

Eve & Co Incorporated

TSXV: EVE

SECTOR: Special Situations

STOCK PRICE \$0.57
RATING **BUY**
TARGET PRICE \$0.80

INITIATING COVERAGE

Building a Female Focused Cannabis Brand

INVESTMENT BRIEF: Eve & Co is a female focused cannabis brand within the Canadian landscape that also has international exposure through a German distributor with sales expected to commence Q2/19. We believe that Eve & Co is well positioned to complete its greenhouse expansion that will enable the Company to scale up production towards 50,000 kg per year from the current 10,000 kg of annual capacity. In our view the recent credit facility with the Royal Bank of Canada helped de-risk the construction financing and enables the Company to move as quickly as possible towards completion. Pending Health Canada approval, which can be a bit of a wild card, Eve should be ramping up production towards the end of 2019 for a strong 2020. The Company currently has MOU's in place with three provinces in Canada and an agreement with a German distributor to export internationally.

KEY HIGHLIGHTS

- ◆ **Current Production:** Eve received its sales license under the Cannabis Act in early December 2018 that enabled the Company to move forward with distribution of its products into the Canadian marketplace. The Company is initially selling products in Newfoundland including pre-rolls and cannabis clone plants. It is expected that Eve will expand its offering across the other provinces it currently has MOU's with as it builds inventory from the 220,000 sq. ft. greenhouse facility.
- ◆ **International Opportunity:** The Company has entered into a binding agreement with a German importer and distributor of para-pharmaceutical and medical product based on a minimum of 2,250 kg over the first two years. Management currently expects to ship its first product under the agreement in Q2/19.
- ◆ **Credit Facility with Royal Bank:** Eve announced that it has entered into a construction credit facility for \$18.7M to fund the balance of the 780,000 square foot expansion. Interest on the facility is calculated as prime plus 1.00%, making the current effective interest rate 4.95%.

OUTLOOK

We are initiating coverage on Eve & Co with a **Buy recommendation** and **target price of \$0.80**. Eve is in the early stages of its ramp up of both sales into the domestic and international markets, while also executing on its expansion plans. We expect the Company to post modest sales in 2019 of 4,500 kg versus its current production capacity of close to 10,000 kg, on that basis our estimates could prove conservative. In our view the recent agreement with Royal Bank was a key de-risking event for the Company towards the completion of its expansion to 1,000,000 sq. ft. of greenhouse production.

RECOMMENDED ACTION

We recommend accumulating shares at current levels

- ◆ The company is trading at 5.3x 2021 EBITDA versus the cannabis sector at 11.5x. While the shares have had a positive move in 2019, particularly after the credit facility, we are expecting further positive news flow over the course of 2019.

CATALYSTS

1. **Ongoing** – Potential partnerships or M&A
2. **Late April** – Year-end results

PROJECTED RETURN

40%

RISK FACTOR

Very High

SCENARIO ANALYSIS

Downside Scenario	Current Price	Price Target
\$0.25	\$0.57	\$0.80
↓56%		↑40%

KEY STATISTICS AND METRICS

52-Week High/Low	\$0.66 / \$0.16
YTD Performance	125.0%
Dividend Yield	N/A
Shares O/S (fd)	292M
Market Capitalization	\$166.1M
Cash	\$4.3
Debt	\$3.0
Enterprise Value	\$165.0
Daily Volume (3 mos.)	1,007,676
Currency	C\$ unless noted

HAYWOOD ESTIMATES (CAD)

	2019E	2020E	2021E
Revenue (\$M)	15.0	68.3	114.5
EBITDA (\$M)	(2.6)	13.8	31.0
EPS FD (\$)	(0.01)	0.03	0.08

VALUATION

We apply an 8x EV/EBITDA multiple to our F2021 EBITDA estimate, then discounted by 15%. The average of other cannabis companies trade at 11.5x on 2021 EV/EBITDA.

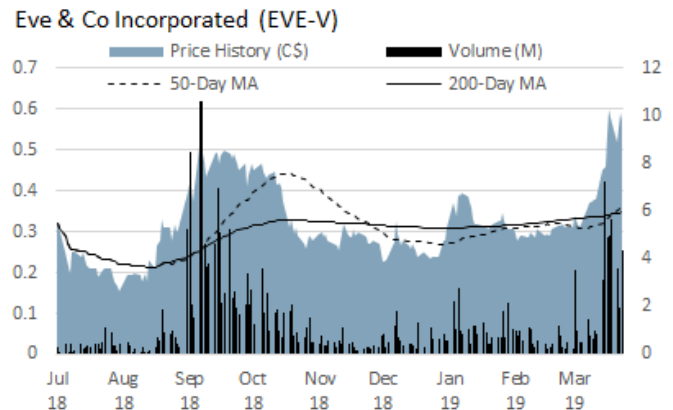
INVESTMENT THESIS

We believe that Eve is well-positioned in the market with its low-cost greenhouse production. The Company has been successful in securing three provincial supply agreements, with Ontario, Newfoundland and British Columbia.

Eve is working to establish its brand in the marketplace as a premier recreational cannabis brand for women. While it is early stages since the Company received its sales license in late 2018, we do believe that there are merits to this approach.

Eve currently has capacity of 10,000 kg of cannabis annually and through its phase 2 expansion can achieve production of 50,000 kg per year. The phase 2 expansion is expected to be complete in the summer of 2019, as a result, we expect them to enter 2020 with production capacity of 50,000 kg. The Company's sales strategy is direct to retailer for the recreational market as well as B2B wholesale, for both international medical markets as well as the domestic medical market.

SCENARIO ANALYSIS



Source: Capital IQ, and Haywood Securities

TARGET PRICE

Our target price of \$0.80 uses an 8x EV/EBITDA multiple on our F2021 EBITDA estimate then discounted by 15%.

DOWNSIDE CASE

Our downside case reflects the low-end of the group multiple range of 2x 2020E EV/EBITDA discounted at 15%.

KEY RISKS

- **Reliance on License** – Eve is reliant on its license from Health Canada to grow, cultivate and process cannabis flower for sales to provinces or wholesale product sales. Any change to the overall framework and regulations could be positive or negative to Eve's business opportunities.
- **Facility Risk** – Eve is dependent on its facility infrastructure to grow, cultivate and process cannabis for use by consumers across Canada. Anything that may impact the facilities that it operates would impact its ability to grow and sell product.
- **Competition** – The cannabis market in Canada is expected to have strong competition that are all pursuing the population within Canada. As Health Canada continues to approve and expand the number of licensed producers it could increase competition within the industry.

Company Profile

Eve & Co is a licensed producer in Canada with a greenhouse production facility in Strathroy, Ontario. It has a current operating footprint of 220,000 sq. ft. and is currently expanding towards 1,000,000 sq. ft.


Company Website

evecannabis.ca

Key Management

Melinda Rombouts (CEO and Director)
Landon Roedding (CFO)



	Eve & Co Inc. (EVE-V, EEVVF-OTCUS) Rating: Buy Risk: Very High Target Price Metric: 8x EV/EBITDA	Target Price (C\$) \$0.80 Return (%) 40% Current Price \$0.57 52 Week High/Low (C\$) \$0.66 / \$0.155 Daily Volume (100 day avg) 1,007,676	Mkt. Cap, C\$M 166.1 Shares Outstanding (M) 233.1 Fully Diluted Shares (M) 291.4 Company CEO Melinda Rombouts Website www.evecannabis.ca
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BALANCE SHEET AND CAPITALIZATION		As of FQ4/2018
\$M		
Market Capitalization		\$166
Current Cash		\$5
Working Capital		\$6
Debt		\$3
Enterprise Value (EV)		\$165

CAPITAL STRUCTURE		Shares
(M)		
Common Shares Outstanding		233.1
Fully Diluted Shares		291.4

ANNUAL FINANCIAL SUMMARY (\$M)			
Year-end May 31st	2019E	2020E	2021E
Operating Items (\$M)			
Total Kg sold	4,100	18,500	34,750
Avg. Selling Price per gram	3.67	3.69	3.29
Avg. Cost per gram	1.50	1.18	1.00

Income Statement (\$M except per share items)			
Revenue	15.0	68.3	114.5
Cost of Goods Sold	6.2	21.9	34.8
Gross Profit	8.9	46.4	79.7
Adjusted EBITDA	(2.6)	13.8	31.0
Net Income	(2.8)	9.9	23.2
EPS FD	(0.01)	0.03	0.08

Balance Sheet (\$M)			
Cash & Equivalents	16.4	24.6	46.2
Debt	21.3	21.3	21.3

Cash Flow (\$M)			
Op. CF (before W/C)	(2.5)	10.3	23.6
Financing CF	31.1	0.0	0.0
Investing CF	(19.0)	(4.0)	(4.0)
Change in Cash	11.6	8.3	21.6

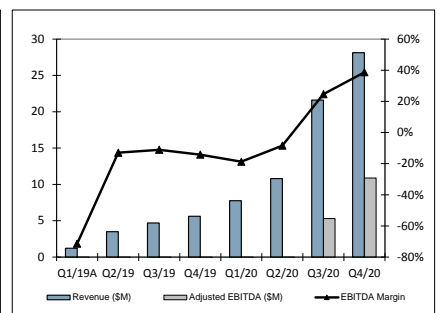
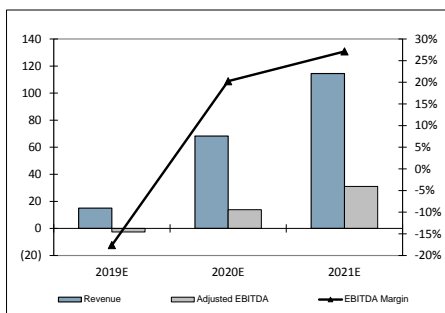
QUARTERLY RESULTS (\$M)				
Revenue	2019E	2020E	2021E	
Q1	1.2	7.8	25.6	
Q2	3.5	10.8	28.1	
Q3	4.7	21.6	29.6	
Q4	5.6	28.1	31.2	
Adj. EBITDA	2019E	2020E	2021E	
Q1	(0.9)	(1.5)	6.1	
Q2	(0.5)	(0.9)	7.3	
Q3	(0.5)	5.3	8.2	
Q4	(0.8)	10.9	9.4	

VALUATION RATIOS			
	2019E	2020E	2021E
EV / Revenue	10.9x	2.4x	1.4x
EV / EBITDA	nmf	11.9x	5.3x

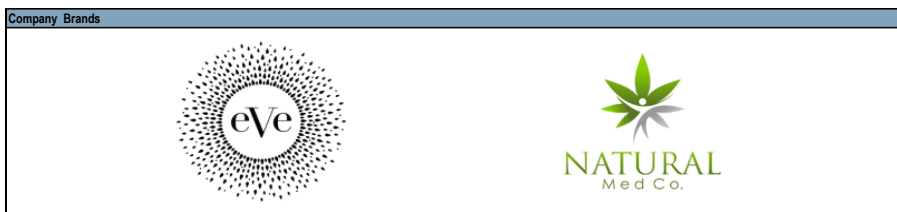
GROWTH ANALYSIS			
	2019E	2020E	2021E
Revenue		354%	68%
EBITDA		nmf	124%
Net Income		nmf	135%

MARGIN ANALYSIS			
	2019E	2020E	2021E
Gross Margin	59%	68%	70%
EBITDA	-18%	20%	27%
Net Income	-19%	14%	20%

ANNUAL and QUARTERLY REVENUE, EBITDA, and EBITDA MARGIN %



Recent Financings / M&A Activity
 March 19, 2018 - Entered \$18.7M construction facility with RBC at 1% + prime per annum
 June 15, 2018 - Closes brokered and non-brokered private placements for approx. \$10.8M gross proceeds at \$0.25/SR
 June 15, 2018 - Closes private placement of convertible debentures for gross proceeds of \$10M, 10% interest per annum convertible into 3,333 common shares at \$0.35/s for two years, convertible at \$0.30/s



PEER-GROUP COMPARABLES						
Company	Ticker	Share (\$)	EV/REVENUE		EV/EBITDA	
			2019E	2020E	2019E	2020E
Aleafia Health Inc.	TSX:ALEF	2.02	7.1x	3.3x	28.4x	11.1x
Aphria Inc.	TSX:APHA	12.33	11.5x	3.9x	--	16.8x
Aurora Cannabis Inc.	TSX:ACB	11.83	39.1x	14.1x	--	58.8x
Harvest One Cannabis Inc.	TSXV:HVT	1.03	7.7x	1.5x	--	5.5x
Invictus MD Strategies Corp.	TSXV:GENE	0.85	9.7x	1.5x	--	8.3x
James E. Wagner Cultivation Corporation	TSXV:JWCA	0.96	3.8x	1.0x	--	3.6x
The Flower Corporation	TSXV:FLWR	6.46	22.0x	5.5x	--	18.0x
The Supreme Cannabis Company, Inc.	TSX:FIRE	2.23	15.3x	4.2x	--	11.3x
VIVO Cannabis Inc.	TSXV:VIVO	0.99	4.5x	2.7x	58.1x	5.6x
Wayland Group Inc	CNSX:WAYL	0.83	--	2.1x	--	--
WeedMD Inc.	TSXV:WMD	1.99	3.1x	1.3x	11.3x	4.4x
Eve & Co Incorporated	TSXV:EVE	0.57	10.9x	2.4x	nmf	11.9x
Selected Company Average			13.0x	3.8x	34.7x	14.7x
Selected Company Average Excl. Hi / Low			10.2x	2.9x	28.4x	10.1x

Source: Bloomberg, Capital IQ, Company Reports, and Haywood Securities



Company Profile

Company History

Eve & Co (“Eve”) filed an application to become a Licensed Producer in October 2013 with Health Canada under the MMPR at the time, subsequently the ACMPR and now the Cannabis Act. The Company was granted its cultivation license in July 2016, initially operating out of a 120,000 sq. ft. greenhouse. Eve now operates out of a 220,000 sq. ft. greenhouse located in Strathroy, Ontario. The facility is located on a 32-acre property that is owned by the Company. Eve is currently undergoing a significant expansion that will see the Company operate approximately 1,000,000 sq. ft. of cannabis greenhouse. Eve has distribution agreements with three provinces, has engaged in some B2B cannabis sales and also has an agreement with a German distribution partner, that is expected to commence receipt of cannabis from Eve sometime in Q2/19.

The Company entered into a definitive agreement on October 23, 2017 with Carlaw Capital V Corp. with respect to a qualifying transaction that would result in the reverse takeover of Carlaw. Carlaw Capital V was a capital pool company that was listed on the TSX Venture Exchange. Under the terms of the agreement between the companies, Eve shareholders conducted a reverse-takeover of Carlaw Capital V and began trading on July 4th, 2018.

Production Facilities

Current Facility & Current Headquarters

Eve’s initial production facility was comprised of a 120,000 sq. ft. greenhouse situated on 32 acres in Strathroy, Ontario. The Company has since completed the construction of a 100,000 sq. ft. expansion for a new flowering room, bringing total production area to 220,000 sq. ft. Following the receipt of its license for the expanded space in early December 2018, the Company is now operating across all of its licensed area. As a result, the Company has a current monthly capacity of approximately 800 kg or just under 9,600 kg annually.

Figure 1: Inside Eve & Co Greenhouse



Source: Haywood Securities

Through Eve’s qualifying transaction, the Company raised approximately \$20M towards funding the construction of a 780,000 sq. ft expansion at the existing site with approximately \$9M of the proceeds allocated for greenhouse expansion. The Company estimates the total construction cost for the expansion at \$28M and just recently announced a credit facility in the amount of \$18.7M to support the completion of the construction. Work on the expansion commenced in June of 2018 and is expected to be complete by the summer of 2019. Upon completion, management estimates that the production capacity of the entire facility will be approximately 4,800 kg per month for a total of 50,000 kg annually.

Figure 2 below provides an aerial view of the Eve property and the expansion that is under construction. In the picture to the left, the greenhouse with an outline around it is the initial facility. Phase 1 expansion that is now complete is to the north of the original facility while the phase 2 expansion is located to the east and south of the current facility.



Figure 2: Eve & Co's Expansion Plans

Original phase 1 phase 2

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Source: Company Reports

Through the Company's financing in conjunction with its RTO transaction, Eve raised gross proceeds of approximately \$20M. The principal use of funds at the time was for the expansion plans. A summary of the intended use of proceeds and an updated use of proceeds as at the end of December 2018 is outlined in Figure 3.

Figure 3: Principal Uses of Funds

Principal Use of Available Funds	Intended Use of Proceeds (\$)	Current Estimated Use of Proceeds (\$)
Capital expenditures related to 780,000 sq. ft. expansion	9,860,000	8,860,000
Operating expenses	55,000	2,055,000
General and administrative corporate expenses	4,300,000	5,300,000
Repayment of debt	72,000	72,000
Interest on Debentures	583,333	1,153,970
Unallocated working capital	3,687,441	1,116,804
Total	18,557,774	18,557,774

Source: Company Reports, Haywood Securities



Business Overview

Sales Strategy

Eve & Co has implemented varying sales strategies for the different end markets the Company intends to compete in: Canadian Medical, Canadian Adult-Use and International Medical.

In the domestic medical market, the Company has not pursued the same approach as many other LPs to hire dedicated sales staff aimed to educate doctors and bring patients onto their platform. Instead the Company is focused on selling B2B clones and in certain cases will also consider B2B sales of cannabis to other LPs. In addition, the Company is exploring options with respect to long-term supply agreements for its medicinal product.

Female Demographic Focus

Eve has branded itself as Canada's premiere cannabis brand for all women with an emphasis on cultivating cannabis geared to the female consumer. The Company plans to provide education and support for its customers, focused on destigmatizing cannabis use among women. While the Company's initial offering is on cannabis flower and sales of clones to consumers, down the road Eve plans to introduce a broader product offering, including female specific products such as creams, lotions and beauty products.

In our view the focused approach on the female consumer could prove advantageous as that demographic continues to demonstrate strong growth. Based on a study by Eaze, in 2018, the number of female cannabis consumers increased by 92%, almost doubling the number in 2017. The overall market share of women cannabis consumers increased 3% in 2018 to 38%, up from 25% in 2015. If the pace witnessed over the past few years continues, expectations are that by 2022 there will be equal representation from men and women among cannabis consumers.

Provincial Supply Agreements

Eve has announced three provincial supply agreements with Newfoundland, British Columbia, and Ontario. While there were no specific quantities released, we believe it is encouraging that the Company was active in the process and successful at securing product agreements across three provinces. The Company will continue to service those markets with product shipped directly to the authorized regulatory agencies or in the respective provinces. Eve will also explore B2B sales for other LPs in the adult-use market if the right opportunity presents itself, however management has suggested that its preference is to ship branded product through the provinces to the consumer.

Given our view that the adult-use recreational market will continue to be supply constrained, we believe there is also opportunity for the Company to pursue its wholesale sales strategy. We think some of the LPs that have secured supply contracts may be constrained to satisfy their commitment quantities to the various provinces, and as a result will likely be more aggressive in securing wholesale product to assure their contracts with the various provinces are met.

Export Opportunity

In late January, Eve announced that it had entered into a binding non-exclusive agreement with a German importer and distributor for the sale of dried cannabis in Germany. The agreement is for an initial term of three years that includes automatic renewal for two subsequent two-year terms. Based on the details the parties agreed to, the German distributor will purchase a minimum of 2,250 kg of dried cannabis over a two-year term, with option to increase providing Eve has available product. In speaking with management, the first of these shipments is expected in Q2/19. At the outset, we understand that the agreement is for 100kg per month and management expects that could increase to 300 kg per month within the first year. Eve will be shipping bulk product to the distributor that will then be packaged by the GMP certified packaging partner in Germany.

The agreement gives Eve & Co. access to the EU market and the higher pricing currently being reported in the German medical market. As the Company continues to execute on its domestic expansion plans, this agreement could aid the Company's access to the growing European medical market.



Product Offering

Dried Cannabis

Eve is currently cultivating approximately 30 strains covering a spectrum of varieties as the Company looks to establish an array of products available for its consumers. The Company is mostly cultivating Sativa / Indica blends that include high THC, high CBD as well as balanced 1:1 strains. Management will continue to look at its strain profile to ensure it is continuing to meet the needs of its medical patients and recreational products that are in demand.

In early February, Eve announced that it had released a line of pre-rolls that were available for purchase in Newfoundland retailers and on the Cannabis NL website. The Company decided to focus on the pre-roll segment, given it is one of the highest demand products that is available in the market.

Figure 4: Dried Cannabis Product Offering






Source: Company Reports

Clones

In December 2018 Eve announced that its initial product line, cannabis clone plants, was available on the Cannabis NL website. The clones are one of the first products on the market that allows the users to grow its own cannabis plant from a LP sourced clones. These plants come in a variety of strains ranging from high THC, medium THC, and 1:1 THC/CBD levels. The Company plans on using Newfoundland as a trial run and will look towards other provinces in Q2 2019 to expand this unique offering to Canadian consumer.

Figure 5: Select Cannabis Clones for Sale by Eve & Co. through Cannabis NL

	<p>EVE & CO. (PLANTS) The Hostess Clone Plants - Clones Plants</p> <p>THC 17 - 24% CBD 1 - 3% Sativa Dominant</p>		<p>EVE & CO. (PLANTS) The Dreamer Clone Plants - Clones Plants</p> <p>THC 20 - 24% CBD 1 - 2% Indica Dominant</p>
		<p>EVE & CO. (PLANTS) The Creator Clone Plants - Clones Plants</p> <p>THC 18 - 21% CBD 0 - 1% Sativa Dominant</p>	

Source: Cannabis NL



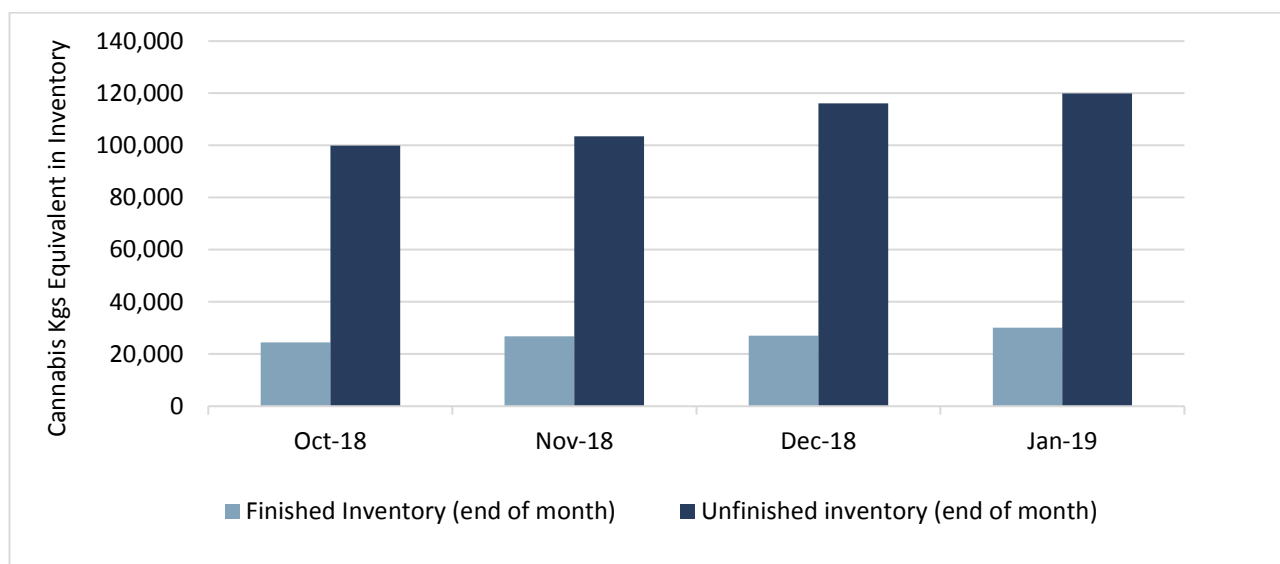
Industry Drivers

Canada's Cannabis Industry

As we have seen unfold over the first six months of the adult-use framework, the legal Canadian marketplace is significantly undersupplied. We attribute this both to the evolution and progress that the various licensed producers across the country have made, but also to the lack of readiness on behalf of the provinces. The market is not only challenged by lack of 'saleable' product, but also a distribution system that still needs logistical sorting. Each of the provinces has had its own challenges, primarily driven by lack of supply, which we foresee persisting through the balance of 2019.

Some of Canada's most recent data on cannabis sales and inventory levels not only highlight the lack of penetration the legal channel has achieved, but also very limited conversion from unfinished to finished inventory. We maintain that many of the LPs are challenged to grow product at scale that will meet the requirements of the consumers. In addition, we expect a lot of the unfinished inventory is product that has been or will be extracted both for oil sales but more likely derivative product sales. As we cover later in this report, there is much anticipation for the upcoming product expansion in the fall of 2019.

Figure 6: Canadian Cannabis in Inventory and Total Cannabis Sales by Market and Product Category



Source: Health Canada, Haywood Securities

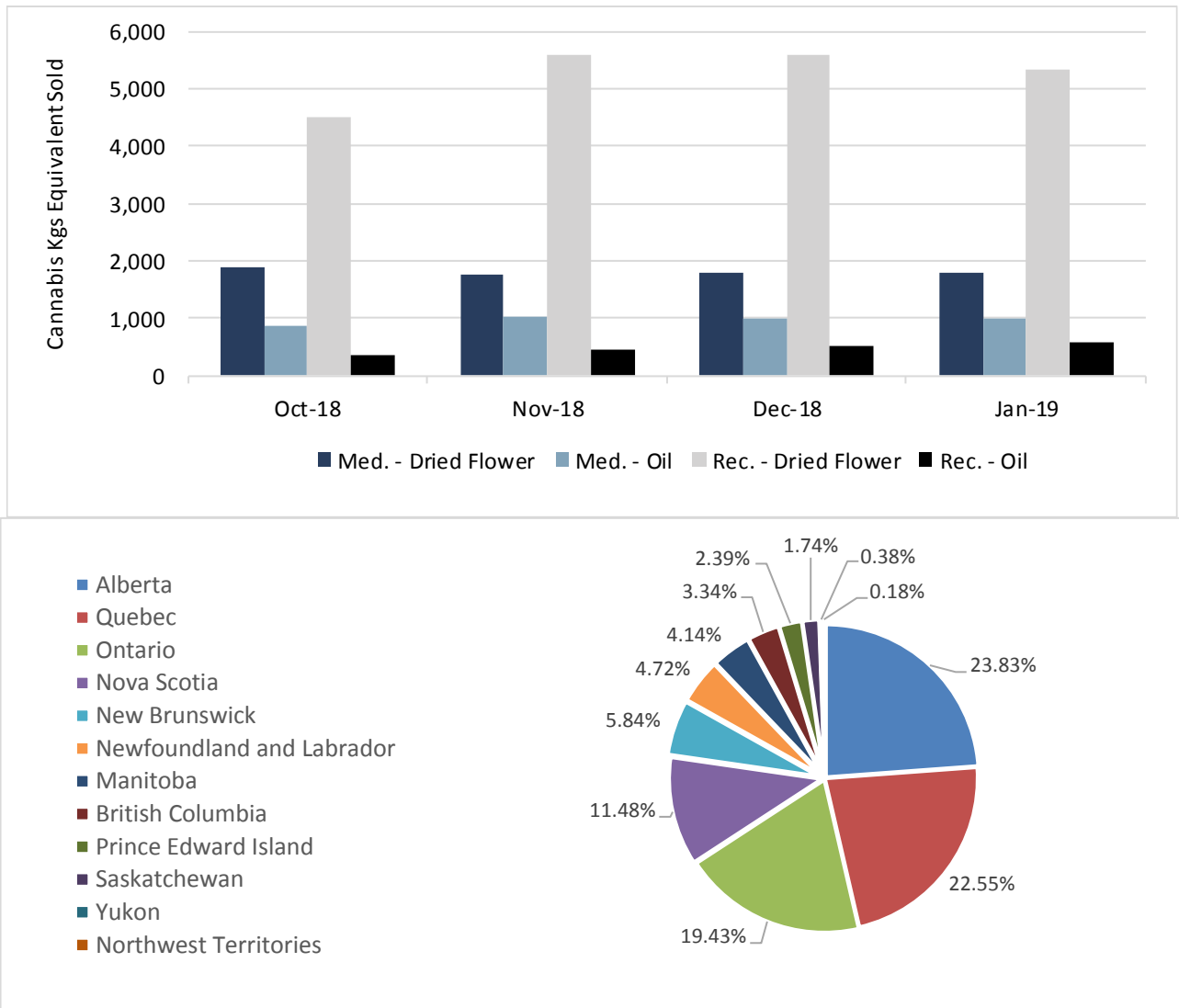
Total sales of recreational cannabis from October 2018 to January 2019 was approximately \$205M. Figure 7 includes two charts that outline the break-down of sales by channel and type and the second chart of sales by province. Alberta is currently the largest market in Canada and represents about 12% of the Canadian population. We expect Ontario will increase its percentage of sales as retail locations begin opening after April 1, 2019. With approximately 39% of the country residing in Ontario we expect a ramp up in total sales after retail is available in the province, albeit limited by the 25 initial locations that were allocated.

British Columbia, home to 13% of Canadians, has also been slow to roll out its retail program with only a couple of stores open to date. Even though its online program has been launched and is operational, its total sales are still less than a third of Nova Scotia, which accounts for only 2.6% of the country's population.

With the addition of the edible, concentrates, and topical products, we expect significant growth in recreational sales once consumers have access to more retail locations and a more diverse range of products.



Figure 7: Canadian Market Sales by Product and Provincial Sales by Province (%)



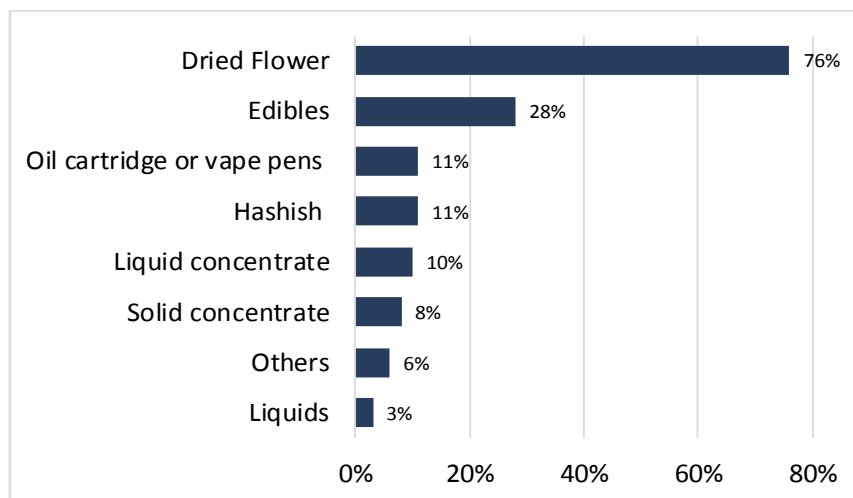
Source: Stats Canada, Haywood Securities

Canadian Cannabis 2.0: Edibles, Concentrates and Topicals

According to surveys administered by Deloitte, 60% of current consumers of cannabis and 49% of probable consumers consider the range of available products to be an important purchasing criterion. 58% of likely consumers plan to purchase and consume edibles and about one in three (34%) say that they are willing to try new and different forms of products. From this data we can determine that Canadian consumers are anticipating the change in regulations coming later this year, and that alternatives to flower and oil products will be popular when Canada’s new regulations are implemented.

In April 2018, Macleans published an article that gathered insights from Statistics Canada regarding consumption habits of Canadian cannabis consumers. Data showed that 76% of Canadian cannabis consumers were consuming dried cannabis more than any other product group, followed by edibles and hashish, and then oil cartridge or vape pens. As the new formats of products are implemented into the Cannabis Act, we expect to see patterns similar to the mature market in the U.S., where concentrates, edibles and topicals make up 40%-60% of products sold.



Figure 8: Types of Cannabis Products Used by Canadian in During Prohibition

Source: Macleans, Statistic Canada, and Haywood Securities

On December 20, 2018, Health Canada announced proposed regulations for Phase II of cannabis legalization: Edibles, Concentrates, and Topicals. Phase II will include cannabis edibles (solid and beverages), cannabis extracts (ingested, inhaled, and concentrated), and cannabis topical products, and will be introduced no later than October 17, 2019. Health Canada has recently completed a two-month public consultation process that closed February 20, 2019. During the consultation process Health Canada held roundtable discussions around the country and accepted feedback from the public through the Health Canada website. As seen in more mature cannabis markets such as California, Colorado, and Oregon, cannabis edibles and concentrates make between 40%-60% of the total products sold, foreshadowing a large opportunity for Canadian LPs.

Much like the packaging regulations that were enacted for Phase I, the new proposed rules aim to protect youth by requiring packaging be unappealing in nature and by limiting THC levels per package. The Phase II packaging will also feature the standard cannabis symbol, child-resistant packaging, health warning, and the THC/CBD content of the product. All products must not make any health claims and contain no elements that would be associated with products or brands of alcohol companies.

Unlike the rules around alcohol, edible products must have ingredients and nutritional facts on the label. Edibles must also be “shelf stable”, not requiring refrigeration nor freezing. Edibles cannot contain added vitamins, minerals, or alcohol and restricts caffeine only to naturally occurring amounts that may be found in chocolates or teas, for example. Edibles also cannot contain more than 10mg of THC per package, a limit that many consider to be low and will likely come under scrutiny in the public consultation process.

Cannabis extracts such as ingestibles (capsules and soft gels), inhalable products (vapes), concentrates (shatter, wax, budder, etc.) will be limited to 1,000 mg of THC per package. The products can not contain sugars, colours, sweeteners nicotine or caffeine.

Cannabis topicals are intended for use on skin, hair, and nails and cannot be intended for use on broken skin or in the eyes. These products will need to include pharmaceutical grade ingredients and cannot make health or cosmetic claims.

Outlook

We expect the Canadian market to remain under-supplied into 2020. With an estimated 800,000 kg of cannabis of demand from both the medical and adult-use markets, Canadian LPs will continue to struggle to meet demand. There is a significant amount of capacity that is expected to come on-line into H2/19, including additional product from Eve and Co’s expanded facility in late 2019.

As the LPs focus more of their harvested cannabis to meet the upcoming alternative product formulations which could continue to leave the market under-supplied. In addition, as the LPs try to scale-up production of derivative products, we believe the market will be met with a shortfall of product once again. The reality is that the companies need time to develop and refine their new product offerings, while also scaling cannabis cultivation.

We expect the oils, or derivative products (i.e. capsules), to continue to gain traction in the medical market. First, we believe doctors are more comfortable prescribing a medication that does not require patients to smoke or inhale. In addition, oils/extracts allow doctors to more accurately prescribe certain dosage levels and enhance ease for patients to take their medicine.



RTO Transaction Financing

EVE completed financings on June 15th, 2018 raising total gross proceeds of approximately \$20.8 million. The terms of the brokered private placement financing were on a subscription receipt basis priced at \$0.25 per subscription receipt that was exchanged for one common share. The Company issued 25,340,000 subscription receipts at a price of \$0.25. In addition, Eve completed a non-brokered private placement for 17,852,600 common shares at a subscription price of \$0.25. Total gross proceeds raised from these equity financings was \$10.8 million.

In addition to the equity financings, Eve completed a debenture financing for gross proceeds of \$10 million. The Company issued 10,000 debenture units with each unit consisting of a \$1,000 principal amount unsecured convertible debenture maturing in two years with an interest rate of 10% and common share purchase warrants exercisable into 3,333 common shares at a price of \$0.35 for two years. The convertible debentures convert at a price of \$0.30 per share.

Credit Facility

On March 19, 2019 Eve announced that it had entered into a \$18.7M construction facility with the Royal Bank of Canada to fund the completion of the 780,000 square foot expansion. The Company noted that it expects the facility to be replaced with a non-revolving term facility following completion of the construction. Interest on the facility is currently set at 4.95%, which is based on the current prime rate of 3.95% plus 1.00%. We view this as an important milestone for Eve that significantly de-risked the profile of the Company and its expansion plans.

Strong Greenhouse and Agricultural Experience

Eve possesses a strong production team with significant experience in greenhouse growing experience as well as agriculture. The original founders of Eve have more than 65 years of combined growing experience in a greenhouse. The CEO, Melinda Rombouts, has more than 22 years herself growing a variety of products under glass, while the Rombouts family are currently included in large scale greenhouse production of more than 50 acres, overseeing various expansion projects across that platform. Along with that experience comes knowledge with respect to managing greenhouse expansion and associated best practice.

Strong Insider Ownership

Figure 9 outlines the insider ownership by the top four shareholders of Eve and the total insider ownership. The largest shareholder is the CEO, Melinda Rombouts, owning approximately 36.4% of the basic shares outstanding between herself and affiliates. As a group, insider ownership accounts for approximately 120.2 million basic shares outstanding or approximately 51.6% of the basic shares outstanding.

Figure 9: Insider Ownership

Shareholder	Basic Shares	% Basic Shares Outstanding
Melinda Rombouts and Affiliates	84,800,000	36.4%
Clark Moeller holdings	17,309,728	7.4%
Kaleron Holdings Ltd.	16,400,000	7.0%
Ravi Sood (Director)	1,715,914	0.7%
Total Insider Ownership	120,225,642	51.6%
Widely Held	112,923,691	48.4%
Total	233,149,333	100.0%

Source: Company Reports, Haywood Securities



Outlook

Estimates

Eve received its full license under the Cannabis Act in early December 2018. As a result, we expect minimal revenues in its quarter ending December 31, 2018 (It's important to note the Company is currently undergoing a fiscal year end change to December 31, 2018).

As the Company ramps up its production across its licensed area, we expect a more meaningful ramp-up of its sales through both the execution of its existing provincial supply agreements as well as shipments through its German distributor. We forecast F2019 revenues of \$15.0M with an EBITDA loss of \$2.6M.

With the completion of its Phase 2 expansion and scale up by late H1/19, we anticipate a solid ramp-up of revenues and earnings heading into 2020. We expect Eve to achieve sales of approximately 18,500 kg of product versus its projected capacity of approximately 50,000 kg. That results in our revenue forecast of \$68.3M and EBITDA of \$13.8M. For 2021 we estimate sales of \$114.5M on sales volumes of 34,750kg translating to EBITDA of \$31.0M.

Figure 10: Financial Forecast

FYE Dec-31	F2019E	F2020E	F2021E
Revenue (\$M)	\$15.0	\$68.3	\$114.5
Gross Profit (\$M)	\$8.9	\$46.4	\$79.7
Gross Margin %	59.1%	67.9%	69.6%
EBITDA (\$M)	(\$2.6)	\$13.8	\$31.0
EBITDA margin %	-17.6%	20.3%	27.1%
Net Income (\$M)	(\$2.4)	\$10.2	\$23.5
EPS	(\$0.01)	\$0.04	\$0.08

Source: Company Reports, Haywood Securities



Valuation

Our primary valuation metric is EV/EBITDA on a steady state or potential run rate basis. We believe that attempts to capture the market opportunity and earnings potential given the high growth rate expected in the industry overall. We forecast Eve to be close to their run-rate capacity with our F2021 estimates. We use an 8x EV/EBITDA multiple on our F2021 EBITDA estimate and then discount by 15%.

Figure 11: Valuation

	2021
EBITDA	\$31.0
Target EV/EBITDA Multiple	8.0
Implied EV	\$248.3
Net Debt	(\$24.9)
Implied Equity Value	\$273.3
Implied Equity Value discounted	\$232.27
Shares Outstanding	291.4
Implied Share Price Target	\$0.80

Source: Haywood Securities Estimates

Figure 12: Comparable Companies Table

Company	Ticker	Price	Capital Structure				EV/Revenue				EV/EBITDA			
			Mkt Cap (C\$M)	Cash (C\$M)	Debt (C\$M)	EV (C\$M)	FY2018 (x)	FY2019 (x)	FY2020 (x)	FY2021 (x)	FY2018 (x)	FY2019 (x)	FY2020 (x)	FY2021 (x)
Abacus Health Products, Inc.	CNSX:ABCS	\$16.30	90.7	4.4	2.2	87.9	10.2x	2.3x	1.1x	--	58.6x	9.4x	3.4x	--
Acreage Holdings, Inc.	CNSX:ACRG.U	\$21.87	1,815.0	74.1	58.3	1,817.1	115.7x	4.7x	3.5x	2.0x	--	54.1x	6.4x	7.6x
Aleafia Health Inc.	TSX:ALEF	\$2.02	549.3	22.8	0.0	526.5	103.9x	7.1x	3.3x	1.7x	--	28.4x	11.1x	4.9x
Aphria Inc.	TSX:APHA	\$12.33	3,086.3	184.8	55.2	2,975.2	81.5x	11.5x	3.9x	2.7x	333.8x	--	16.8x	11.2x
Aurora Cannabis Inc.	TSX:ACB	\$11.83	11,975.4	164.8	347.6	12,165.8	196.2x	39.1x	14.1x	8.7x	--	--	58.8x	30.5x
Beleave Inc.	CNSX:BE	\$0.09	43.4	1.8	7.7	51.5	10.3x	22.1x	1.1x	--	--	--	--	4.5x
Cannex Capital Holdings Inc.	CNSX:CNNX	\$1.74	319.7	11.9	7.4	313.6	--	20.9x	18.4x	--	--	34.8x	28.5x	--
CannTrust Holdings Inc.	TSX:TRST	\$13.45	1,420.8	86.3	10.3	1,344.8	25.7x	7.4x	4.8x	3.3x	1171.0x	26.9x	14.4x	10.8x
Canopy Growth Corporation	TSX:WEED	\$57.49	19,759.9	4,933.5	791.5	15,813.3	199.6x	64.6x	19.0x	11.7x	--	--	96.0x	46.5x
Charlotte's Web Holdings, Inc.	CNSX:CWEB	\$26.14	2,389.5	79.4	0.5	2,287.6	32.7x	14.3x	7.7x	4.1x	98.8x	41.0x	21.5x	11.1x
Cresco Labs Inc.	CNSX:CL	\$15.08	544.7	93.9	0.0	424.5	8.2x	1.5x	0.8x	--	37.4x	4.6x	2.4x	--
Cronos Group Inc.	TSX:CRON	\$24.75	8,241.2	32.6	21.0	8,229.7	385.2x	101.3x	32.9x	21.1x	--	--	110.0x	66.0x
Curaleaf Holdings, Inc.	CNSX:CURA	\$12.60	5,766.2	48.1	115.2	5,796.6	62.7x	16.0x	9.6x	7.5x	--	46.2x	16.3x	16.9x
DionysMed Brands Inc.	CNSX:DYME	\$3.40	44.0	0.1	4.1	51.8	4.9x	0.3x	0.2x	0.2x	--	3.2x	1.1x	1.1x
Emerald Health Therapeutics, Inc.	TSX:EMH	\$4.03	575.3	52.9	2.5	525.0	250.0x	145.8x	7.5x	14.3x	--	--	--	15.6x
Green Thumb Industries Inc.	CNSX:GTII	\$18.57	3,771.4	149.8	7.6	3,644.8	58.7x	15.9x	7.8x	6.0x	--	77.2x	26.1x	27.5x
Harvest Health & Recreation Inc.	CNSX:HARV	\$12.72	3,574.0	28.2	59.4	3,620.6	83.4x	17.4x	6.6x	6.2x	627.9x	67.0x	17.8x	15.7x
Harvest One Cannabis Inc.	TSXV:HVT	\$1.03	187.6	41.0	0.0	146.6	158.9x	7.7x	1.5x	0.9x	--	--	5.5x	3.3x
HEXO Corp.	TSX:HEXO	\$8.55	1,799.2	165.6	0.0	1,633.7	320.8x	26.2x	4.6x	2.8x	--	--	16.5x	10.6x
iAnthus Capital Holdings, Inc.	CNSX:IAN	\$7.72	1,176.8	27.0	30.4	1,180.2	333.8x	6.9x	3.6x	2.1x	--	31.5x	12.5x	7.0x
Invictus MD Strategies Corp.	TSXV:GENE	\$0.85	102.6	23.8	6.7	87.2	41.5x	9.7x	1.5x	1.0x	--	--	8.3x	4.0x
James E. Wagner Cultivation Corporation	TSXV:JWCA	\$0.96	84.5	9.0	0.0	75.5	37.8x	3.8x	1.0x	--	--	--	3.6x	--
Liberty Health Sciences Inc.	CNSX:LHS	\$0.93	318.5	19.2	10.7	310.0	522.8x	17.4x	3.0x	1.9x	--	--	11.9x	6.1x
MediPharm Labs Corp.	TSXV:LABS	\$3.09	324.3	6.8	2.0	319.7	32.8x	3.3x	1.7x	1.0x	--	15.2x	5.8x	3.4x
MedMen Enterprises Inc.	CNSX:MMEN	\$4.43	705.3	87.7	103.3	755.7	25.7x	4.2x	1.6x	0.8x	--	--	15.6x	3.1x
MJardin Group, Inc.	CNSX:MJAR	\$3.85	344.6	2.5	31.8	382.5	13.7x	3.0x	1.9x	--	159.4x	6.2x	3.7x	--
OrganiGram Holdings Inc.	TSXV:OGI	\$8.96	1,320.8	95.9	98.7	1,323.6	93.3x	10.9x	5.8x	4.3x	--	28.8x	15.0x	11.1x
Origin House	CNSX:OH	\$11.80	773.5	75.3	28.3	726.7	26.1x	4.5x	2.5x	1.9x	--	30.8x	13.1x	9.7x
Plus Products Inc.	CNSX:PLUS	\$5.62	137.6	11.1	0.0	123.2	15.5x	6.2x	1.7x	1.0x	--	--	18.1x	11.6x
Plus Products Inc.	CNSX:PLUS	\$5.62	137.6	11.1	0.0	123.2	15.5x	6.2x	1.7x	1.0x	--	--	18.1x	11.6x
Sunniva Inc.	CNSX:SNN	\$5.00	191.6	3.6	23.6	211.7	10.5x	1.0x	0.6x	0.4x	--	3.2x	1.9x	1.4x
The Flower Corporation	TSXV:FLWR	\$6.46	561.3	39.7	0.0	521.7	282.0x	22.0x	5.5x	3.6x	--	--	18.0x	9.5x
The Green Organic Dutchman Holdings Ltd.	TSX:TGOD	\$4.62	1,254.0	213.5	1.1	1,041.6	213.7x	11.2x	2.0x	1.9x	--	--	10.2x	6.3x
The Supreme Cannabis Company, Inc.	TSX:FIRE	\$2.23	647.8	92.0	72.3	628.2	76.2x	15.3x	4.2x	3.6x	--	--	11.3x	16.4x
Tilray, Inc.	NASDAQ:TLRY	\$64.85	6,277.0	517.6	429.1	6,188.5	147.6x	30.0x	13.8x	9.9x	--	--	142.2x	33.9x
TILT Holdings Inc.	CNSX:TILT	\$2.75	284.4	2.3	0.0	282.1	35.3x	0.6x	0.3x	--	--	1.9x	0.9x	--
Trulieve Cannabis Corp.	CNSX:TRUL	\$17.67	1,991.1	42.1	20.5	1,963.1	19.6x	8.9x	6.7x	5.8x	45.4x	20.6x	15.2x	13.9x
Valens Groworks Corp.	CNSX:VGW	\$3.00	282.1	25.2	0.0	256.9	5773.2x	6.0x	2.3x	1.5x	--	--	12.7x	4.3x
Village Farms International, Inc.	TSX:VFF	\$17.65	840.9	11.9	38.0	876.5	4.5x	3.6x	3.2x	--	184.9x	24.4x	11.7x	--
VIVO Cannabis Inc.	TSXV:VIVO	\$0.99	291.9	100.4	28.3	219.8	16.9x	4.5x	2.7x	0.7x	--	--	58.1x	5.6x
Wayland Group Corp.	CNSX:WAYL	\$0.83	180.6	14.0	16.4	183.0	14.9x	--	2.1x	--	--	--	--	5.2x
WeedMD Inc.	TSXV:WMD	\$1.99	221.6	38.1	2.4	185.9	22.7x	3.1x	1.3x	--	--	11.3x	4.4x	4.0x
Average							241.1x	17.3x	5.2x	4.2x	301.9x	27.7x	20.6x	12.8x
Median							41.5x	7.7x	3.1x	2.4x	159.4x	26.9x	12.5x	9.7x
Average (excl Hi/Lo)							105.3x	14.4x	4.6x	3.8x	215.5x	26.6x	17.9x	11.5x

Source: Company Reports, Haywood Securities



Significant Investment Risks

The investment to which this report relates carries various risks which are reflected in our Overall Risk Rating. We consider the following to be the most significant of these investment risks:

- ◆ **Reliance on License** – Eve is reliant on its license from Health Canada to grow, cultivate and process cannabis flower for sales to provinces or wholesale product sales. Any change to the overall framework and regulations could be positive or negative to Eve’s business opportunities both in Canada and internationally.
- ◆ **Facility Risk** – Eve is dependent on its facility infrastructure to grow, cultivate and process cannabis for use by consumers across Canada. Anything that may impact the facilities that it operates would impact its ability to grow and sell to its potential customers.
- ◆ **Competition** – The medical cannabis market and adult-use recreational market in Canada is expected to have strong competition that are all pursuing the population within Canada. As Health Canada continues to approve and expand the number of licensed producers it could increase competition within the industry.
- ◆ **Execution Risk** – Eve needs to execute on its expansion plans at its facility in Strathroy. As is inherent in any expansion or capital improvement project it is susceptible to execution risk to complete on time and on budget.



Appendix A – Management

Melinda Rombouts – Chief Executive Officer, President

Prior to founding Natural MedCo, Ms. Rombouts was the president, manager and owner of numerous large-scale businesses in the agricultural, food, real estate and pharmaceutical industries and through these gained experience and knowledge in marketing, advertising, finance, project management and business development.

Ms. Rombouts has grown hundreds of varieties of plants and through this experience, she has gained extensive plant knowledge crucial to the growth of a healthy plant and high-quality product. She also has experience with Quality Assurance, GPP program and Standard Operating Procedures development, implementation and improvement with strict adherence to the regulations governing the pharmaceutical industry.

Ms. Rombouts holds a BA and BSc from the University of Waterloo with specialization in Plant Biology and Legal Studies.

Landon Roedding – Chief Financial Officer

Mr. Roedding brings over 15 years of experience in accounting, financing, and business development within the public markets and has a demonstrated ability to manage financial and operational challenges while managing a dynamic and growing business. Previously, Mr. Roedding was Controller at Blue Goose Capital Corp., where he led the financial planning, reporting, restructuring and human resource functions. Previously, Mr. Roedding held positions as Director, Financial Reporting at Kinross Gold and Senior Manager of Financial Reporting at Sherritt International Inc. and, prior to those positions he spent 8 years at PricewaterhouseCoopers LLP in their assurance practice.

Mr. Roedding is a Canadian Chartered Professional Accountant and holds an a Honours Economics and Accounting degree from Wilfrid Laurier University. Mr. Roedding also serves on the Board of Directors of Project C.A.N.O.E., a not for profit charity focused on serving youth facing systemic or mental health barriers.



Appendix B – Independent Directors

T.A. Clark Moeller IV- Director

Mr. Moeller lives in Wichita, Kansas and is the head of EQ Development, a company focused on private equity investments. With a background in lodging, commercial and residential real estate development, Mr. Moeller also has extensive experience in business operations across a wide variety of segments.

Mr. Moeller has broad experience in the cannabis industry with investments in Canada and the Colorado market.

Mr. Moeller graduated with honors and received his B.A. in United States History from the University of Kansas.

Ravi Sood - Director

Mr. Sood is the managing director of Signal 8 Limited. Mr. Sood has been a founder of and the principal investor in several businesses in emerging markets and currently serves as Executive Chairman and Director of Galane Gold Ltd. (TSXV:GG) and Blockchain Power Trust (TSXV:BPWR) and as a director of Feronia Inc. (TSXV:FRN), and ICC Labs Inc. (TSXV:ICC).

He was the founder and Chief Executive Officer of Navina Asset Management Inc., a global asset management firm headquartered in Toronto, Canada. Mr. Sood led the investment activities of Navina and its predecessor company, Lawrence Asset Management Inc., from its founding in 2001 until he sold the firm in 2010.

Shari Mogk-Edwards - Director

Ms. Mogk-Edwards' previous career spans over 35 years with one of the largest single buyers of beverage alcohol in the world –the Liquor Control Board of Ontario (the "LCBO").As the Vice President, Products, Sales and Merchandising, she led a high-performance team of 100 category and inventory specialists and directed sales of over \$5B. She also developed and led VINTAGES, the fine wine department at the LCBO, to annual sales from \$23M to over \$500M. As a face of the LCBO, Shari managed her "Shari's Picks" program, promoted responsible consumption, regularly represented the LCBO at trade, television and radio events, and was a key note speaker at countless events.

At her new consulting company, Ms. Mogk-Edwards is now focused on breaking down barriers and developing businesses. She shares her knowledge and experiences through her personal approach.

Mehraneh Ebrahimi - Director

Dr. Ebrahimi is the head of academic research of her family's investment business, which holds various interests in agricultural, real estate and private equities. Prior to that, she taught at Western University in London, Ontario, where she received her PhD in World Literature.

Speaking four languages and conducting research on the role of the disenfranchised, women, and minorities in world affairs have helped Dr. Ebrahimi understand the unique international cultural kaleidoscope of Canada.

She is the recipient of several teaching awards and scholarships and the author of a forthcoming book entitled Women, Art and Literature in Diaspora. Her diverse experiences both academic and managerial shape her understanding of business and social life, especially women and immigrants.



Important Information and Legal Disclosures

This report may be distributed in the following states: nil. Otherwise, this report may only be distributed into those states with an institutional buyer state securities registration exemption.

Analyst Certification

I, Neal Gilmer, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

Important Disclosures

Of the companies included in the report the following Important Disclosures apply:

Ticker	Company	1	2	3	4	5	6	7	8
TSX:APHA	Aphria Inc.	X		X	X		X		
CNSX:TRST	CannTrust Holdings Inc.			X	X				
TSXV:EVE	Eve & Co Inc.			X	X		X		
TSXV:HVT	Harvest One Cannabis Inc.								
TSXV:JWCA	James E.Wagner Cultivation Corp.			X					
TSXV: OGI	Organigram Holdings Inc.			X	X				
CNSX:VGW	Valens Grow Works	X		X	X		X		
TSXV:WMD	Weed MD			X					
1	The Analyst(s) preparing this report (or a member of the Analysts' households) have a financial interest in this company.								
2	As of the end of the month immediately preceding this publication either Haywood Securities, Inc., one of its subsidiaries, its officers or directors beneficially owned 1% or more of this company.								
3	Haywood Securities, Inc. has reviewed lead projects of this company and a portion of the expenses for this travel have been reimbursed by the issuer.								
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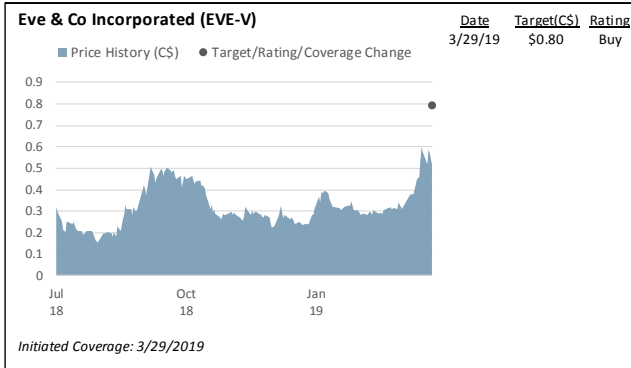
◆ n/a

Distribution of Ratings (as of March 29, 2019)

	%	#	IB Clients (TTM)
Buy	76.5%	78	96.2%
Hold	8.8%	9	3.8%
Sell	1.0%	1	0.0%
Tender	2.0%	2	0.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	11.8%	12	0.0%



Price Chart, Rating and Target Price History (as of March 29, 2019)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review
Source: Capital IQ and Haywood Securities

Link to Research Policy: <http://haywood.com/what-we-offer/research/research-policy>

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