



EARNINGS UPDATE

October 7, 2016

APHRIA INC.

(V-APH) \$3.51 (intraday)

RATING: BUY

(unchanged)

TARGET: \$4.25

(increased, previously \$3.75)

Grams Sold in Q1 Exceeds Expectations

- **EVENT:** Aphria Inc. announced its first quarter results for the three month period ending August 31, 2016. Sales were \$4.4M, EBITDA was \$1.1M and EPS was \$0.01.
- **DISCUSSION:** These results were above our expectations as we had forecasted \$3.3M in sales, \$1.0M in EBITDA and \$0.01 per share in earnings.
- Grams of MMJ sold during the quarter were 585,200 – we had modelled 408,480 grams. The average selling price per gram was \$7.48, slightly lower than the price of \$8.16 reported in Q4 FY16 (ending May 31).
- The reason for the lower average selling price per gram reported this quarter is likely due to strong wholesale business. Aphria sells to other licensed producers at a wholesale price of \$3.75 - \$4.25. The wholesale business was particularly strong during Q1 as several LPs had demand that exceeded internal production.
- Although APH no longer reports patient counts (management believes most patient count figures are fraught with inconsistencies) patient on-boarding has been strong and the Company expects its wholesale business to contract as the demand from retail will require the majority of future production. This trend should positively impact margins in future quarters.
- Aphria was awarded a cannabis oil sales license at the end of its first quarter so there were no material sales. That said, we expect strong oil sales in Q2 as we estimate that up to 30% of future harvests will be converted into oil. Cannabis oil is expected to be a big seller for the entire sector as product can be assigned exact dosages for patients.
- The balance sheet has \$53.5M in cash and \$7.0M in debt (\$1.2M 5-year term loan, \$3.7M mortgage and \$2.8M vendor take-back mortgage).
- **FORECAST/OUTLOOK:** We have increased our growth based on the better than expected grams sold, the upcoming cannabis oil sales and due to the generally strong patient on-boarding within the industry. Our new sales projections are \$23.5M in FY17 (previously \$17.9M), \$43.4M in FY18 (previously \$37.1M) and \$104.5M in FY19 (previously \$91.5M). Our EBITDA estimates also rise to \$6.69M, \$15.2M and \$35.1M (previously \$4.18M, \$13.0M and \$31.8M) in FY17, FY18 and FY19 respectively.
- **VALUATION/RECOMMENDATION:** We are maintaining our **BUY** rating (risk: **SPECULATIVE**) for Aphria Inc. (V-APH) but have increased our 12-month target to \$4.25 (previously \$3.75) due to the increase in our estimates along with the increase in peer multiples – currently 11.8x (previously 10.3x) for EV/EBITDA (note: we dilute the high MMJ comp multiples with our small cap growth peers which trade at an average EV/EBITDA multiple of 8.4x).

Jason Zandberg, CFA

jzandberg@pifinancial.com 604.718.7541

Devin Schilling, BBA

dschilling@pifinancial.com 604.718.7557

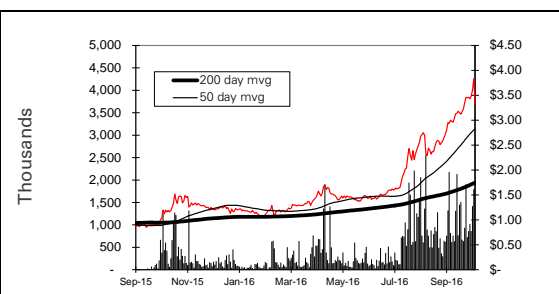
Company Statistics

Risk:	SPECULATIVE
52-week High/Low:	\$4.04 / \$0.88
Shares o/s ('000):	90,196
Shares o/s (fd) ('000) :	111,325
Market Cap (fd) ('000):	\$390,752
Market Float Value ('000):	\$228,038
Average Trading Volume	1,154,940
Cash ('000):	\$53,452
Debt ('000):	\$6,995
CEO:	Vic Neufeld
CFO:	Carl A. Merton
Shareholders:	Mgmt/Insider 28% Institutional 0%

Financial Summary

(YE May 31)

\$CAD	FY16a	FY17e	FY18e	FY19e
Revenue (\$K)	8,434	23,488	43,417	104,475
EBITDA (\$K)	579	6,690	15,224	35,097
EBITDA (%)	6.9%	28.5%	35.1%	33.6%
Net income (\$K)	398	4,243	7,844	14,003
EPS (\$)	0.01	0.05	0.10	0.17
EV/EBITDA	466.6x	40.4x	17.7x	7.7x
P/E	515.5x	67.9x	36.7x	20.6x
Quarterly EPS (\$)	Q1	Q2	Q3	Q4
FY16	(0.01)a	(0.01)a	0.00a	0.02a
FY17	0.01a	0.01e	0.01e	0.02e



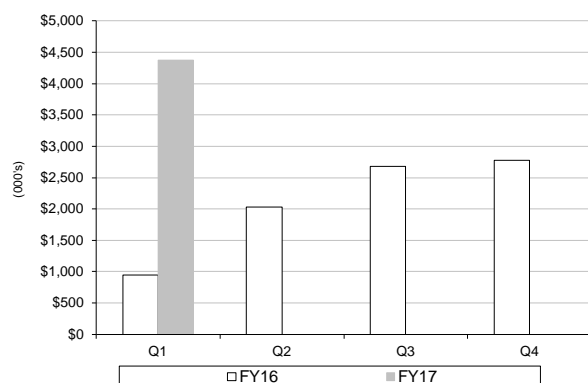
Corporate Information

Aphria is a licensed producer of medical marijuana – both dried bud and oil extracts. The company grows its marijuana plants inside of a greenhouse which significantly reduces its power consumption associated with grow lights compared to an indoor grow setup.

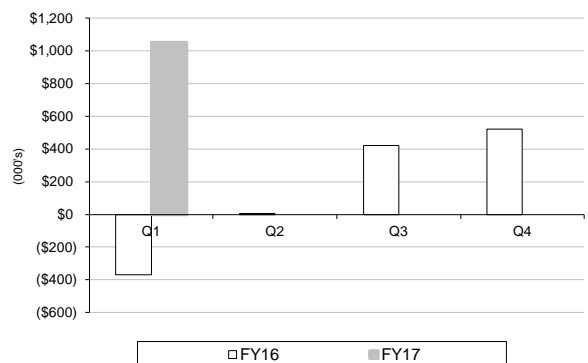
A Disclosure fact sheet is available on Pages 4-5 of this report.

Company Snapshot

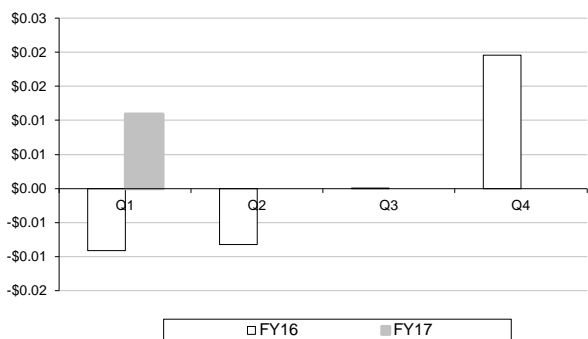
Quarterly Revenue



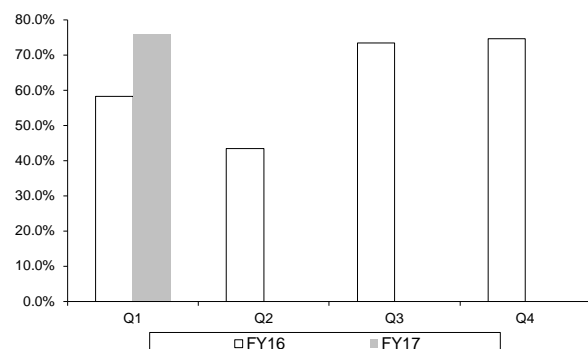
Quarterly EBITDA



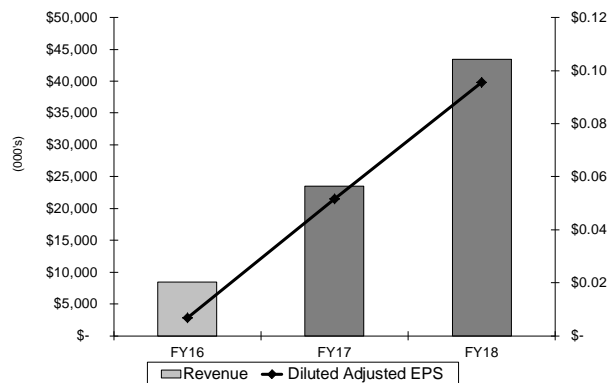
Quarterly EPS



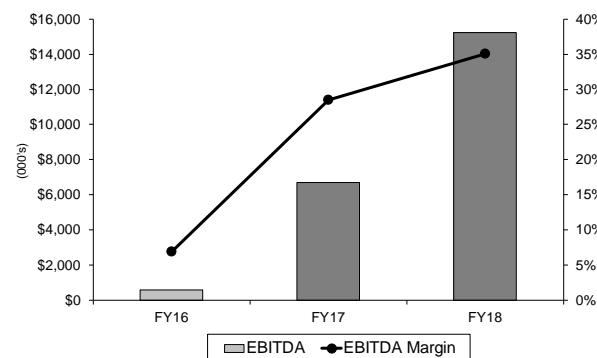
Quarterly Gross Margin



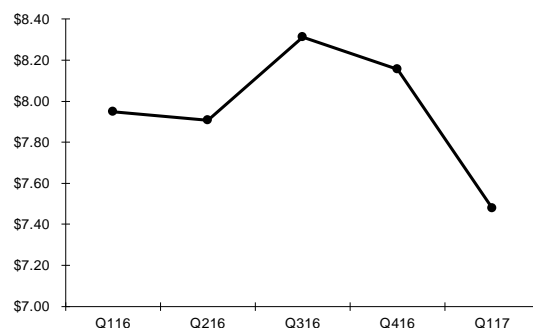
Annual Revenue & EPS



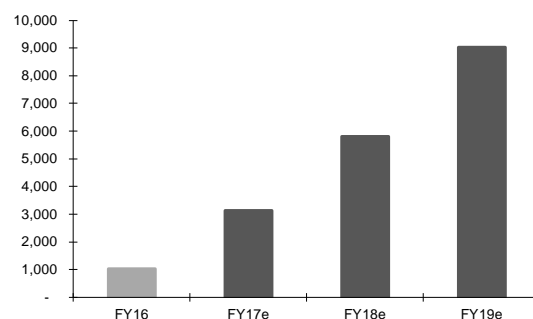
Annual EBITDA & EBITDA Margin



Revenue Per Gram Sold



Kilograms Sold



Source: Aphria Inc. and PI Financial Corp.

Financials / Models

Income Statement (000's)												
(Year end May 31)	Q1 FY16a	Q2 FY16a	Q3 FY16a	Q4 FY16a	FY16a	Q1 FY17a	Q2 FY17e	Q3 FY17e	Q4 FY17e	FY17e	FY18e	FY19e
Revenue	951	2,027	2,680	2,776	8,434	4,376	5,251	6,301	7,561	23,488	43,417	104,475
Gross Profit	554	878	1,968	2,069	5,982	3,322	3,877	4,646	5,569	17,414	31,907	67,147
Operating Income	(525)	(475)	(84)	(7)	(1,091)	788	659	993	1,398	3,838	7,572	17,903
Net Income	(477)	(431)	4	1,302	398	895	772	1,089	1,486	4,243	7,844	14,003
EBITDA	(369)	4	423	521	579	1,054	1,358	1,844	2,433	6,690	15,224	35,097
EBITDA Margin	-39%	0%	16%	19%	7%	24%	26%	29%	32%	28%	35%	34%

Per Share Information												
Revenue (B)	0.02	0.04	0.04	0.04	0.14	0.06	0.07	0.09	0.10	0.32	0.59	1.42
Revenue (FD)	0.02	0.04	0.03	0.04	0.14	0.05	0.06	0.08	0.09	0.29	0.53	1.27
EBITDA (B)	(0.01)	0.00	0.01	0.01	0.01	0.01	0.02	0.02	0.03	0.09	0.21	0.48
EBITDA (FD)	(0.01)	0.00	0.00	0.01	0.01	0.01	0.02	0.02	0.03	0.08	0.19	0.43
Earnings (B)	(0.01)	(0.01)	0.00	0.02	0.01	0.01	0.01	0.01	0.02	0.06	0.11	0.19
Earnings (FD)	(0.01)	(0.01)	0.00	0.02	0.01	0.01	0.01	0.01	0.02	0.05	0.10	0.17
Adj. Earnings (B)	(0.01)	(0.01)	0.00	0.02	0.01	0.01	0.01	0.01	0.02	0.06	0.11	0.19
Adj. Earnings (FD)	(0.01)	(0.01)	0.00	0.02	0.01	0.01	0.01	0.01	0.02	0.05	0.10	0.17
Dividends (B)	-	-	-	-	-	-	-	-	-	-	-	-

Balance Sheet (000's)						
(Year end May 31)	Q1 FY16a	Q2 FY16a	Q3 FY16a	Q4 FY16a	FY16a	Q1 FY17a
ASSETS						
Cash And Equivalents	5,139	3,286	12,054	16,473	16,473	53,452
Total Current Assets	9,399	8,055	17,479	21,893	21,893	59,925
Net Property, Plant & Equipment	4,857	6,143	7,161	7,309	7,309	13,223
Total Assets	14,508	14,374	29,270	36,280	36,280	82,477
LIABILITIES						
Short-term Borrowings	-	-	-	-	-	-
Total Current Liabilities	1,593	1,607	1,611	1,266	1,266	3,412
Long-term debt	-	-	-	-	-	6,995
Capital leases	-	-	-	-	-	-
Convertible debentures	-	-	-	-	-	-
Total Liabilities	1,593	1,607	1,611	1,266	1,266	10,407
EQUITY						
Share Capital	20,246	20,316	34,581	40,917	40,917	77,050
Contributed Surplus	-	-	-	-	-	-
Retained Earnings (Deficit)	(9,196)	(9,627)	(9,623)	(8,321)	(8,321)	(7,426)
Total Common Equity	12,916	12,767	27,659	35,013	35,013	72,070
Minority Interest	-	-	-	-	-	-
Total Equity	12,916	12,767	27,659	35,013	35,013	72,070
Total Liabilities And Equity	14,508	14,374	29,270	36,280	36,280	82,477

Ratios	Q1 FY16a	Q2 FY16a	Q3 FY16a	Q4 FY16a	FY16a	Q1 FY17a	Q2 FY17e	Q3 FY17e	Q4 FY17e	FY17e	FY18e	FY19e
Sales growth	na	na	na	na	na	360%	159%	135%	172%	178%	85%	141%
Gross margins	58%	43%	73%	75%	71%	76%	74%	74%	74%	74%	73%	64%
EBITDA margins	-39%	0%	16%	19%	7%	24%	26%	29%	32%	28%	35%	34%
Net profit margins	-50%	-21%	0%	47%	5%	20%	15%	17%	20%	18%	18%	13%
Earnings growth	na	na	na	na	na	288%	279%	29182%	14%	966%	85%	79%
EPS growth	na	na	na	na	na	220%	215%	30154%	-7%	659%	85%	79%
Return on equity	-4%	-3%	0%	4%	1%	1%	1%	1%	2%	6%	9%	14%

Valuation*		Price	Q1 FY16a	Q2 FY16a	Q3 FY16a	Q4 FY16a	FY16a	Q1 FY17a	Q2 FY17e	Q3 FY17e	Q4 FY17e	FY17e	FY18e	FY19e
P/Sales	current	\$3.51	48.4x	22.7x	27.8x	21.1x	24.3x	16.5x	13.7x	11.4x	9.5x	12.3x	6.6x	2.8x
	target	\$4.25	58.6x	27.5x	33.6x	25.5x	29.5x	19.9x	16.6x	13.8x	11.5x	14.9x	8.0x	3.3x
P/EBITDA	current	\$3.51	na	11210.4x	175.8x	112.3x	354.3x	68.3x	53.0x	39.1x	29.6x	43.1x	18.9x	8.2x
	target	\$4.25	na	13573.9x	212.8x	136.0x	429.0x	82.7x	64.2x	47.3x	35.8x	52.1x	22.9x	9.9x
P/EPS	current	\$3.51	na	na	20002.8x	44.9x	515.5x	80.4x	93.3x	66.1x	48.5x	67.9x	36.7x	20.6x
	target	\$4.25	na	na	24219.9x	54.4x	624.1x	97.4x	112.9x	80.1x	58.7x	82.2x	44.5x	24.9x
EV/EBITDA	current	\$3.51	na	16439.3x	159.5x	129.7x	466.6x	64.1x	49.7x	36.6x	27.8x	40.4x	17.7x	7.7x
	target	\$4.25	na	20501.1x	198.9x	161.7x	581.8x	79.9x	62.0x	45.7x	34.6x	50.4x	22.1x	9.6x

*Balance sheet ratios reflect our forecasted balance sheet data

Disclosure Fact Sheet

Ratings

BUY : recommendation: stock is expected to appreciate from its current price level at least 10-20% 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 at least 10-20% in the next 12 months.

U/R : Under Review

N/R : No Rating

TENDER: Investors are guided to tender to the terms of the takeover offer.

Analyst recommendations and targets are based on the stock's expected return over a 12-month period or may be based on the company achieving specific fundamental results. Under certain circumstances, and at the discretion of the analyst, a recommendation may be applied for a shorter time period. The basis for the variability in the expected percentage change for a recommendation, relates to the differences in the risk ratings applied to individual stocks. For instance stocks that are rated Speculative must be expected to appreciate at the high end of the range of 10-20% over a 12-month period.

Price Volatility / Risk

SPECULATIVE : The Company has no established operating revenue, and/or balance sheet or cash flow concerns exist. Typically low public float or lack of liquidity exists. Rated for risk tolerant investors only.

ABOVE AVERAGE : Revenue and earnings predictability may not be established. Balance sheet or cash flow concerns may exist. Stock may exhibit low liquidity.

AVERAGE : Average revenue and earnings predictability has been established; no significant cash flow/balance sheet concerns are foreseeable over the next 12 months. Reasonable liquidity exists. Price Volatility/Risk analysis while broad based includes the risks associated with a company's balance sheet, variability of revenue or earnings, industry or sector risks, and liquidity risk.

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9) Company has partially funded previous analyst visits to its projects.	9) No
10) Additional disclosure:	10) No

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The attached summarizes PI's analysts review of the material operations of the attached company(s).

Analyst	Company	Type of Review	Operations / Project	Date
Jason Zandberg	Aphria Inc.	Company Call	Vancouver, BC	10/16
Jason Zandberg	Aphria Inc.	Site visit	Leamington, ON	07/16

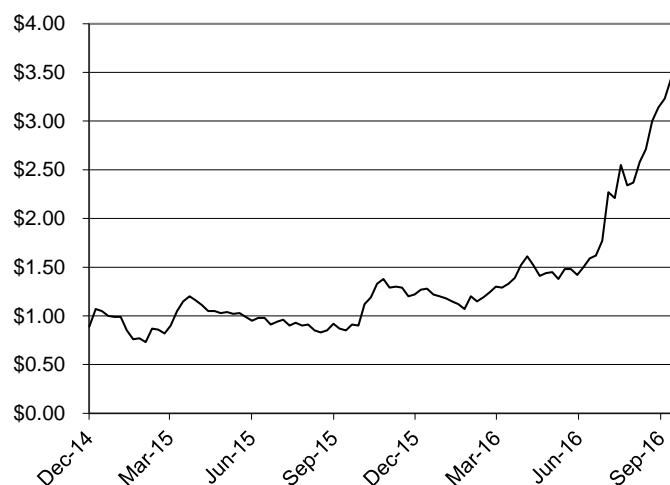
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Recommendations	Number of Recommendations	Percentage
BUY	50	83.33%
NEUTRAL	9	15.00%
SELL	1	1.67%
TENDER	0	0.00%
U/R	0	0.00%
N/R	0	0.00%
TOTAL	60	

Stock Rating and Target Changes

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Aphria Inc. (Initiated Coverage: July 25/16)

Date	Rating Change	Target Change	Share Price
Oct 7/16	Buy	\$3.75 to \$4.25	\$3.51*
Sep 28/16	Buy	\$3.00 to \$3.75	\$3.47*
Jul 25/16	Buy	\$3.00	\$2.27

*Intraday

Capital Markets Group

Managing Director, Head of Research

Bob Gibson, B.Comm, CFA
416.883.9047

Managing Director, SVP Capital Markets

Jeremiah Katz
604.664.2816

Managing Director, Head of Institutional Sales & Trading

Jim Danis, B.Sc. (Hons.)
604.718.7551

Managing Director, Head of Investment Banking

Rick Vernon, B.Sc., MBA
416.775.5100

Research Analysts

Consumer Products

Bob Gibson, B.Comm, CFA
416.883.9047

Energy & Energy Services

Brian Purdy, P. Eng, MBA, CFA
403.543.2823

Mining

Philip Ker, PGeo, MBA
647.789.2407

Kevin MacKenzie, PGeo, MBA
604.718.7558

Brian Szeto, MA, CFA
647.789.2415

Special Situations

Jason Zandberg, B.BA, CFA
604.718.7541

Technology

David Kwan, CFA
604.718.7528

Research Associates

Devin Schilling, B.BA
604.718.7557

Victoria Chan, CFA
604.718.7534

Ian Thies, B.Sc., CFA
403.543.2824

Marketing and Publishing

Michelle Kwok
604.664.2724

Institutional Sales

Vancouver

Jim Danis, B.Sc. (Hons.)
604.718.7551

Jeremiah Katz
604.664.2816

Doug Melton, FCSI
604.718.7532

Brodie Dunlop
604.718.7533

Toronto

Denton Creighton, BA, MBA
416.883.9043

John McBride
416.883.9045

Institutional Trading

Vancouver

Darren Ricci
604.664.2998 or 800.667.6124 (US) or 877.682.7233 (CDN)

Joe Tibble
604.718.7525 or 888.525.8811

Adam Dell, CFA
604.718.7517 or 888.525.8811

Toronto

Jose Estevez, CFA
416.883.9042

Investment Banking

Mining

Rick Vernon, B.Sc., MBA
416.775.5100

Russell Mills, CFA, MFin
647.789.2405

Tim Graham, B.Comm
604.664.3656

Jim Locke, CFA
604.664.2670

Energy

Tony Kinnon, BA
403.543.2918

Technology

Blake Corbet, BA
604.664.2967

Investment Banking Associate

Joel Kitsul
604.718.7510

Equity Capital Markets/Syndication

Chrissy Jones

604.664.3604

Trina Wang

604.664.3637

PI Financial Corp.

www.pifinancial.com

Head Office

Suite 1900, 666 Burrard Street
Vancouver, BC V6C 3N1
ph: 604.664.2900 fx: 604.664.2666

Toronto Office

Suite 3401, 40 King Street West
Toronto, ON M5H 3Y2
ph: 416.883.9040 fx: 647.789.2401

Calgary Office

Suite 1560, 300 5th Avenue SW
Calgary, AB T2P 3C4
ph: 403.543.2900 fx: 403.543.2800

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