

Organigram Holdings Inc.

(OGI-T: C\$6.91) *intraday*

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BUY

Target: C\$12.00

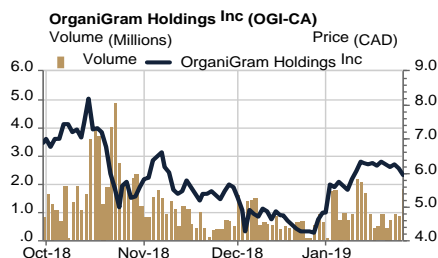
Q1/19 Shows Execution with Strong Outlook for Q2

OGI-T	New	Last	
Rating:	--	BUY	
Target:	--	\$12.00	
Return to Target:	--	74%	
F2021 EBITDA (MM\$)	\$106	▲ \$93	
Target Multiple:	--	18.0x	
F2020 Sales (MM\$)	\$241	▲ \$239	
Target Multiple:	--	6.0x	
Company Data			
Last Price:		\$6.91	
52-Week Range (H-L):	\$8.55	\$3.26	
FD Market Capitalization (MM\$):		\$1004	
Enterprise Value (MM\$):		\$957	
Shares Outstanding - Basic (MM):		130	
Shares Outstanding - Diluted (MM):		145	
Avg Daily Volume (3 Mos) (000s):		992	
Cash (MM\$):*		\$94	
Cash from Warrants (MM\$):		\$53	
Debt (MM\$):		\$99	
Working Capital (MM\$):		\$214	
Fiscal Year End		August	
* Eight Capital Estimate			
Forecasts (Aug YE)			
	2017A	2018E	2019E
Blended Price/gram (\$/g)	7.84	7.72	5.61
COGS (\$/g)	8.11	4.06	1.96
Revenue (MM\$)	5.4	12.4	115.0
Adj. EBITDA (MM\$)	(6.5)	(1.8)	46.0
EPS (\$/sh)	-0.11	0.17	0.34
OP CF (MM\$)	(6.1)	(14.0)	(22.2)
CF/share (\$/sh)	-0.06	-0.11	-0.17
Capex (MM\$)	(34.3)	(56.4)	(92.0)
FCF (MM\$)	(40.4)	(70.5)	(114.3)

All Figures in C\$ Unless Otherwise Noted

Source: FactSet, Company Reports, Eight Capital

OGI: Price/Volume Chart



Source: Factset

Company Description

Organigram is Canada's largest maritime LP. It is currently in the process of expanding its indoor cultivation facility to 533,000 sq ft.

This morning, OGI reported Q1/19 results (ended Nov/18). The stock has reacted positively in today's session on what we believe is positive reception from the market on the Company's reported revenue growth and gross margins. OGI remains one of our top picks in 2019, as we believe the Company will be able to execute on its Canadian adult-use market initiatives.

Net revenues were \$12.4 MM, an increase of 287% from the previous quarter and consistent with management's previous outlook of Q1/19 revenues exceeding the previous fiscal year's total amount (\$11.9 MM before sales recovery).

Adj. gross margin of 71%, an increase from 50% in the previous quarter, driven by higher sales volumes, higher yields and increasingly lower costs of cultivation Q/Q. The Company reported cash cost of cultivation of \$0.56, down from \$0.62 in the previous quarter and a decrease in "all-in" cost of cultivation of \$0.74 vs. \$0.83 in the prior period. Adjusted EBITDA of \$5 MM increased from \$(1.74) MM in the prior period due to the aforementioned increase in revenues and gross margin.

The Company ended the quarter with \$96 MM in cash and equivalents and approximately 13,600 kg in inventory.

Figure 1: OGI Q1/19 Summary

	Q1/F19A	Q4/F18A	Q/Q Growth	Q1/F18A	Y/Y Growth
(\$MM, unless otherwise noted)					
Net Revenue	\$12.4	\$3.2	287%	\$2.4	419%
Adj. Gross Margin	\$8.8	\$1.6	445%	\$0.6	1383%
Adj. Gross Margin (%)	71%	50%		25%	
Adj. EBITDA	\$5.0	(\$1.7)	-396%	(\$1.5)	-431%

Source: Company reports, Eight Capital

Revising 2019 Outlook on Management Commentary

OGI expects that its Q2 net revenues will be at least twice that of Q1. We are increasing our full year 2019 revenue, gross profit and adj. EBITDA estimates to account for the Company's recent performance and management's comments. Full details can be found in **Figure 2** below. We have also revised our CAPEX estimates to reflect an increase in the Phase 4 budget from \$110 MM to \$120 - \$125 MM.

Target Price Methodology & Relative Valuation

Our target price is based on a 50/50 weighting of 6x 2020E sales of \$241 MM (from \$239 MM) and 18x 2021E EBITDA of \$106 MM (from \$93 MM). OGI currently trades at 3.8x 2020E sales vs. peers at 7.7x and 8.8x 2021E EBITDA vs. peers at 15x.

Figure 2: OGI Revised Quarterly and Full Year Estimates

C\$ 000's	Q2/19E	Q3/19E	Q4/19E	FY2019E	FY2020E
Net Revenue	24,050	35,950	42,525	114,964	204,650
Previous	--	--	--	100,924	203,382
Adj. Gross Margin	15,550	23,150	27,375	74,896	125,750
Previous	--	--	--	51,253	109,882
Adj. Gross Margin %	65%	64%	64%	65%	61%
Previous	--	--	--	51%	54%
Adj. EBITDA	8,335	12,006	14,192	46,089	71,539
Previous	--	--	--	23,902	59,929

Year-end August 31st

Source: Eight Capital estimates

Inventory Build-Up Centres on Extractable Material

42% of inventory at quarter-end was material available for extraction. The build-up is due to OGI's smaller scale post-harvest capabilities in extraction, packaging, excising and labelling. While the inventory build-up limited OGI's net revenues this quarter and will likely continue to do so in the near-term, we believe that the significant balance of extractable material will serve the Company well in H2/19 as it looks to place derivative products into the market, subject to regulations. Similar to how many LPs built up inventory balances ahead of October 17, 2018, we feel that a large quantity of extractable material on hand will allow OGI to aggressively place a large amount of derivative products into the market. Derivative products are expected to carry a higher margin than the current dried flower and oils available in the market, which could result in increased profitability in late 2019 and early 2020. The Company is looking to aggressively increase efficiencies in post-harvesting as well as source third party suppliers for extraction capability.

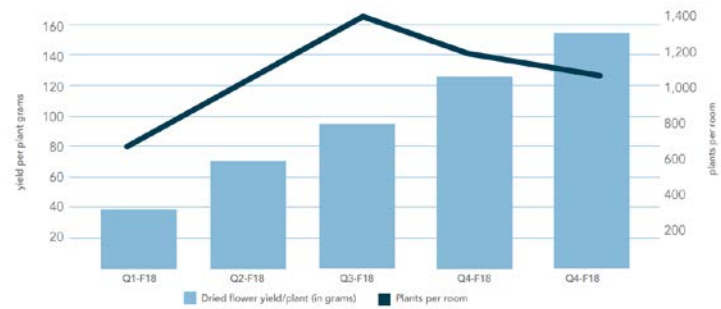
Figure 3: OGI Facilities Overview

Cultivation Facility	Type	Built Production Area (Sq Ft)	Built Capacity (kg/year)	Status	Exp. Production Area (Sq Ft)	Total Area (Sq Ft)	Exp. Capacity (kg/year)	Exp. Completion
Moncton, New Brunswick	Indoor	32,000	5,200	Licensed		32,000	5,200	Completed
Phase 2	Indoor	160,000	16,800	Licensed		160,000	16,800	Completed
Phase 3	Indoor	40,000	14,000	Licensed		40,000	14,000	Completed
Phase 4A	Indoor			Under construction	93,000	93,000	26,000	Apr 2019
Phase 4B	Indoor			Under construction	70,000	70,000	27,000	Aug 2019
Phase 4C	Indoor			Planning stage	82,000	82,000	24,000	Fall 2019
Phase 5	Indoor			Requires refurbishment	56,000	56,000	TBD	TBD
		232,000	36,000		301,000	533,000	113,000	

Source: Company reports, Eight Capital

Figure 4: OGI Cost of Cultivation per Dried Flower Harvested

Source: Company reports

Figure 5: OGI Yields

Source: Company reports

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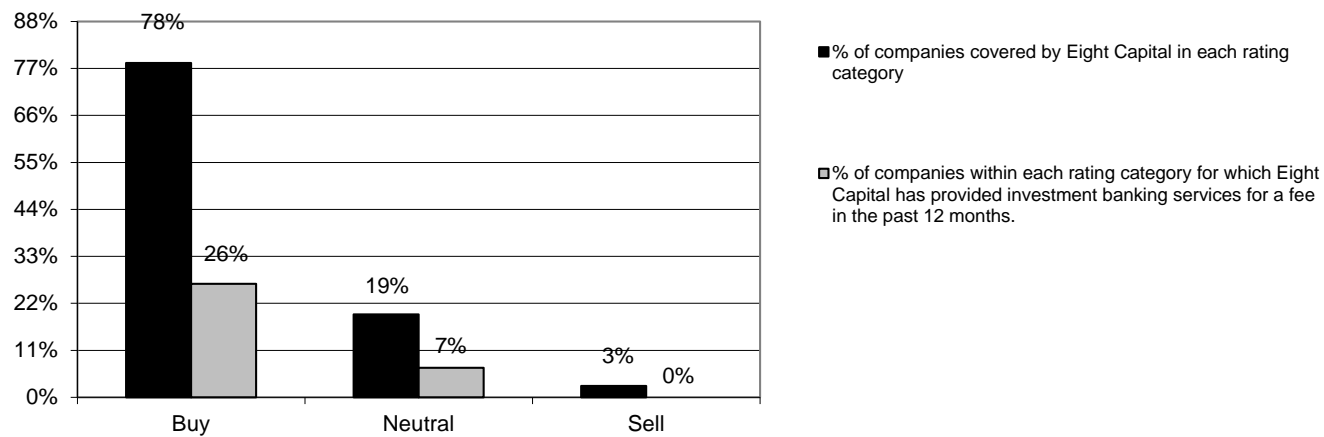
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As at December 31, 2018

Source: Eight Capital

Organigram Holdings Inc.^{1,7}

BUY

OGI-TSXV

January 29, 2019

Last: **C\$7.09**
 ▲ Target: **C\$10.00**

Future earnings potential backed by strong results

Organigram reported Q1FY19 results that exceeded expectations. Revenues came in at \$14.5m, up 350% QoQ, in line with our expectation of \$14.8m and above consensus of \$13.9m. Adjusted EBITDA came in at \$5.0m, above our expectation of \$2.1m and consensus of \$0.2m as gross margin benefited from low production costs.

Industry-leading cultivation costs. OGI continues to improve its cultivation cash costs which came in at \$0.56/g, down from \$0.62/g in the prior quarter. These industry leading costs resulted in a sequential improvement in gross margin of 2050bps to 71%. Declining costs should continue to flow through the company's income statement in the coming quarters making the EBITDA generation sustainable in our view.

Increased visibility on OGI's earnings potential. Organigram reached a milestone which several investors had been awaiting long ago. The company generated a clear profitable quarter, the first meaningful one in its history. In addition, what's more interesting is that the company's meaningful profitability appears sustainable. Upcoming quarters should benefit from better fixed cost absorption and lower production costs, providing increased visibility on OGI's earnings power.

Numerous catalysts ahead. The SQDC previously announced that it launched a call for tenders to diversify its supplier pool. OGI is applying to be an official supplier to the SQDC, which could open the large Quebec market and make OGI's products available everywhere in Canada. Additionally, we expect the company could obtain a bank debt facility and a US listing in the near to medium term. Both events would reduce OGI's future cost of capital, a positive for the company's share price, in our view.

Forecasts

Increasing our FY2020 EBITDA by 21%. With cash costs per gram declining further this quarter, the upcoming scale benefits and continued discipline on SG&A expense, we expect EBITDA margins could maintain or exceed 40% in the coming quarters. Our FY2020 EBITDA estimate calls for margins of 42%, up from 33% previously.

Valuation

Increasing our target by \$1.50 to \$10.00. With Organigram transitioning to profitable operations we are changing our valuation methodology to incorporate EBITDA and EPS multiples. Our target is derived from the average of: (1) a 16x multiple applied to our FY2020 EBITDA estimate, (2) a 22x multiple applied to our FY2020 EPS estimate and a DCF calculation using a discount rate of 8% (8.5% previously).

Recommendation

Maintaining BUY rating. Organigram's shares trade at a discount of more than 50% to senior peers, providing investors with an appealing entry point. We believe that its valuation will re-rate as investors get more comfortable with OGI's earnings potential.

What's Changed	Old	New
Rating	BUY	n.c.
Target	\$8.50	\$10.00
Revenue 2018A (mm)	\$12.4	n.c.
Revenue 2019E (mm)	\$140.6	\$131.7
Revenue 2020E (mm)	\$225.6	\$217.9
EBITDA 2018A (mm)	(\$6.0)	n.c.
EBITDA 2019E (mm)	\$43.7	\$52.0
EBITDA 2020E (mm)	\$74.8	\$90.6

Share Data	
Share o/s (mm, basic/f.d.)	129.6 / 164.3
52-week high/low	8.55 / 3.26
Market cap (basic, mm)	\$919
Market cap (f.d., mm)	\$1,165
Net cash (mm)	\$83
Net cash (f.d., mm)	\$135
EV (f.d., mm)	\$1,030
Projected return	41.0%

Financial Data			
FYE Aug 31	2018A	2019E	2020E
Revenue (mm)	\$12.4	\$131.7	\$217.9
EBITDA (mm)	(\$6.0)	\$52.0	\$90.6
EV/EBITDA	nmf	19.8x	11.4x
EPS (f.d.)	-\$0.18	\$0.11	\$0.45
P/E	nmf	67.4x	15.6x
CFPS	-\$0.09	\$0.58	\$0.45
P/CF	nmf	12.2x	15.7x
Net debt (mm)	(\$30.9)	(\$62.1)	(\$134.0)
BVPS	\$1.38	\$1.64	\$2.25
P/BV	5.1x	4.3x	3.1x

All figures in C\$ unless otherwise noted

 Current Chart

 Previous Research

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Q1FY19 earnings results

Figure 1. OGI's earnings results

Year-end Aug-31 (C\$)	Q1/19A	Q4/18A	Chg. QoQ	GMP Q1/19E	Diff
Average selling price (\$/gram)	\$6.72	\$8.05	-17%	\$6.46	\$0.26
# of Grams sold	2,135,304	379,490	463%	2,296,096	(160,792)
Gross cannabis revenues	14,344,000	3,053,000	370%	14,832,969	(488,969)
Less: Excise taxes	2,040,000	-	nmf		
Plus: Non cannabis revenues	135,000	160,000	-16%		
Total net revenues	12,439,000	3,213,000	287%	14,832,969	nmf
Adj. COGS	3,618,000	1,594,000	127%	5,166,215	(1,548,215)
Adj. gross profit	8,821,000	1,619,000	445%	9,666,754	1,059,246
Gross profit margin	70.9%	50.4%	2053bps	65.2%	574bps
Sales & marketing expense	2,357,000	2,088,000	13%	4,272,713	(1,915,713)
% of sales	18.9%	65.0%	-4604bps	28.8%	-986bps
General & administrative expense	2,171,000	1,601,000	36%	3,763,621	(1,592,621)
% of sales	17.5%	49.8%	-3238bps	25.4%	nmf
Stock-based compensation	972,000	1,172,375	-17%	1,208,626	(236,626)
Operating Income	3,321,000	(3,242,375)	nmf	421,793	2,899,207
margin %	23.2%	-106.2%	12936bps	2.8%	2031bps
Net financing costs (income)	3,944,000	3,861,005	2%	1,502,059	2,441,941
Taxes	12,785,000	5,653,000	-	-	12,785,000
Adj. net income	(13,408,000)	(12,756,380)	-5.1%	(1,080,265)	(12,327,735)
Adj. EPS (f.d.)	-\$0.09	-\$0.10	7%	-\$0.01	-\$0.08
Shares outstanding, diluted	151,056,869	133,689,414	13%	143,900,252	7,156,617
Adjusted EBITDA	4,992,000	(1,686,375)	nmf	2,092,582	2,899,418

Note: Adj. COGS excludes impact of fair value adjustment to biological assets.

Source: Company reports, GMP Securities

Revenues in line with expectations. Organigram reported Q1FY19 revenue of \$14.5m, including excise tax, in line with our expectation of \$14.8m and above consensus of \$13.9m. Q1FY19 revenues increased 350% QoQ and were higher than for the full year of FY18.

Higher than expected recreational selling price. Recreational sales, including excise tax, totaled \$11.1m in the quarter, in line with our forecasts of \$11.2m. Total volume sold came in at 1,763kg equivalent, mainly in line with our expectation of 1,867kg. Average selling price in the recreational market was \$6.30, including excise tax, ahead of our expectation of \$6.00.

EBITDA well ahead of expectations. Adjusted EBITDA came in at \$5.0m, an improvement from -\$1.7m in the prior quarter and well ahead of our expectation of \$2.1m and consensus of \$0.2m. The difference vs our expectation comes from better gross margin (as the company's low production costs of Q3 and Q4 flowed through COGS) and the company's continued discipline on SG&A spend which only increased 23% QoQ to \$4.5m, vs our expectation of \$8.0m.

Forecasts

Little change to our revenue estimates. We make limited changes to our revenue estimates as Q1FY19 results were in line with expectations.

Increasing forecasted EBITDA margins for FY19 and FY20. Following the impressive profitability reported by OGI, we are increasing our forecasts for EBITDA margin as we expect the declining production costs seen in recent quarters will likely benefit gross margin in future quarters. We also bring down our estimates for SG&A to reflect the company's cost discipline.

Expectations for FY20 could be conservative. Organigram expects to bring its entire Phase 4 expansion online by fall 2019, resulting in an expected production capacity of 113 tonnes. In spite of this, our forecasts only call for total sales of 42 tonnes in FY20 which could prove to be conservative.

Figure 2. Summary of changes to our forecast

Year-end Aug-31 (C\$, '000)	FY19E		FY20E	
	New	Old	New	Old
Total net revenues	131,657	140,634	217,917	225,583
Average patient count	15,368	16,480	16,005	18,230
EBITDA	52,002	43,738	90,645	74,849
EBITDA margin %	39.5%	31.1%	41.6%	33.2%
EPS (f.d.)	\$0.11	\$0.18	\$0.45	\$0.38

Source: GMP Securities

Recommendation

Maintaining our BUY recommendation. Our positive stance on Organigram stems from the following reasons:

- 1. Low production costs.** Headquartered in Moncton, New Brunswick, Organigram benefits from energy, labour and occupancy cost advantages vs. Ontario where the majority of licensed producers are located. Organigram's electricity costs are ~70% cheaper than in Ontario, wages are ~5-10% cheaper partly due to an available workforce and low costs of living, and occupancy costs are more affordable than Ontario and below national averages.
- 2. Significant expansion plans.** OGI's aggregate expansion plans should translate into 113,000kg of capacity, which we expect to begin planting in October of calendar 2019, and positioning the company as one of the industry's largest producers.
- 3. Impressive earnings power.** The Phase 4 expansion has substantially magnified OGI's earnings power in our view. Under a scenario where all 113,000kg are sold at an assumed average selling price of \$6.00/gram, at a 25% margin this could imply potential EBITDA generation capability of ~\$170m. This is nearly double our current FY20 forecasts.
- 4. Agreements to supply recreational products in nine out of 10 provinces.** Organigram has secured the necessary agreement or MOU to supply its recreational products in every province except Quebec, putting its national coverage very close to the largest LPs in the industry. In our view, the combination of distribution agreements, ample production capacity and low production costs position OGI to succeed in establishing itself as one of the dominant players in the Canadian recreational market.

Figure 3. OGI DCF valuation

Organigram Holdings Inc., FYE Aug 31 C\$ thousands	Forecasted		Stage 1					Stage 2					Total
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	
Recreational market													
Estimated addressable market size (kg)	233,333	366,667	466,667	566,667	666,667	766,667	826,667	868,000	911,400	956,970	1,004,819	1,055,059	
Organigram's estimated market share	10.0%	10.0%	10.0%	9.80%	9.60%	9.40%	9.20%	9.00%	9.00%	9.00%	9.00%	9.00%	
Implied number of kilos sold	23,333	36,667	46,667	55,533	64,000	72,067	76,053	78,120	82,026	86,127	90,434	94,955	
Average price per gram (\$/gram)	\$5.98	\$6.06	\$6.70	\$6.55	\$6.25	\$6.18	\$6.10	\$6.10	\$6.00	\$5.90	\$5.80	\$5.70	
Total revenues recreational market	139,458	222,292	312,667	363,743	400,000	445,012	463,925	476,532	492,156	508,151	524,515	541,245	
Medical market													
Number of kilos sold (dried equivalent)	1,493	1,757	1,933	2,126	2,339	2,573	2,830	3,113	3,425	3,767	4,144	4,558	
Average price per gram equivalent	\$8.20	\$7.75	\$8.50	\$8.30	\$8.20	\$7.95	\$7.70	\$7.65	\$7.40	\$7.40	\$7.40	\$7.15	
Total revenues medical market	12,245	13,619	16,431	17,649	19,180	20,455	21,793	23,816	25,342	27,876	30,664	32,590	
International/Domestic wholesale sales	2,900	17,550	29,835	44,753	67,129	100,693	130,901	143,991	158,390	174,229	191,652	210,817	
Non cannabis revenues	664	1,122	1,245	1,383	1,535	1,703	1,891	2,099	2,330	2,586	2,870	3,186	
Less: Canadian excise tax	23,610	36,667	46,667	55,533	64,000	72,067	76,053	78,120	82,026	86,127	90,434	94,955	
Total net revenues	131,657	217,917	313,512	371,994	423,843	495,796	542,457	568,318	596,192	626,715	659,268	692,884	
EBITDA margin - recreational			34.0%	33.0%	32.0%	31.0%	30.0%	29.0%	28.5%	28.0%	27.5%	27.0%	
EBITDA margin - medical			37.0%	36.0%	35.0%	34.0%	33.0%	32.0%	31.5%	31.0%	30.5%	30.0%	
EBITDA margin - International/domestic wholesale			39.0%	38.0%	37.0%	36.0%	35.0%	34.0%	33.5%	33.0%	32.5%	32.0%	
EBITDA	52,002	90,645	108,579	125,525	139,562	159,345	169,936	172,726	178,594	185,028	191,801	198,597	
margin	39.5%	41.6%	34.6%	33.7%	32.9%	32.1%	31.3%	30.4%	30.0%	29.5%	29.1%	28.7%	
Depreciation & Amortization	7,220	8,748	10,504	10,830	10,950	11,048	11,183	11,286	11,429	11,620	11,704	11,755	
Net finance costs & other	12,884	5,652	14,172	15,589	17,148	18,863	20,750	22,825	25,107	27,618	30,380	33,417	
EBT	31,897	76,245	83,903	99,106	111,464	129,434	138,004	138,616	142,059	145,790	149,717	153,425	
Cash taxes (30%)	17,387	5,861	25,171	29,732	33,439	38,830	41,401	41,585	42,618	43,737	44,915	46,028	
NOPAT	27,394	76,036	72,904	84,963	95,173	109,467	117,352	119,856	124,548	129,671	135,182	140,815	
+ Depreciation & Amortization	7,220	8,748	10,504	10,830	10,950	11,048	11,183	11,286	11,429	11,620	11,704	11,755	
- Net increase in working capital	13,556	(13,396)	(32,734)	(10,527)	(9,333)	(12,952)	(8,399)	(4,655)	(5,017)	(5,494)	(5,860)	(6,051)	
- CAPEX	(82,091)	(20,000)	(8,154)	(2,987)	(2,471)	(3,357)	(2,574)	(3,574)	(4,789)	(2,108)	(1,257)	(4,101)	
Free cash flow to the firm	(33,921)	51,387	42,520	82,280	94,319	104,207	117,562	122,912	126,171	133,689	139,769	142,418	
PV factor	0.8264	0.7513	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855	0.3505	0.3186	0.3186
PV of Free Cash Flows	(28,034)	38,608	31,946	56,198	58,565	58,822	60,328	57,340	53,509	51,543	48,988	45,379	533,190

Valuation	
PV of Free cash flow to the firm	533,190
Terminal value	934,802
Enterprise value	1,467,992
Current net debt (net cash)	(135,440)
Equity value (C\$, 000s)	1,603,432
Shares O/S (fully diluted)	164,331
Equity value per share	\$ 9.76

Terminal Value	
Terminal FCFF	146,690
Terminal growth rate	3.0%
WACC	8.0%
WACC - g	5.0%
TCF/(WACC-g)	2,933,808
Present value	934,802

Domestic recreational - Stage 1 key assumptions	
Organigram's market share	9.6%
Price of dried marijuana (\$/gram)	\$5.50
Price of cannabis oil (\$/gram)	\$8.00
% of sales - dried marijuana	70%
% of sales - oils/extracts	30%
EBITDA margin	32.0%

Domestic Medical - Stage 1 key assumptions	
Growth in grams sold	10%
Price of dried marijuana (\$/gram)	\$7.00
Price of cannabis oil (\$/gram)	\$9.00
Proportion of sales - dried marijuana	40%
Proportion of sales - oils/extracts	60%
EBITDA margin	35.0%

International/Domestic wholesale - Stage 1	
Growth in grams sold	45%
Price of dried marijuana (\$/gram)	

Domestic recreational - Stage 2 key assumptions	
Organigram's market share	9.0%
Price of dried marijuana (\$/gram)	\$4.50
Price of cannabis oil (\$/gram)	\$8.00
% of sales - dried marijuana	60%
% of sales - oils/extracts	40%
EBITDA margin	28.0%

Domestic Medical - Stage 2 key assumptions	
Growth in grams sold	10%
Price of dried marijuana (\$/gram)	\$6.00
Price of cannabis oil (\$/gram)	\$8.00
Proportion of sales - dried marijuana	30%
Proportion of sales - oils/extracts	70%
EBITDA margin	31.0%

International/Domestic wholesale - Stage 2	
Growth in grams sold	10%
Price of dried marijuana (\$/gram)	

Source: GMP Securities, Company reports

Figure 4. OGI income statement

FYE Aug 31 (C\$)	FY2016A	FY2017A	FY2018A	Q1/FY19A	Q2/FY19E	Q3/FY19E	Q4/FY19E	FY2019E	FY2020E
Total sales of equivalent dried marijuana (grams)	732,022	902,215	1,463,793	2,135,304	4,817,971	7,493,438	10,959,405	25,406,119	42,324,016
Avg. selling price per equivalent dried gram	\$8.37	\$8.58	\$8.06	\$6.72	\$6.13	\$6.03	\$5.98	\$6.09	\$5.99
Gross cannabis revenues	6,127,625	7,740,053	11,791,000	14,344,000	29,554,140	45,170,660	65,533,862	154,602,662	253,461,121
Less: Excise taxes	0	0	0	2,040,000	4,363,333	7,000,000	10,206,594	23,609,927	36,666,667
Net cannabis revenues	6,127,625	7,740,053	11,791,000	12,304,000	25,190,807	38,170,660	55,327,268	130,992,735	216,794,455
Non cannabis revenues	0	0	646,000	135,000	153,900	175,446	200,008	664,354	1,122,068
Total net revenues	6,127,625	7,740,053	12,437,000	12,439,000	25,344,707	38,346,106	55,527,277	131,657,090	217,916,523
Growth YoY %	521.0%	26.3%	60.7%	418.5%	646.5%	1018.0%	1628.2%	958.6%	65.5%
COGS (excluding adj. for biological assets)	2,815,073	3,027,321	6,382,000	3,618,000	7,922,539	11,947,331	16,925,404	40,413,274	59,897,625
Adj. gross margin	3,312,552	4,712,732	6,055,000	8,821,000	17,422,168	26,398,775	38,601,873	91,243,816	158,018,898
Gross margin %	54.1%	60.9%	48.7%	70.9%	68.7%	68.8%	69.5%	69.3%	72.5%
SG&A expenses	3,626,267	5,920,216	11,426,017	4,528,000	7,708,754	12,738,845	17,535,049	42,510,647	71,950,827
% of sales	59.2%	76.5%	91.9%	36.4%	30.4%	33.2%	31.6%	32.3%	33.0%
SG&A expense per gram sold	\$4.95	\$6.56	\$7.81	\$2.12	\$1.60	\$1.70	\$1.60	\$1.67	\$1.70
Stock-based compensation	442,349	1,703,090	4,228,000	972,000	982,004	990,011	990,886	3,934,901	4,153,941
Operating Income	(1,099,308)	(2,758,235)	(9,599,017)	3,321,000	8,731,409	12,669,920	20,075,938	44,798,268	81,914,130
Margin %	-17.9%	-35.6%	-77.2%	26.7%	34.5%	33.0%	36.2%	34.0%	37.6%
Interest expense (income)	398,974	(277,070)	8,639,000	3,944,000	1,668,326	1,668,326	1,668,326	8,948,977	1,498,302
EBT	(1,940,631)	(4,184,255)	(18,238,017)	(623,000)	7,063,084	11,001,594	18,407,613	35,849,291	80,415,828
Income taxes	-	-	5,653,000	12,785,000	-	-	4,601,903	17,386,903	5,861,451
Tax rate (%)	-	-	-	-	-	-	25.0%	48.5%	7.3%
Net income	(1,940,631)	(4,184,255)	(12,585,017)	(13,408,000)	7,063,084	11,001,594	13,805,710	18,462,388	74,554,378
Margin %	nmf	nmf	-192.1%	-107.8%	27.9%	28.7%	24.9%	14.0%	34.2%
Growth YoY %	nmf	nmf	nmf	587.2%	-320.8%	-283.8%	-208.2%	nmf	nmf
EPS (f.d)	-\$0.03	-\$0.04	-\$0.19	-\$0.09	\$0.04	\$0.07	\$0.08	\$0.11	\$0.45
Total one-time items (after-tax)	1,844,058	(6,705,422)	46,017,978	42,887,000	(8,423,197)	2,420,015	(5,528,969)	31,392,849	4,192,876
Reported net income	(96,573)	(10,889,677)	22,126,961	29,479,000	(1,360,113)	13,421,609	8,276,740	49,855,237	78,747,254
Reported EPS (f.d.)	-	0.00	0.11	0.20	0.01	0.08	0.05	0.31	0.48
Shares outstanding (f.d.)	58,501,588	97,248,970	126,860,553	151,056,869	164,330,982	164,330,982	164,330,982	161,012,454	164,330,982
Adj. EBITDA (before stock based compensation)	(313,715)	(1,207,485)	(6,032,017)	4,992,000	10,497,409	14,513,998	21,998,094	52,001,502	90,644,978
Margin %	-5.1%	-15.6%	-48.5%	40.1%	41.4%	37.8%	39.6%	39.5%	41.6%

Source: GMP Securities, Company reports

Disclosures

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EARNINGS UPDATE January 29, 2019

ORGANIGRAM HOLDINGS INC. (V-OGI) \$7.09

RATING: BUY
(unchanged)

TARGET: \$10.00
(increased, previously \$8.00)

Record Breaking Quarter

- **EVENT:** OGI reported its Q119 results for the quarter ending November 30th, 2018. Revenue was up 504% yoy to \$12.4M, EBITDA was \$5.0M versus (\$1.5M) last year, and EPS was \$0.23 compared to (\$0.01) in Q118.
- **DISCUSSION:** OGI recorded \$9.2M in sales to recreational market during the 6 weeks post legalization, exceeding what OGI has historically generated from medical patients.
- Although OGI's revenue was limited by post-harvest capabilities, Q119 was OGI's strongest quarter yet. OGI reported \$12.4M in net sales after excise taxes in Q119, the same amount it made for the entire FY18. Medical sales dropped 13% qoq to \$2.8M while recreational sales were \$9.2M.
- Improved yields and operational efficiencies brought by its advanced indoor production have driven the cost of cultivation per gram harvested down to \$0.56 during the quarter versus \$0.62 the previous quarter, which is the lowest cost of production among public Canadian LPs. The "all-in" cost of cultivation was \$0.74 in Q119 versus \$0.83 in Q418.
- OGI sold 221kg of dried flower to medical patients during the quarter (vs. 200kg last quarter) and 1,515kg of dried flower to the rec market. Additionally, the Company sold 964L of cannabis oil to medical patients (vs. 896L last quarter) and 1,584L of cannabis oil to the rec market.
- The Company continues to build inventories; OGI reported \$91.4M in inventory during the quarter versus \$45.0M in Q418 as it ramps up its packaging, extraction, labelling, and sales capabilities in FY19. OGI is also actively looking at outsourcing part of its "available for extraction" inventory balance of \$38.0M of the \$91.4M inventory balance.
- OGI provided updates on its Phase 4 construction. Phase 4A is expected to come online in April 2019 with 31 grow rooms, 4B in August 2019 with 32 grow rooms, and 4C in the fall of 2019 with 29 grow rooms, bringing the target production capacity to 62,000kg/year, 89,000 kg/year and 113,000/year, respectively.
- **FORECAST/OUTLOOK:** Management expects net revenue for Q2 to at least double the Q1 numbers. We are introducing our FY21 estimates as well. Our FY19, FY20 and FY21 sales forecasts are \$103.8M, \$244.5M and \$305.7M (previously \$98.1M and \$192.8M), respectively. Our FY19, FY20 and FY21 EBITDA forecasts are \$34.6M, \$79.5M and \$100.9M (previously \$35.6M and \$68.8M) respectively.
- **VALUATION/RECOMMENDATION:** We are maintaining our **BUY** rating (risk: **SPECULATIVE**) and increasing our **12-month target price to \$10.00** (previously \$8.00). Our target is 13.5x our FY20 EV/EBITDA estimate (previously 15.7x).

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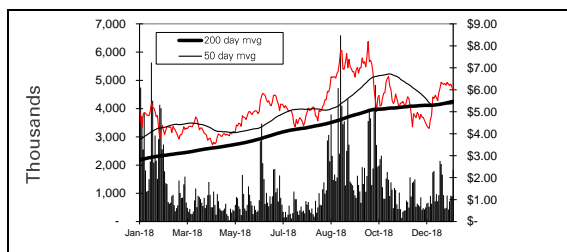
Company Statistics

Risk:	SPECULATIVE
52-week High/Low:	\$8.55 / \$3.26
Shares o/s ('000)	129,551
Shares o/s (fd) ('000):	162,534
Market Cap (fd) ('000):	\$1,152,366
Average Trading Volume:	917,257
Cash ('000):	\$30,162
Debt ('000):	\$98,296
CEO:	Greg Engel
CFO:	Paolo De Luca
Shareholders:	Mgmt/Insider 5% Institutional 9%

Financial Summary

(YE Aug 31)

\$CAD	FY18a	FY19e	FY20e	FY21e
Revenue (\$K)	12,429	103,765	244,520	305,710
EBITDA (\$K)	(5,744)	34,588	79,454	100,923
EBITDA (%)	-46.2%	33.3%	32.5%	33.0%
Net income (\$K)	20,513	44,179	49,292	65,340
EPS (\$)	0.16	0.27	0.29	0.39
EV/EBITDA	na	28.5x	12.4x	9.8x
P/E	43.8x	26.2x	24.3x	18.4x
Quarterly EPS (\$)	Q1	Q2	Q3	Q4
FY18	(0.01)a	(0.06)a	(0.02)a	(0.02)a
FY19	0.20a	0.02e	0.03e	0.04e
FY20	0.05e	0.07e	0.09e	0.08e



PI Financial Corp. has received compensation for acting as a fiscal agent for OGI in the previous 12 months. See the disclosure section for additional details.

Corporate Information

OrganiGram currently has a medical marijuana growing operation based in Moncton, New Brunswick. The company has a Health Canada license to cultivate and sell medical marijuana as well as medical marijuana oil extracts.

A Disclosure fact sheet is available on Pages 2-3 of this report.

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.

Analyst Certification

I, Jason Zandberg, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this report. I am the research analyst primarily responsible for preparing this report.

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3) PI Financial Corp. and/or its affiliates have received compensation for investment banking services for the subject company over the preceding 12-month period.	3) Yes
4) PI Financial Corp. and/or its affiliates expect to receive or intend to seek compensation for investment banking services from the subject company.	4) Yes
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6) The following director(s), officer(s) or employee(s) of PI Financial Corp. is a director of the subject company in which PI provides research coverage.	6) No
7) A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.	7) No
8) PI Financial Corp. and/or its affiliates make a market in the securities of the subject company.	8) No
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	OrganiGram Holdings Inc.	Company Call	Vancouver, BC	01/19

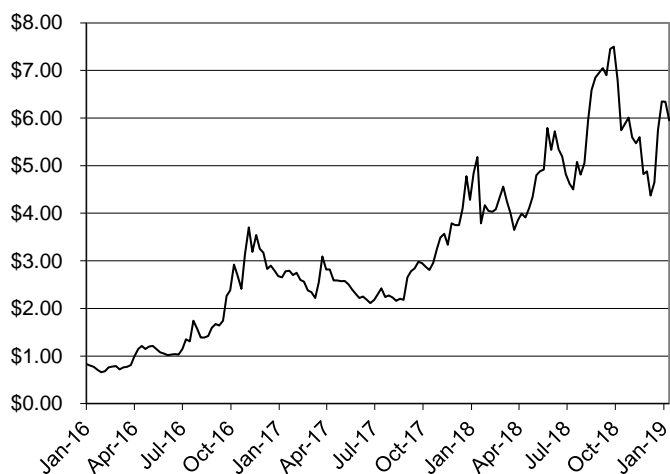
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Recommendations	Number of Recommendations	Percentage
BUY	67	87.01%
NEUTRAL	5	6.49%
SELL	0	0.00%
TENDER	3	3.90%
U/R	2	2.60%
N/R	0	0.00%
TOTAL	77	

Stock Rating and Target Changes

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Organigram Holdings Inc. (Initiated Coverage: July 25/16)

Date	Rating Change	Target Change	Share Price
Jan 29/19	Buy	\$8.00 to \$10.00	\$7.09
Jul 30/18	Buy	\$7.50 to \$8.00	\$4.67
Apr 24/18	Buy	\$6.50 to \$7.50	\$3.93
Jan 29/18	Buy	\$6.00 to \$6.50	\$5.00
Jan 16/18	Buy	\$4.50 to \$6.00	\$4.90*
Dec 18/17	Buy	\$4.50 to \$4.75	\$3.70*
Sep 15/17	Buy	\$4.00 to \$4.50	\$2.56*
Apr 18/17	Buy	\$4.15 to \$4.00	\$2.58*
Apr 13/17	Buy	\$3.75 to \$4.15	\$3.10
Jan 24/17	Buy	\$4.50 to \$3.75	\$2.72*
Dec 13/16	Buy	\$2.45 to \$4.50	\$3.32*
Sep 28/16	Buy	\$2.25 to \$2.45	\$1.66*
Jul 25/16	Buy	\$2.25	\$1.35

*Intraday



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