

**Equity Research: Healthcare - Cannabis**
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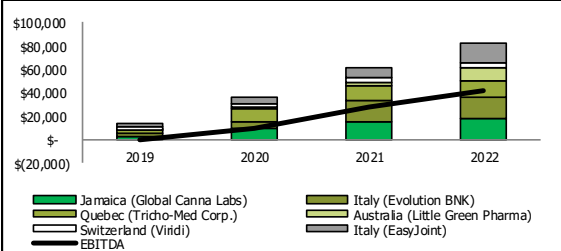
**LGC CAPITAL LTD. TSXV:LG**
*(Currency is CAD\$ & estimates are attributable, unless noted otherwise)*

Last Price	\$0.125
Target Price	\$0.20
Potential Return	63%
Net Asset Value Per Share	\$0.23
52 Week Low / High	\$0.08 / \$0.25
Average Daily Volume (30-Day)	580K

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	416.2	610.3
Market Capitalization (\$M)		\$52.0
Enterprise Value (\$M)		\$51.4
Last Reported Cash Balance (\$M)		\$2.9
Last Reported Total Debt (\$M)		\$2.3

LGC CAPITAL OPERATIONS	F2019E	F2020E	F2021E
Flower Produced (kg) - 100%	7,300	23,600	39,500
Revenue (\$M)	\$12.7	\$35.8	\$61.7
Cash Costs (\$ per gram)	\$1.03	\$1.08	\$1.02
AICC (\$ per gram)	\$2.13	\$2.19	\$1.61
EBITDA (\$M)	-\$0.8	\$9.9	\$27.3
FCF (\$M)	-\$12.8	-\$12.9	\$3.2
Total CAPEX (\$M)	\$8.9	\$19.0	\$14.6
CFPS	\$0.00	\$0.01	\$0.03
Cash At Year End (\$M)	\$1.9	\$1.8	\$1.9
Debt At Year End (\$M)	\$2.5	\$6.0	\$6.0

RELATIVE VALUATION	P/NAV	EV/EBITDA
		<b>2019E 2020E</b>
LGC Capital Ltd	0.5x	nm 5.2x
Cannabis Holdings Companies	n/a	18.3x 7.9x
Gold and Oil Royalty Companies	1.4x	10.7x 9.1x

**ATTRIBUTABLE REVENUE & EBITDA FORECAST**

**MAJOR SHAREHOLDERS**

Management &amp; Insiders (21.3%)

**DISCLOSURE CODE:**

Disclosure: None (See back page for further details)

Source: Ubika, Capital IQ



Source: stockcharts.com

**COMMERCIAL PRODUCTION AT JAMAICAN ASSET SHOWS THAT ITS JUST THE BEGINNING**
**JAMAICA UPDATE**

**Commercial status reached at Global Canna.** On April 4, 2019, LGC announced that Global Canna Labs (30% interest and a 5% royalty) has sold 46.5 kg of medical cannabis to licensed local dispensaries to-date. In late-March, Global Canna Labs received formal approvals from the Jamaican Cannabis Licensing Agency to allow the sale of medical cannabis to dispensaries. We note that while 46.5 kg may seem small (~US\$128,000 in wholesale value based on our estimates), we believe Global Canna is one of the most developed legal medical cannabis companies in Jamaica. For reference, Global Canna Labs has a Tier-3 licence for the cultivation and production over 5 acres.

**Global Canna is planning to operate two dispensaries and one processing facility.** Becoming vertically integrated in Jamaica with dispensaries and a processing facility would be significant catalyst. Particularly, we believe the ability to process medical quality crude oil with low-cost biomass is the most important driver moving forward.

**The majority of Global Canna's 270,000 sq ft Montego Bay site is now planted.**

The Company expects to perform two sectional harvests/month. The first bi-monthly harvest is anticipated on April 10. We have adjusted our cultivation and cost estimates to take a more conservative approach for this year, given the large scope of the project and local regulatory demand. As such, we now are modelling 3,600 kg (was 7,000 kg) in F2019E (ending Sept. 30, 2019). However, this adjustment was more than offset by an higher than expected price/kilo, which we have also adjusted to \$3,700/kg (was \$2,600/kg).



Source: Global Canna Labs

**VALUATION**

- **Trades at a discount to peers.** We have adjusted our estimates and our NAVPS has increased to \$0.23 (was \$0.21), although our BUY rating and target of \$0.20 remains the same. LGC currently trades at 5.2x our F2020E EBITDA estimates of \$9.9M, a discount to cannabis holdings companies and gold and oil royalty companies, which trade at an average of 7.9x and 9.1x, respectively. We believe this gap should close as LGC begins to make material cash flow.

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## LGC SHAKES UP MANAGEMENT BRINGING IN 90 YEARS OF FAST MOVING CONSUMER GOODS (FMCG) EXPERIENCE.

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**On April 3, LGC announced several management additions and changes.** Mazem Haddad will now become the new CEO and remains as co-chairman. In addition, Mark Shinnars of Arlington Capital will assume the role of CFO. Of note, Anthony Samaha will be retiring from his role of CFO and John McMullen has stepped down from his role as CEO and will now assume the role of President. The Company also announced four further additions to the team to the roles of EVP Commercial, VP Commercial Finance Director, VP Corporate & Regulatory Affairs, and VP Global Communications. These bios are described below:

### MANAGEMENT BIOS

- **Mazen Haddad – CEO:** Mazen has over 20 years of experience in venture capital and assisting start-ups to build out their operations. Mazen has a breadth of experience, ranging from technology to real estate and mining both in the U.S. and Canada.
- **Mark Shinnars, CPA, MBA – CFO:** Mark has over 17 years experience in finance and operations with experience across numerous sectors including IT, construction, renewable energy, and manufacturing. Mark has held leadership positions in assurance, corporate finance, and financial advisory.
- **Richard Widmann – EVP Commercial:** Richard has over 15 years with British American Tobacco. Richard will lead the commercial strategy and build-up of a pan European Hemp/Cannabis enterprise. He will also provide operational direction as well as provide oversight to LGC's partners.
- **Mervyn Koenen – VP Commercial Finance:** Mervyn brings 18 years experience in managing commercial finance, internal audit and strategic planning. His experience includes international, strategic and multi-disciplinary projects resulting in delivering sustainable profit growth.
- **Jeanne van Wyk – VP Communications:** Jeanne has 26 years marketing experience, most recently as Strategic Planning Director for the WPP advertising group servicing British American Tobacco across Europe.
- **Alistair Hide - VP Corporate and Regulatory Affairs:** Alistair joins has over 25 years experience and corporate regulatory affairs. He also brings over 18 years of experience with BAT, most recently as Head of Corporate and Regulatory Affairs.

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**Buy:** Recommendation: stock is expected to appreciate from its current price beyond 20% in the next 12 months.

**Neutral:** Recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

**Sell:** Recommendation: stock is expected to decline from its current price level below 20% in the next 12 months.

**U/R:** Under Review.

**N/R:** Not Rated.

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- |   |       |
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