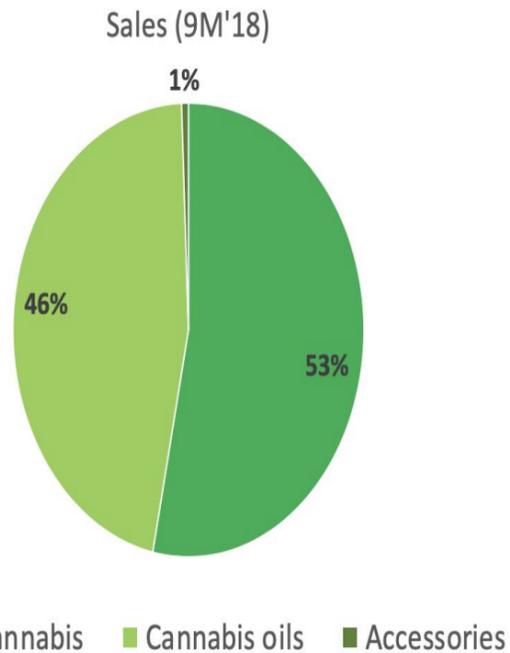


Company Overview



Incorporated in 2018, Tilray, Inc. is headquartered in Nanaimo, Canada and engages in the research, cultivation, processing and distribution of medical cannabis and cannabinoids. With approximately 250 employees globally, Tilray operates across Canada, Europe, Latin America as well as Australia and New Zealand. Holding a market capitalization of US\$7b, Tilray is widely recognized as the second biggest cannabis company in the world behind Canopy Growth Corporation (US\$15b).

(USD\$ M)	FY17A	FY18E	FY19E
Revenue	20.5	40.0	143.5
Gr Rate (%)	62.4	94.6	259.1
EBITDA	(5.6)	(22.1)	(29.3)
Margin (%)	(27.4)	(55.2)	(20.4)
Net Income	(7.8)	(35.8)	(38.2)
Margin (%)	(38.0)	(89.6)	(26.6)
ROE (%)	(61.7)	-	-
D/E Ratio	41.3	-	-

Figure 1. Revenue breakdown by product segment

Investment Thesis

- Declining financial performance:** Q3'18 gross margins fell 12.33% over Q3'17 on a percentage basis while the operating loss was almost 10 times the amount. Not only was Q3'18 net loss much worse than the year ago period, but it was also nearly 46% worse than Q2'18. Without any substantial revamp of the firm, financial performance is forecasted to continue on a downtrend with interest from newly issued convertible notes (5% annual interest on \$475m of debt) to hit Tilray in Q4'18.
- Continued competition from black market:** Statistics Canada found that the average price of legal cannabis was 50% more as compared to cannabis on the illicit market at \$9.70/g and \$6.51/g respectively in 2018. A market research survey done by IPSOS post legalization also reported that 54% of Canadians feel that legalized cannabis costs too much and that 35% went back to their pre-legalization sources.
- Gross margins to continue staying negative.** The Canadian government is intent on regulating the industry and ensuring only quality cannabis is being distributed. This will increase pressure on cost of production as stringent standards have to be met for cannabis sold. Tilray's revenue mix also experiencing increased portion from wholesale, which provides much lower margins.

12M Industry Outlook

- Entrance of big corporations in cannabis industry:** Amidst the growing popularity and legalization of cannabis in the West, various multinational corporations such as Coca-Cola, Johnson & Johnson and Molson Coors have made plans to develop cannabis infused beverages, edibles and pharmaceutical products to claim a share of the pie. Influx of participants in this market will lead to increased cannabis product diversity, potentially diluting profits for incumbent firms as consumers seek to get their hands on newer products available in the market.
- Legalisation of cannabis unlikely to affect consumption patterns:** A Deloitte study shows that current users of cannabis will have largely unchanged consumption patterns post-legalisation. This debunks the notion that individuals will consume more post-legalisation. Among the likely new users post-legalisation, 63% claim that they will only consume less than once a month. A key challenge for industry players would be trying to increase frequency of consumption from users.
- Major concerns of oversupply in the industry:** As pot valuations rockets higher, cannabis companies has been able to secure funds required for expansions. The true demand for recreational use cannabis has been unclear, and Wall St estimates a demand of 800,000 kilograms. However, the few bigger players in cannabis production has estimated a production way above the demand estimates, around 1.5 million kilograms and that is not including the smaller cap companies. Oversupply can potentially drive selling price down, affecting the margins and valuations for the sector.

Valuations

Figure 2. Valuation Summary



Our 12-month target price from the date of coverage is **US\$36.10**.

Although Tilray is experiencing hyper-growth and will continue to do so in the next few years, we expect margins to remain depressed due to high R&D and marketing expenses as the company seeks to establish themselves in the industry.

Coupled with stiff competition from black markets, we expect headwinds to continue and the company to continue being in the red for the foreseeable future.

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