CLARUS SECURITIES INC.

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Aphria Inc.

APH-TSX.V: $2.32
Rating: Buy
Target: $5.00 (was $2.50)

Incorporating Expansion Plan Drives Major Target Price Increase

August 19, 2016

Valuation	F2016	F2017e	F2018e	F2019e
Registered Clients	4,675	8,500	13,500	20,000
Revenue ($MM)	$8.4	$22.4	$59.6	$148.0
Adj. EBITDA ($MM)	$0.5	$5.0	$17.7	$56.9
Adj. EBITDA Margin	6%	22%	30%	38%
Diluted EPS	$0.01	$0.01	$0.13	$0.37
Price/Sales	24.6x	9.3x	3.5x	1.4x
EV/Adj. EBITDA	314.1x	33.2x	9.4x	2.9x
P/E	340.7x	177.8x	18.0x	6.3x

Stock Data	
Price	C$2.32
52-Week Range	C$0.79 - C$2.85
Avg Daily Vol (3-Mo)	512,025
Shares Basic / Diluted (pro forma, MM)	89.5 / 111.9
Market Cap (pro forma, C$MM)	$207.7
Net Cash (pro forma, C$MM)	$41.6
Enterprise Value (pro forma, C$MM)	$166.0
Mgmt & Dir. Ownership (pro forma)	29.3%
Fiscal Year End	May 31

Source: FactSet

Company Profile

Aphria is a Licensed Producer (LP) of medical marijuana (MMJ) that sells direct to registered patients across Canada. It was the first LP in Canada to cultivate MMJ exclusively in greenhouses, and is believed to be the lowest-cost producer in the Canadian industry. Aphria is currently licensed to produce 2,600 kg/year of MMJ and plans to expand production capacity to as much as 52,000 kg/year by the end of CY2019.

EQUITY RAISE TO FUND MAJOR EXPANSION INTO LEGALIZATION TIMEFRAME

We are exiting research restriction on Aphria post its $30 million equity raise. Those funds will support its significant capacity expansion from 6,000kg today to 52,000 kg in 2019 taking CY2018E, our target setting estimate) from $3.8 million in CY2016E to $45.1 million in CY2018E. Noteworthy is that our CY2018E are about 75% driven by the medical marijuana business and only about 25% by the recreational market as we expect recreational sales to only begin in early-mid 2018.

Also incorporated into our estimates are sales to what we believe will be the pharmacy vertical for medical sales. The recent announcement that Aphria has been granted an oil sales license is important as we also believe that oil sales will be the basis for pharmacy sales. Aphria has also made a significant market statement positioning itself as a likely leader in the pharmacy space by announcing it will sell its oil at about $9.90 per gram as opposed to $18.00-$25.00 per gram for current sellers. Aphria's low production cost allows this low price strategy to remain highly profitable and providing considerable advantages for pharmacy sellers.

PRICE TARGET INCREASES TO $5.00 PER SHARE AS WE ROLL OVER TO CY2018 TARGET YEAR

We are rolling over our target year to CY2018 (12 months ended February 2019) from CY2017 previously. We are maintaining our target EV/Adjusted EBITDA multiple of 12x, which is modestly below the current FactSet consensus 2017e EV/Adj. EBITDA multiple for international comparables in the global alcoholic beverage and tobacco sectors according to FactSet data. As a result, our target price rises to **$5.00 per share** from $2.50 per share previously. We maintain our **BUY** rating.

RECORD REVENUE, ADJUSTED EBITDA, AND PRODUCTION COST PER GRAM IN Q4/FY16

The Company reported its full Q4/FY16 (May) results on July 27 after previously announcing a record low Q4 cash production cost of just $1.15/gram (a 31% improvement from Q3). This industry-low result was driven by near-capacity production along with high plant yields.

Aphria restarted active patient onboarding in late Q4 (a month later than we expected) after a multi-month hiatus due to capacity constraints. In fact the quarter-end total of 4,675 registered patients (+17% Q/o/Q) beat our 4,500 estimate. Total revenue was $2.8 million versus our $3.1 million outlook. Cash operating expenses were largely in line with our projections. Due to the very low production cost, Adjusted EBITDA of $521,000 (18% margin) exceeded our $423,000 forecast.

Figure 1: Q4/16 (May) Summary Results (C$MM except per-share items)

in C$000s except per-share items	Q4-FY16 Actual	Clarus Estimate	*Difference*	Q4-FY15 Actual	*YoY Change*
Revenues	**$2,776**	$3,065	*($289)*	$500	*455%*
Cost of goods sold	**$460**	$802	*($342)*	$406	*13%*
Amortization	**$248**	$301	*($53)*	$0	*N/A*
Change in biological assets	**($37)**	($613)	*$575*	($492)	*(92%)*
Cost of revenues	**$670**	$490	*$180*	$23	*2826%*
Gross profit	**$2,106**	$2,575	*($469)*	$477	*342%*
Sales and marketing	**$1,110**	$1,073	*$37*	$330	*236%*
General and administrative	**$783**	$797	*($14)*	$600	*31%*
Research and development	**$0**	$92	*($92)*	$70	*(100%)*
Amortization	**$163**	$148	*$15*	$22	*636%*
Share-based compensation	**$57**	$150	*($93)*	$104	*(45%)*
Total operating expenses	**$2,114**	$2,260	*($146)*	$1,126	*88%*
Operating profit	**($7)**	$316	*($323)*	($649)	*(99%)*
Finance income and other, net	**$110**	$0	*$110*	$59	*86%*
Net income	**$102**	$316	*($213)*	($590)	*(117%)*
Diluted EPS	**$0.01**	$0.00	*$0.01*	($0.01)	*(226%)*
Weighted diluted shares o/s	**92,443**	91,161	*1,282*	52,618	*76%*
EBITDA	**$404**	$764	*($361)*	($523)	*(177%)*
EBITDA margin (%)	**15%**	25%	*-1040 bps*	(105%)	*11926 bps*
Adjusted EBITDA	**$521**	$322	*$199*	($5,808)	*NMF*
Adjusted EBITDA margin (%)	**19%**	11%	*825 bps*	(1162%)	*NMF*
Adjusted gross profit	**$2,069**	$1,963	*$106*	$188	*1002%*
Adjusted gross margin (%)	**74.5%**	64.0%	*1049 bps*	37.6%	*3697 bps*
Adjusted net income	**$1,265**	($297)	*$1,562*	($879)	*(244%)*
Adjusted EPS	**$0.01**	($0.00)	*$0.02*	($0.02)	*(182%)*

Source: Clarus Securities Inc. using data from corporate reports.

PUTTING THE MONEY TO WORK: APHRIA LAYS OUT PLANS FOR A MULTI-STAGE PRODUCTION EXPANSION TO AS MUCH AS 52,000 KG/YEAR BY LATE 2019

Aphria currently has 43,000 sq. ft. of greenhouse producing cannabis. The recently-announced $10MM "Part II" capital project will increase growing area to 100,000 sq. ft. through the renovation of several existing greenhouses and will also add electrical and sewer upgrades to the entire site, new corporate offices and a larger vault. The entire 100,000 sq. ft. of growing area should produce 6,000 kg/year. We expect the first harvest from the Part II expansion in summer 2017.

We believe Aphria has close to $50MM of cash on hand following the recent equity offering. The Company plans to use the additional capital raised to continue expansion on the Leamington site. The recent prospectus laid out a $49.5MM, 3-year "Part III" expansion plan to start in late 2016 that could ultimate boost production capacity by up to 46,000 kg/year to 52,000 kg/year provided the demand and regulatory environments remain positive:

- Phase 1 ($18.5MM): Replacing 3.5 acres (~150,000 sq. ft.) of legacy greenhouses on the site with new state-of-the-art greenhouses, plus building 36,000 sq. ft. of additional buildings for additional vault capacity, processing/bottling/labeling rooms, and space for a "state-of-the-art" extraction oil extraction area;
- Phase 2 ($13.0MM): Adding 6 acres (~250,000 sq. ft.) of new greenhouses on the site; and
- Phase 3 ($18.0MM): Adding 6 further acres (~250,000 sq. ft.) of new greenhouses on the site plus 24,000 sq. ft. of additional buildings.

We expect Phase 1 of the Part III expansion to be operational by late 2017 and provide its first harvest in early 2018. Given the expected market demand, we anticipate Phase 2 to start construction in the second half of 2017 and Phase 3 a year later. Were Aphria able to sell the entire planned annual capacity of 52,000 kg of bud at an average of $5.00/gram (assuming a high proportion of production is sold wholesale), the Company could generate $260MM in revenue per year. Moreover, adding trim (excess plant material currently thrown out but possessing some additional cannabinoids) to the oil extraction process could further increase potential revenue quite substantially. We would expect EBITDA margin to be at least 35% at that price and scale, suggesting Aphria could generate close to $100MM of EBITDA per year from the existing site at full capacity even without adding trim to the oil extraction process.

Figure 2: Aphria Proposed Expansion Plan

Leamington Site	Estimated Completion Date	Greenhouse Space (Sq. Ft.)	Est'd Production Capacity (kg)	Total Greenhouse Space (Sq. Ft.)	Est'd Total Production Capacity (kg)
Existing Operations	Operational	43,000	2,600	43,000	2,600
"Part II" Expansion	May 2017	57,000	3,400	100,000	6,000
"Part III" Expansion					
Phase 1	Late 2017	150,000	10,600	250,000	16,600
Phase 2	Late 2018	250,000	17,700	500,000	34,300
Phase 3	Late 2019	250,000	17,700	750,000	52,000

Source: Clarus Securities Inc. using data from corporate reports.

INTRODUCING FY2019 ESTIMATES TO INCORPORATE EFFECT OF LEGALIZATION OF RECREATIONAL MARIJUANA (AND PHARMACIES AS MMJ SALES OUTLETS)

We are incorporating Aphria's newly-announced expansion plan into our estimates – which also assumes legal recreational marijuana going on sale in Canada in early CY2018 and approval of pharmacies as sale outlets for prescriptions of MMJ at the same time. We anticipate management leveraging their experience in vitamin manufacturing and focusing on growing Aphria's cannabis oil (and potentially oil capsule) market share, which has led us to significantly increase the proportion of total harvested bud allocated to oil extraction during our forecast period.

We have made only minor adjustments to our estimates for FY2017 (May). The most significant change for the current quarter (Q1/FY2017) is increased interest cost from the new debt facility obtained by Aphria that helped to fund the Leamington site acquisition. Our FY2018 estimate now includes the effect of the launch of wholesale shipments for legal recreational marijuana and/or pharmacy fulfillment of MMJ prescriptions. Consequently our FY2018 revenue estimate increases to $59.6MM (+$11.9 from our prior forecast) but our Adj. EBITDA estimate rises only +$2.4MM to $17.7MM as we assume a decline in gross margin percentage due to wholesale shipments accounting for a rising proportion of total sales.

Our newly-introduced FY2019 estimate is for $148.0MM of revenue and $56.9MM of Adj. EBITDA. We have also provided calendar year (12 months to February of following year) estimates below in support of our valuation analysis in the next section.

Figure 3: Revised Estimates (C$MM except per-share items) (Fiscal year ends May 31)

in C$ millions except per-share items	Q1-FY2017e (Aug)			FY2017e			FY2018e			FY2019e		
	New	Prior	*Change*	**New**	Prior	*Change*	**New**	Prior	*Change*	**New**	Prior	*Change*
Revenue	**$4.0**	$3.9	*$0.2*	**$22.4**	$21.4	*$1.1*	**$59.6**	$47.7	*$11.9*	**$148.0**	NEW	*N/A*
Adjusted EBITDA	**$0.8**	$0.7	*$0.2*	**$5.0**	$5.0	*$0.0*	**$17.7**	$15.3	*$2.4*	**$56.9**		
Adj. EBITDA Margin %	***20.4%***	*16.9%*	*356 bps*	***22.3%***	*23.3%*	*-105 bps*	***29.7%***	*32.1%*	*-245 bps*	***38.4%***		
Diluted EPS	**$0.00**	$0.02	*($0.02)*	**$0.01**	$0.02	*$0.05*	**$0.13**	$0.20	*($0.07)*	**$0.37**		

in C$ millions except per-share items	CY2016e	CY2017e	CY2018e
Revenue	$18.1	$41.8	$123.7
EBITDA	$13.4	$0.4	$13.0
Adjusted EBITDA	$3.8	$10.8	$45.1
Adj. EBITDA Margin %	*21.0%*	*25.8%*	*36.4%*
Diluted EPS	$0.02	$0.06	$0.28

Note: Calendar year estimates are for 12 months ending February of following year (i.e. CY2016 equals 12 months ending February 2017).

Source: Clarus Securities Inc. estimates.

PRICE TARGET INCREASES TO $5.00 PER SHARE AS WE ROLL OVER TO CY2018 TARGET YEAR

We are rolling over our target year to CY2018 (12 months ended February 2019) from CY2017 previously. We are maintaining our target EV/Adjusted EBITDA multiple of 12x, which is modestly below the current FactSet consensus 2017e EV/Adj. EBITDA multiple for international comparables in the global alcoholic beverage and tobacco sectors according to FactSet data. As a result, our target price rises to **$5.00 per share** from $2.50 per share previously. We maintain our **BUY** rating.

Canabis Oil a Key Differentiator For Aphria – Will Drive Pharmacy Sales

The Company announced on August 17 that it had received its license to sell cannabis oil extracts from Health Canada on a prescription basis to medical marijuana (MMJ) patients. It is offering 60-ml bottles of cannabis oil that have the equivalent active ingredient as 10 grams of dried bud. Pricing is $99, or just $9.90/gram. This is far below most competitors' per-gram pricing for oil and quite close to Aphria's average ~$8/gram pricing for its dried bud product.

Aphria has held a production license for the past year and used that time to refine the extraction process. The Company has one operating extraction system and is in the process of adding a second. The two machines together could produce a maximum of 24,000 bottles per month, or $2.4MM at retail pricing. We understand Aphria has existing inventory of extract sufficient to create several thousand bottles of oil.

USING PRODUCTION COST ADVANTAGE TO GENERATE STRONG GROSS MARGIN

Aphria intends to initially use 100% dried bud as the plant input for the oil extraction process. This produces the highest-quality oil product. The Company expects to drive a similar gross margin with $99 bottles of oil ($9.90/gram equivalent) as with its dried bud sales (~$8/gram) as the processing and packaging costs are quite modest.

Aphria can generate significant gross margin on its oil products at this relatively low retail price because of the Company's industry-leading production cost. Aphria reduced its production "cash cost" per gram in Q4/FY16 (May) by 31% to just $1.15/gram. That improvement was driven by near-capacity production (driving economies of scale in labor and overhead) along with rising plant yields. The Company continues to focus on lowering its cash production cost to below $1.00/gram, which we expect could happen once its current 55,000-sq.ft. greenhouse expansion project reaches full production next year.

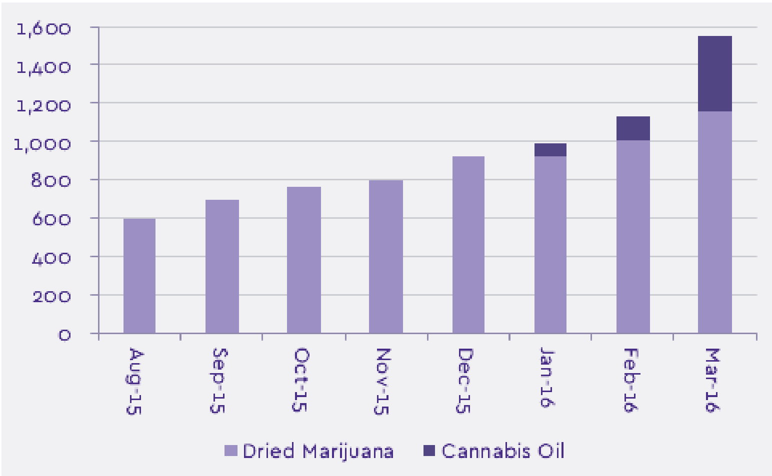
Figure 8: Aphria Cannabis Oil Product

Source: Aphria.

CANNABIS OIL ENJOYING STRONG DEMAND FROM CANADIAN MMJ PATIENTS

Oil products appeal to people that can't or prefer not to smoke or vape MMJ. It is usually taken orally and can be incorporated into food or beverages. Physicians may prefer to prescribe oil as it allows for more precise dosing. Most of the large LPs have only received their oil sales licenses since late 2015, and demand has been strong for their new oil products. According to the most recent national data from Health Canada, cannabis oil product sales for MMJ grew from basically zero in December 2015 to nearly 400 kg in March 2016 – or about 26% of total monthly sales in March. We expect that medical cannabis oil sales have grown substantially nationwide since then as most LPs with oil sale licenses in March still would have been in ramp-up mode several more LPs have received their oil sale licenses and launched distribution since then. We have noticed that many of these LPs have had difficulty keeping product in stock.

Figure 9: Canadian Legal Medical Marijuana (MMPR) Product Sales (kg), Monthly



Note: Most recent data available is March 2016.

Given that Aphria can offer oil with more accessible pricing, it is likely that user demand will be healthy. We believe the low-price model is also a way for Aphria to rapidly build scale and market share for its oil products, which would be a competitive advantage as LPs start competing for wholesale recreational marijuana supply contracts (and perhaps even contracts to supply MMJ to pharmacies) in the near future.

Figure 10: Cannabis Oil Products Offered by Selected Canadian LPs

Licensed Producer	Grams of dried bud equivalent per bottle	Cost per bottle	Cost per gram equivalent
Aphria	10	$99	$9.90
Canna Farms	4	$90-150	$22.50-37.50
CanniMed	10	$129-169	$12.90-16.90
Canopy Growth	10	$95-185	$9.50-$18.50
Mettrum	4	$90	$22.50
Peace Naturals	10	$125	$12.50
Whistler Medical	5	$110-160	$22.00-$32.00

Source: Corporate websites.

MEDICAL MARIJUANA REGULATION ALGEBRA: MMPR+MMAR=ACMPR

Health Canada has completed its revision of the national MMPR medical marijuana (MMJ) program to meet the constitutional rights of patients as required by the *Allard* ruling in February. The result is a blend of the MMPR and prior MMAR programs and is now called Access to Cannabis for Medical Purposes Regulations (ACMPR). <u>It appears largely status quo as compared to the MMPR program</u>, other than <u>all</u> MMJ patients now will be permitted to grow a few cannabis plants at home or via a designated grower. The *Allard*-related injunction that permitted 28,000 MMAR patients and thousands of third-party "designated growers" to operate while the case was ongoing will remain in place for the time being. The maximum possession limit for ACMPR patients will remain the lesser of 150 grams or a 30-day prescription amount but will remain higher for MMAR patients while the injunction is in effect.

Licensed Producers (LPs) with sale licenses (such as Aphria) will continue to sell directly to MMJ patients, and will also serve as the exclusive suppliers of seeds and/or starter plants for all MMJ grow-your-own activities. We understand Aphria may offer a limited number of strains as starter plants but likely not offer its proprietary strains to home growers.

Health Canada reiterated in the press materials that all dispensaries and compassion clubs are illegally selling marijuana even if the customer has a MMJ prescription. LPs remain the only legal retail channel for selling medical marijuana in Canada – for now.

WE STRONGLY BELIEVE LEGALIZATION TASK FORCE WILL RECOMMEND KEEPING A SEPARATE AND DISTINCT MEDICAL MARIJUANA PROGRAM

The government highlighted that the ACMPR is an interim measure while the recreational marijuana legalization task force considers, as part of its mandate and outlined in a June 30th discussion paper, whether a separate MMJ program is required in Canada if recreational marijuana is legal to sell and possess. We strongly believe the MMPR/ACMPR program will be permitted to continue for the following reasons:

- There will be strict limits on purchase amounts and possession amounts under a recreational program, most likely well below the 150 gram/30-day prescription limit of the ACMPR (i.e. 1 oz. or 28 grams). The *Allard* case spent a considerable amount whether 150 grams was a high enough possession limit for MMJ patients, so a much smaller limit would likely infringe on the constitutional rights of MMJ patients;
- There will likely be a minimal age of purchase and possession of recreational marijuana, anywhere from 18/19 to 21 to as old as 25. MMJ is increasingly used to relieve symptoms of debilitating conditions (epilepsy etc.) in children, which would be considered illegal under a solely-recreational model;
- Recreational marijuana will be more expensive due to additional federal, provincial and even local taxes. The *Allard* ruling did not specifically set price metrics but did consider cost an important determinant in ensuring the constitutional rights of MMJ patients to have reasonable access to medical marijuana. Further, the recreational system would not permit individuals to grow their own marijuana, which would eliminate a key aspect of the old MMAR program that was protected and expanded under the ACMPR rules to ensure constitutional rights of patients for reasonable access and choice of product.
- There may be potency limits (particularly maximum THC concentration) for recreational marijuana products. Certain patient groups (PTSD, chronic pain) rely on high levels of THC, and enforcing lower maximum doses may infringe on the constitutional rights of MMJ patients to have sufficient access and choice of product.

The task force recommendations are to be submitted to Parliament by November, and we expect no changes until the legalization of marijuana goes into effect (which is likely sometime in 2018).

TASK FORCE MAY RECOMMEND PHARMACIES SELL MEDICAL MARIJUANA – APHRIA COULD THRIVE UNDER A WHOLESALE-FOCUSED MODEL

The Health Canada ACMPR press release was also notable in that Health Canada specifically said it intended to evaluate pharmacies as an alternative distribution model for MMJ. The Canadian Pharmacists Association is actively lobbying the legalization task force to (a) maintain the ACMPR MMJ program and (b) endorse pharmacy MMJ fulfillment when the task force submits its recommendations to Parliament by November.

Pharmacies seem to provide several benefits to multiple stakeholders in the medical marijuana program. Doctors would likely feel more comfortable if they were issuing a prescription that could be filled at a pharmacy, just like his/her other prescriptions. Pharmacists could provide information to customers on medical marijuana contra-indications and other issues. Patients also could benefit in terms of cost – there is the very real possibility that medical marijuana prescriptions filled by a pharmacist would be zero-rated for tax (no HST), and insurance plans may be more willing to reimburse for MMJ if a prescription is filled by a pharmacy.

Figure 11: Pharmacies by Province/Territory as of January 1, 2016

Jurisdiction	Community Pharmacies
Alberta	1,139
British Columbia	1,250
Manitoba	372
New Brunswick	218
Newfoundland and Labrador	192
Nova Scotia	303
Ontario	3,979
Prince Edward Island	48
Quebec	1,888
Saskatchewan	346
Yukon, NWT and Nunavut	15
Canada	9,750

Source: Clarus Securities Inc. using data from NAPRA.

Pharmacies would also serve to greatly increase access for patients to quickly and easily fill MMJ prescriptions. There are nearly 10,000 pharmacies operating across Canada, with the great majority of Canadians living within a short drive of one. We would expect MMJ prescription fills within 15 minutes at most locations. In comparison, there are roughly 20 LPs selling MMJ, which they can only do via online/phone ordering and mail/courier delivery. The fastest fulfillment today by an LP is same-day service, which typically is only available from LPs located close to major cities.

If pharmacies are permitted to fill MMJ prescriptions, then we expect MMJ demand to grow rapidly even with legalized recreational marijuana. However, pharmacies would likely capture a large portion of that incremental demand.

We do not expect pharmacies to completely take over the MMJ retail market at the expense of LPs. It is possible that pharmacies would simply sell oil products, given the more precise dosing possible with cannabis oil products and pharmacies' opposition to selling tobacco products, which would leave dried bud sales to the LPs.

Pharmacies would likely stock only a small handful of strains, and MMJ users tend to have preferences for certain strains' flavor, effects, etc. Consequently, we expect some LPs with high-quality, high-THC product will be able to compete, especially for higher-dose users (veterans, "old-culture") who focus on the experience.

LPs would be the only wholesale source of MMJ for a future pharmacy sales channel, and we expect Aphria to aggressively pursue this wholesale market opportunity if it becomes available. CEO Vic Neufeld formerly was previously CEO of vitamin maker Jamieson Labs and oversaw Jamieson's growth to $250MM in annual sales. The large pharmacy chains were some of Jamieson's largest customers and Mr. Neufeld has very strong relationships with those retailers. Several industry participants have relayed to us that large pharmacy chains were in the early stages of evaluating LPs as potential suppliers ahead of the MMPR/ACMPR rule changes.

We expect the wholesale price of MMJ to pharmacies would likely be $4.00-5.00/gram. A reasonable question is why Aphria would choose to sell wholesale when it can achieve $8/gram for retail bud and $9.90/gram for retail oil sales? We believe the answers are (1) pace of growth and (2) marketing costs. Winning regional or national supply contracts with large chains such as Shoppers Drug Mart or Rexall would likely involve large quantities, thereby accelerating sales growth faster than if Aphria tried to be a pure retail competitor to pharmacies. Secondly, marketing to capture MMJ customers is expensive. Aphria's sales and marketing cost was 40% of revenues in its Q4/FY16 (May). Wholesaling MMJ to pharmacies for prescription fulfillment would likely have relatively low ongoing marketing/listing fees attached.

That said, if our baseline assumption of a two-tier (medical and recreational) marijuana retail environment and pharmacies selling MMJ comes to pass, the demand would likely far exceed supply and LPs would have a wealth of options on where to sell their product. But producers will have to be able to scale cultivation substantially and lower their production costs enough to be profitable in a wholesale business model. Aphria continues to be the industry leader in cultivation costs per gram. The Company is also one of the few LPs that have proven their ability to scale cultivation to thousands of kilograms annually. We think the mix of low production cost and proven ability to successfully scale production is a key competitive advantage for Aphria as it pursues wholesale contracts with pharmacies or recreational retail outlets.

Figure 12: Table of Comparables

						Price/Sales		EV/Adj.EBITDA		2015e-16e		2016e-17e		Adj. EBITDA Margin	
Company Name	Ticker	Clarus Rating	Stock Price	Market Cap ($MM)	EV ($MM)	2016e	2017e	2016e	2017e	Sales	Adj. EBITDA	Sales	Adj. EBITDA	2016e	2017e
Canadian MMJ LP Stocks															
Canopy Growth Corp.	CGC-CA	NR	$3.93	$387	$376	12.7x	6.1x	33.6x	15.5x	185%	NMF	109%	116%	37%	38%
Mettrum Health Corp.	MT-CA	NR	$2.80	$110	$95	4.4x	2.4x	24.7x	6.2x	267%	NMF	83%	297%	15%	33%
Organigram Holdings Inc.	OGI-CA	NR	$1.45	$63	$64	5.1x	3.0x	20.3x	8.4x	261%	NMF	71%	143%	26%	37%
Comparables Average						**7.4x**	**3.8x**	**26.2x**	**10.0x**	**238%**	**NMF**	**88%**	**185%**	**26%**	**36%**
Aphria Inc.	APH-CA	Buy	$2.32	$208	$166	11.5x	5.0x	43.7x	15.4x	194%	NMF	131%	184%	21%	26%
Tobacco Producers															
Altria Group Inc.	MO-US	NR	$66.31	$129,570	$141,588	6.7x	6.5x	15.1x	14.4x	3%	8%	2%	5%	48%	50%
Philip Morris Int'l, Inc.	PM-US	NR	$100.34	$155,627	$181,782	5.8x	5.5x	15.6x	14.4x	(0%)	1%	6%	8%	44%	45%
Reynolds American Inc.	RAI-US	NR	£50.87	£72,742	£84,491	5.8x	5.5x	14.0x	12.9x	18%	32%	5%	8%	48%	49%
Vector Group Ltd.	VGR-US	NR	$21.75	$2,573	$3,055	1.6x	1.6x	11.6x	11.4x	(0%)	9%	(0%)	2%	16%	16%
Comparables Average						**5.0x**	**4.8x**	**14.1x**	**13.3x**	**5%**	**12%**	**3%**	**6%**	**39%**	**40%**
Alcohol Beverage Producers															
Anheuser-Busch InBev ADR	BUD-US	NR	$126.81	$212,153	$254,641	4.9x	4.1x	15.4x	12.5x	(1%)	(2%)	21%	23%	38%	39%
Boston Beer Company, Inc.	SAM-US	NR	$189.05	$2,426	$2,398	2.6x	2.5x	13.3x	12.7x	(2%)	(10%)	3%	5%	19%	19%
Brown-Forman Corp.	BF.B-US	NR	$99.65	$19,980	$21,218	6.5x	6.2x	19.4x	18.0x	(1%)	0%	5%	7%	36%	36%
Constellation Brands, Inc.	STZ-US	NR	$165.27	$33,941	$42,082	4.6x	4.3x	17.2x	15.4x	12%	15%	8%	11%	34%	35%
Diageo PLC	DGE-LON	NR	£21.69	£54,571	£63,674	5.0x	4.8x	18.0x	17.1x	1%	2%	4%	6%	33%	33%
Molson Coors Brewing Co.	TAP-US	NR	$99.00	$21,354	$21,391	5.1x	1.9x	14.5x	8.4x	18%	15%	174%	73%	35%	22%
Vina Concha Y Toro ADR	VCO-US	NR	$34.02	$1,271	$1,580	1.3x	1.2x	10.3x	9.6x	9%	13%	7%	8%	15%	16%
Comparables Average						**4.3x**	**3.6x**	**15.4x**	**13.4x**	**5%**	**5%**	**32%**	**19%**	**30%**	**29%**

Source: FactSet; Clarus Securities Inc. estimates for Aphria Inc.

Target Price Calculator: Our 12-month target price is based on 12x EV/Adjusted EBITDA for the 12 months ending February 2019.

Key Risk to Target Price: Please refer to the risks disclosed in the report dated December 19, 2014

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