project will add an additional 164,000 sq. ft. to this location. Phase Two is then expected to add another 40,000 kg/year, for a combined total of more than 100,000 kg/year with 30% expected to source higher-margin extracted products.

Sunniva's U.S. subsidiaries hold eight 10,000 sq. ft. cultivation licenses, two manufacturing licenses, one 22,000 sq. ft. cultivation license, one 22,000 sq. ft. nursery license, and another 10,000 sq. ft. nursery license. It will also lease seven 22,000 sq. ft. cultivation bays to other select

Figure 2: Sunniva Operating Segments



Source: Company Presentation

growers. The allocation of the remaining 37,000 sq. ft. is unknown at this time.

In terms of operational guidance, costs at the California facility have been estimated at less than \$1.00/ gram, which is generally lower than what licenced producers have been reporting in their last financial quarters. For instance, in Aphria's (TSX:APH) latest quarter, the company reported all-in costs of \$1.56/gram (FQ3/2018).

SNN's second cGMP greenhouse facility, located in Canada, is expected to break ground in late 2018. The production facility, housed in B.C., will be 700,000+ sq. ft. and is expected to produce 100,000 kg/year. The Company estimates that 75% of the Canadian production will be sold under long-term contracts (negotiations ongoing), with the remaining 25% reserved for Sunniva's Natural Health Services (NHS) clinics.

Complementary to its greenhouse operation, SNN completed construction of an extraction facility in April 2018 located in Cathedral City, California. Operations at this facility commenced in May 2018. The "Sun-Oil" facility is expected to process 500 lbs/day of biomass to produce oils and other cannabis extracts. Additionally, the genetics for the larger greenhouse operation is also expected to be housed there.

Vertical integration separates SNN from many of its cannabis-growing competitors. The Company's seven NHS clinics have experienced cannabis doctors and nurses on staff to serve over 100,000 existing patients. SNN supplies these clinics with its own product, cutting out the intermediary between grower and customer. These same customers are also the target market for SNN's other subsidiary, Vapor Connoisseur (VC), which markets more than 80 brands of leading cannabis paraphernalia and accessories. As such, SNN has the synergistic opportunity to cross-sell its VC products with its clinics in addition to normal retailers.

On February 21, 2018, Sunniva signed a deal with Canopy Growth Corp. (TSX:WEED) to supply up to 45,000 kg of dried cannabis annually for two years commencing in 2019. The two companies will revenue share product as it is sold through Canopy's distribution network. In our opinion, supply-partnerships or agreements are important factors for investors to look out for when researching cannabis companies. Longer term, it is possible that an oversaturation of the Canadian/American cannabis market could lead to issues with growing cannabis supply and lower wholesale

costs. Therefore, we believe it is prudent for investors to take notice of companies that are executing various supply agreements to limit longer-term risk.

On March 27, 2018, Sunniva completed a \$28M bought deal public offering of 1.3M units. Each unit consisted of one common share at an issue price \$9.75/share and half of a warrant with a strike price of \$12.50/share for 24 months.

On April 12, 2018, Sunniva announced that it had received all necessary temporary state licenses for Phase One and Two of its operations in California.

On May 3, 2018, SNN announced that it had selected a 126-acre site in Okanagan Falls, British Columbia, to construct its Canadian campus. The Company's wholly-owned subsidiary has entered into an agreement to purchase the property for \$7M.

Outlook & Valuation

At US\$1,200/lb, the 60,000 kg/year, generated by Phase 1 in CA, represents potential for US\$132M in annual revenue. This implies a 2019E EV/Sales multiple of ~1.5x, a discount to the median Canadian producer, which trades at a median of 4.3x. In our opinion, SNN's discount could be associated with a U.S. regulatory discount, relative to Canada-based operations. We have found that cannabis companies with operations in the U.S. have generally led to discounted multiples. We believe this gap should close over the next 12 months as this arbitrage is realized by the market over time.

Sunniva has one analyst covering the stock with a Buy rating and a target of \$16.50, representing 106% in upside. SNN trades at \$8.00 as of May 16, 2018. It has a projected EV/EBITDA of 8.8x for 2019, a discount to peers, which have a mean forward EV/EBITDA value of 16.4x for 2019.

Important Disclosure

Smallcappower.com is owned and operated by Ubika Corporation whose divisions include Ubika Research and Ubika Communications. Ubika Corp. is a wholly owned subsidiary of Gravitas Financial Inc. The following terms and conditions ("Terms of Use") govern the use of this website ("site") www.SmallCapPower.com. By accessing this site, you agree to comply with and be legally bound by the Terms of Use as set out herein. Ubika reserves the right to seek all remedies available at law and in equity for violations of these Terms of Use, including the right to block access from a particular internet address to our site.

Disclaimer

Ubika Corporation and its affiliates or partners will seek to provide services to companies mentioned on the smallcappower.com website. Hence, all information available on smallcappower.com should be considered as commercial advertisement and not an endorsement, offer or recommendation to buy or sell securities. Ubika Corporation and its related companies (including its directors, employees and representatives) or a connected person may have ownership/stock positions in, or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time.

Ubika and/or its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities and/or commodities and/or commodity futures contracts in certain underlying companies mentioned in this site and which may also be clients of Ubika's affiliates. In such instances, Ubika and/or its affiliates and/or their respective officers, directors or employees will use all reasonable efforts to avoid engaging in activities that would lead to conflicts of interest and Ubika and/or its affiliates will use all reasonable efforts to comply with conflicts of interest disclosures and regulations to minimize the conflict.

Specifically all companies mentioned or listed as "Analyst Covered Companies" at smallcappower.com and which are shown under the heading "Analyst Covered Companies" on the page: <http://www.smallcappower.com/companies> have entered into a commercial relationship with Ubika Corporation or our affiliates for capital market services and have paid fees and/or shares or stock options or warrants for being featured and mentioned in smallcappower.com. Hence these "Analyst Covered Companies" at smallcappower.com are shown at the website as an advertisement only and any mention of these companies does not and will not constitute an offer to buy or sell securities in the featured companies. Ubika Corporation, its affiliates or partners will seek to provide services to companies mentioned in smallcappower.com website. Hence, all information available on smallcappower.com should be considered as commercial advertisement and not an endorsement, offer or recommendation to buy or sell securities.

Ubika Corporation and its divisions Ubika Communication and Ubika Research (collectively, "Ubika") are not registered with any financial or securities regulatory authority in Ontario or Canada, and do not provide nor claims to provide investment advice or recommendations to any visitor of this site or readers of any content on this site.

The information on this site is for informational purposes only. This site, including the data, information, research reports, press releases, findings, comments, views and opinions of Ubika's analysts, columnists, speakers or commentators, and other contents contained in it, is not intended to be: investment, tax, banking, accounting, legal, financial or other professional or expert advice of Ubika or its affiliates, or a recommendation, solicitation or offer by Ubika or its affiliates to buy or sell any securities, futures, options or other financial instruments, and such information should not be relied upon for such advice. Every user of this site is advised to seek professional advice before acting or omitting to act on any information contained in the site.

Research reports and newsletters have been prepared without reference to any particular user's investment requirements or financial situation. Where reference is made to estimate of value or relative value of a specific company, there is no guarantee that these estimates are reliable or will materialize. Readers of these reports and newsletters are advised to conduct their own due diligence before making any investment decisions. Ubika does not make independent investigation or inquiry as to the accuracy and completeness of any information provided by the Analyst Covered companies. Although the content has been obtained from sources believed to be reliable, this website could include technical or other inaccuracies or typographical errors and it is provided to you on an "as is" basis without warranties or representations of any kind. Ubika and its affiliates make no representation and disclaim all express and implied warranties and conditions of any kind, including without limitation, representations, warranties or conditions regarding accuracy, timeliness, completeness, non-infringement, satisfactory quality, merchantability, merchantable quality or fitness for any particular purpose or those arising by law, statute, usage of trade, or course of dealing. Ubika and its affiliates assume no responsibility to you or any third party for the consequences of any errors or omissions.

Information in this site is subject to change without notice. Ubika assumes no liability for any inaccurate, delayed or incomplete information, nor for any actions taken in reliance thereon.

Ubika, its affiliates and their respective directors, officers, employees, or agents expressly disclaim any liability for losses or damages, whether direct, indirect, special, or consequential, or other consequences, howsoever caused, arising out of any use or reproduction of this site or any decision made or action taken in reliance upon the content of this site, whether authorized or not. By accessing this site, each user of this site releases Ubika, its affiliates and their respective officers, directors, agents and employees from all claims and proceedings for such losses, damages or consequences.

Ubika and its affiliates do not endorse or recommend any securities issued by any companies identified on, or linked through, this site. Please seek professional advice to evaluate specific securities or other content on this site. Links, if any, to third party sites are for informational purposes only and not for trading purposes. Ubika and its affiliates have not prepared, reviewed or updated any content on third party sites and assume no responsibility for the information posted on them.

Ubika and/or its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities and/or commodities and/or commodity futures contracts mentioned in this site.

This site may include forward-looking statements about objectives, strategies and expected financial results of companies featured in this site or where research reports are available on companies displayed and/or featured on this site. Such forward-looking statements are inherently subject to uncertainties beyond the control of such companies. The users of this site are cautioned that the company's actual performance could differ materially from such forward-looking statements.

World Wide Web sites accessed by hypertext links ("hyperlinks") appearing in this site have been independently developed by parties other than Ubika and Ubika has no control over information in any hyperlinked site. Ubika is providing hyperlinks to users of this site only as a convenience. Ubika makes no representation and is not responsible for the quality, content or reliability of any information in any hyperlinked site. The inclusion of any hyperlink in this site should not be construed as an endorsement by Ubika of the information in such hyperlinked site and does not imply that Ubika has investigated, verified or monitored the information in any such hyperlinked site. Should you wish to inquire about creating a link from your World Wide Web site to this site, contact SCP marketing via e-mail at: info@smallcappower.com. for written authorization.

[See our full disclaimer here.](#)