

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

March 28, 2019

The Green Organic Dutchman Holdings Ltd. (TSX: TGOD) – First Production Facility Greenlit / Reports First Revenue Quarter

Sector/Industry: Cannabis

www.tgod.ca

Market Data (as of March 28, 2019)

Current Price	C\$4.78
Fair Value	C\$7.60
Rating*	BUY
Risk*	4
52 Week Range	C\$2.19 - C\$8.78
Shares O/S	271,435,887
Market Cap	C\$1.30 B
Current Yield	N/A
P/E (forward)	N/A
P/B	3.14x
YoY Return	N/A
YoY TSX	5.13%

*see back of report for rating and risk definitions



Highlights

- **Hamilton Facility Gets the Green Light:** The company received approval from Hamilton City Council, allowing them to move forward with production at the facility despite the city council's resistance last year.
- TGOD recently filed their annual audited financial statements. Q4-2018 marked the company's first revenue quarter, though revenue was derived from HemPoland and not from domestic cannabis operations.
- **HemPoland's Debut:** HemPoland generated \$1.88 million in revenue for TGOD during Q4-2018. Whilst a historic moment, the number reported is concerning given our previous HemPoland revenue forecast of \$15.23 million in 2019. We have revised our 2019 revenue forecast for HemPoland to \$9.14 million.
- **2019 Revenue Forecast Drops Slightly:** 2019 revenue has been revised from \$47.73 million to \$41.64 million. Revenue forecasts after 2019 remain the same.
- **We are revising our fair value per share estimate of \$7.76 to \$7.60.**

Key Financial Data (FYE - Dec 31)

(C\$)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Revenue	\$ -	\$ -	\$ 1,879,000	\$ 41,635,000	\$ 231,288,415
Net Income	\$ -161,154	\$ -13,459,000	\$ -45,203,000	\$ -26,681,606	\$ 66,163,936
EPS	\$ -0.00	\$ -0.12	\$ -0.21	\$ -0.10	\$ 0.24
Cash	\$ 2,808,738	\$ 63,735,857	\$ 213,549,000	\$ 110,634,655	\$ 144,721,860
Working Capital	\$ 2,559,977	\$ 61,737,945	\$ 257,707,000	\$ 125,823,705	\$ 166,285,064
Debt	\$ 250,000	\$ -	\$ 1,100,000	\$ 1,100,000	\$ 1,100,000
Total Assets	\$ 15,358,809	\$ 96,977,161	\$ 445,957,000	\$ 415,802,169	\$ 516,064,570
Shareholders' Equity	\$ 10,253,928	\$ 77,248,219	\$ 413,695,000	\$ 407,157,794	\$ 484,398,070

Hamilton Facility Receives Approval

On March 28, 2019, TGOD announced that they had received approval from the Hamilton City Council to move ahead with the development and operation of their Hamilton facility in Ancaster, Ontario. The vote to approve the company's settlement offer comes after the council had originally voted against allowing the facility to operate, throwing a wrench in the company's production schedule. With the green light, TGOD can now move to bring the facility to full commercial production, bringing online 17,500 kg of fully-funded cannabis production. The facility is expected to come online in June 2019, and will employ up to 85 people.

First Revenue Quarter: HemPoland Revenues Clock in at \$1.88 million

The company's Q4-2018 was a historic one as it marked the beginning of revenue generation for the company. The revenue was derived from their recently acquired HemPoland subsidiary, which is a wholly-owned producer of CBD oils and other infused products. The company reported HemPoland revenue of \$1.88 million in Q4-2018, and total cost of sales of \$1.97 million. Though this implies a negative gross profit, readers should note that cost of sales related to the production, or actual COGS, was \$0.67 million, and \$1.29 million of the reported cost of sales was related to business combination expenses. **Adjusted gross profit on HemPoland's inaugural sales through TGOD was \$1.19 million for a gross margin of 63.49%.**

STATEMENTS OF OPERATIONS		
(in CS) - YE Dec 31st	2017	2018
Revenue		1,879,000
COGS		1,971,000
Gross Profit	-	(92,000)
Fair Value Adj.	300,000	304,000
Adj. Gross Profit	300,000	212,000
EXPENSES		
SG&A Expense	5,431,000	31,707,000
Research and Development Costs	1,403,000	2,815,000
Investee's Income		1,136,000
Share-based Compensation	8,109,000	9,154,000
EBITDA	(14,643,000)	(44,600,000)
Depreciation	455,000	1,060,000
Amortization		
EBIT	(15,098,000)	(45,660,000)
Financing Costs	(252,000)	(2,770,000)
EBT	(14,846,000)	(42,890,000)
Non-Recurring Expenses	169,000	2,662,000
Taxes	(1,556,000)	(349,000)
Net Profit (Loss)	(13,459,000)	(45,203,000)
FOREX		(513,000)
Net Profit (Loss) to Shareholders	(13,459,000)	(44,690,000)
weighted Average Shares outstanding	112,526,107	219,968,129
Earnings per Share	\$ -0.12	\$ -0.21

Source: FRC, Financial Statements

2019's Revenue Forecast Lowered on HemPoland Contribution Below Expectations

Though the generation of revenue was surprising, as we had not expected revenue to be reflected in the company's financials in their year-end reporting, the actual level of revenue was disappointing on an annualized basis. To our knowledge, HemPoland is an operation that has been generating revenue for at least two years. Our projection for HemPoland's 2019 revenue was \$15.23 million, which would contribute to forecasted firm-wide revenue of \$47.73 million in 2019. **However, based on actual results for Q4-2018, we are revising our 2019 revenue forecast of \$47.73 million to \$41.64 million.** Our previous revenue guidance past 2019 remains unchanged. According to management, HemPoland's revenues in the quarter were negatively impacted by their transition into TGOD.

SG&A Expenses Higher Than Expected

SG&A expenses for the full year were significantly above our forecasted \$21.74 million number, with 2018 SG&A of \$31.71 million. Due to the larger than expected operating expenses, EBITDA for 2018 was -\$44.60 million, far lower than our forecast of -\$34.01 million. According to management, SG&A expenses increased significantly in Q4-2018 due to corporate costs related to ramping up operations.

Due to the large increase in operating expenses, we are raising our forecasted net loss in 2019 from \$10.28 million (EPS: -\$0.04) to \$26.68 million (EPS: -\$0.10). Our forecasted net earnings for years past 2019 are only slightly affected.

The company's cash flows are outlined below. Free cash flows in 2018 are negative due to the large CAPEX requirements of the company's cultivation facilities, as well as the numerous acquisitions undertaken since our initiating report. **To repeat sentiment from our previous update, existing cash balances should satisfy all forecasted capital requirements.**

Summary of Cash Flows		
(\$, mm)	2017	2018
Operating	-\$4.15	-\$44.97
Investing	-\$6.75	-\$118.18
Financing	\$71.77	\$313.51
Effects of Exchange Rate	\$0.06	-\$0.56
Net	\$60.93	\$149.81
Free Cash Flows to Firm (FCF)	-\$10.90	-\$163.14

Source: FRC, Financial Statements

Cash Position Remains Strong

The following table outlines the company's liquidity and capital structure at the end of 2018. The company's cash position stood at \$213.55 million, with working capital of \$257.71 million and a current ratio of 9.63x. **The liquidity position of the company remains strong, and the cash balance is more than sufficient to cover our forecasted CAPEX schedule with left over capital available for inorganic growth initiatives.**

Valuation

(in C\$) - YE Dec 31st			
Liquidity & Capital Structure		2017	2018
Cash		\$ 63,735,857	\$ 213,549,000
Working Capital		\$ 61,737,945	\$ 257,707,000
Current Ratio		4.13	9.63
LT Debt	\$	-	\$ 261,000
Total Debt	\$	-	\$ 1,100,000
LT Debt / Capital		-	0.00
Total Debt / Capital		-	0.00
Total Invested Capital	\$	13,512,362	\$ 201,246,000

Source: FRC, Financial Statements

Stock Options and Warrants: We estimate that the company has 12.43 million stock options (weighted average exercise price of \$2.83), and 67.64 million warrants (weighted average exercise price of \$5.16) outstanding. 10.96 million options and 38 million warrants are currently in the money. **The company has the potential to raise up to \$137.70 million if all the in-the-money options and warrants are exercised.**

DCF Valuation

Based on changes to our models, our updated fair value is \$7.60 per share versus our previous estimate of \$7.76 per share.

DCF Model	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Terminal
EBIT(1-tax)	\$ -19,477,573	\$ 66,163,936	\$ 121,223,541	\$ 196,238,097	\$ 222,865,051	\$ 246,213,123	\$ 266,345,731	
Non-Cash Expenses	\$ 14,846,469	\$ 20,653,992	\$ 21,269,350	\$ 21,563,673	\$ 22,221,667	\$ 23,049,342	\$ 24,058,767	
Investment in WC	\$ -21,031,050	\$ -6,374,154	\$ -3,285,807	\$ -19,123,030	\$ -1,795,592	\$ -882,577	\$ -3,708	
CFO	\$ -25,662,154	\$ 80,443,775	\$ 139,207,084	\$ 198,678,739	\$ 243,291,126	\$ 268,379,888	\$ 290,400,790	
CAPEX	\$ -104,994,158	\$ -46,356,570	\$ -12,157,297	\$ -12,157,297	\$ -12,157,297	\$ -12,157,297	\$ -12,157,297	
FCF	\$ -130,656,312	\$ 34,087,205	\$ 127,049,787	\$ 186,521,442	\$ 231,133,829	\$ 256,222,591	\$ 278,243,492	\$ 286,590,797
PV	\$ -120,009,846	\$ 27,955,023	\$ 93,030,291	\$ 121,944,209	\$ 134,920,489	\$ 133,540,743	\$ 129,480,200	\$ 1,481,828,960
Discount Rate	12.00%							
Terminal Growth Rate	3.00%							
Total PV	\$ 2,002,690,069							
Cash - Debt	\$ 212,449,000							
Equity Value	\$ 2,215,139,069							
Shares O/S (dil)	291,582,000							
Fair Value	\$ 7.60							

Source: FRC

As a result of the update in our forecasts and change in our valuation models, we are revising our fair value estimate to \$7.60 per share (from \$7.76 per share), and maintaining our BUY rating.

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- The company operates in an industry that is highly regulated and subject to material change from governmental intervention.
- Significant delays in the build-out of the company’s production facilities could significantly affect the valuation of the company. Furthermore, delays in entering the market could result in foregone market share to other LPs.
- No guarantee that the company will be able to sell the cannabis produced at their

facilities, nor successfully secure additional long-term supply contracts.

- Contamination risk and other risks associated with biological/agricultural production.
- Liquidity risk.
- Exchange rate risk.
- Interest rate risk.

We are maintaining our risk rating of 4 (Speculative).

Appendix

STATEMENTS OF OPERATIONS					
(in C\$) - YE Dec 31st	2016	2017	2018	2019E	2020E
Revenue			1,879,000	41,635,000	231,288,415
COGS			1,971,000	11,600,938	69,156,250
Gross Profit	-	-	(92,000)	30,034,063	162,132,165
Fair Value Adj.		300,000	304,000		
Adj. Gross Profit	-	300,000	212,000	30,034,063	162,132,165
EXPENSES					
SG&A Expense	133,935	5,431,000	31,707,000	38,048,400	46,257,683
Research and Development Costs		1,403,000	2,815,000	3,820,800	4,584,960
Investee's Income			1,136,000	(599,381)	(779,683)
Share-based Compensation		8,109,000	9,154,000	10,069,400	11,076,340
EBITDA	(133,935)	(14,643,000)	(44,600,000)	(21,305,156)	100,992,865
Depreciation	35,143	455,000	1,060,000	5,376,450	10,357,335
Amortization					
EBIT	(169,078)	(15,098,000)	(45,660,000)	(26,681,606)	90,635,529
Financing Costs		(252,000)	(2,770,000)		
EBT	(169,078)	(14,846,000)	(42,890,000)	(26,681,606)	90,635,529
Non-Recurring Expenses		169,000	2,662,000		
Taxes	(7,924)	(1,556,000)	(349,000)		24,471,593
Net Profit (Loss)	(161,154)	(13,459,000)	(45,203,000)	(26,681,606)	66,163,936
FOREX			(513,000)		
Net Profit (Loss) to Shareholders	(161,154)	(13,459,000)	(44,690,000)	(26,681,606)	66,163,936
weighted Average Shares outstanding	55,471,032	112,526,107	219,968,129	271,435,887	271,435,887
Earnings per Share	\$ -0.00	\$ -0.12	\$ -0.21	\$ -0.10	\$ 0.24

BALANCE SHEET					
(in C\$) - YE Dec 31st	2016	2017	2018	2019E	2020E
ASSETS					
CURRENT					
Cash and Cash Equiv.	2,808,738	63,735,857	213,549,000	110,634,655	144,721,860
A/R			1,199,000	3,122,625	17,346,631
Restricted Cash	3,175,764	15,999,854	50,000,000		
Taxes Receivable	41,836	566,648	13,332,000	13,332,000	13,332,000
Prepaid Expenses	49,643	266,931	3,521,000	208,175	1,156,442
Inventory			3,925,000	3,122,625	17,346,631
Related Parties		446,956	800,000	800,000	800,000
Biological Assets	33,301		395,000		
Note Receivable		266,990			
Other		183,651	864,000	864,000	864,000
Total Current Assets	6,109,282	81,466,887	287,585,000	132,084,080	195,567,564
Property Deposit	250,000				
PPE	1,122,582	6,964,747	107,529,000	207,146,708	243,145,942
Intangible Asset	5,870,099	5,575,099	13,535,000	13,535,000	13,535,000
Goodwill	2,006,846	2,006,846	10,702,000	35,831,000	35,831,000
Investment in Associate			10,944,000	11,543,381	12,323,064
Loan Receivable			1,001,000	1,001,000	1,001,000
Other		963,582	14,661,000	14,661,000	14,661,000
Total Assets	15,358,809	96,977,161	445,957,000	415,802,169	516,064,570
LIABILITIES					
CURRENT					
A/P	123,541	3,729,088	28,258,000	4,640,375	27,662,500
Deferred Subscription Receipts	3,175,764	15,999,854			
Income Tax Payable			781,000	781,000	781,000
ST Loans			688,000	688,000	688,000
Current Portion of Capital Lease			151,000	151,000	151,000
Related Party	250,000				
Total Current Liabilities	3,549,305	19,728,942	29,878,000	6,260,375	29,282,500
Capital Lease			261,000	261,000	261,000
Contingent Consideration			688,000	688,000	688,000
Deferred Tax Liability	1,555,576		1,435,000	1,435,000	1,435,000
Total Liabilities	5,104,881	19,728,942	32,262,000	8,644,375	31,666,500
SHAREHOLDERS EQUITY					
Share Capital	10,415,082	72,572,103	392,068,000	402,143,000	402,143,000
Reserves		18,296,399	79,937,000	90,006,400	101,082,740
AOCI			513,000	513,000	513,000
Deficit	(161,154)	(13,620,283)	(58,823,000)	(85,504,606)	(19,340,670)
Total shareholders' equity (deficiency)	10,253,928	77,248,219	413,695,000	407,157,794	484,398,070
Total Liabilities and Shareholders Equity	15,358,809	96,977,161	445,957,000	415,802,169	516,064,570

STATEMENTS OF CASH FLOWS					
(in C\$) - YE Dec 31st	2016	2017	2018	2019E	2020E
OPERATING ACTIVITIES					
Net Profit for the Year	(161,154)	(13,459,000)	(44,690,000)	(26,681,606)	66,163,936
Adjusted for items not involving cash:					
Share-based Compensation	11,200	8,109,000	9,154,000	10,069,400	11,076,340
Decrease in Reserve for Treasury Units					
Write-down of biological Assets		122,000			
Write-down of Inventory		364,000			
Impairment of Fixed Assets		80,000	84,000		
Unrealized gain on changes in FV of Biological Assets	(33,301)	(300,000)	(304,000)		
Depreciation	5,239	160,000	527,000	5,376,450	10,357,335
Amortization	29,904	295,000	533,000	-	-
Tax Payable			65,000		
Income Tax Recovery	(7,924)	(1,556,000)	(413,000)		
Investee			1,136,000	(599,381)	(779,683)
Change in non-cash WC Items	59,357				
Funds From Operations	(96,679)	(6,185,000)	(33,908,000)	(11,835,138)	86,817,929
Change in working capital					
A/R			(779,000)	(1,923,625)	(14,224,006)
Prepaid Expenses		(217,000)	(3,238,000)	3,312,825	(948,267)
Biological Assets		(153,000)	(265,000)	395,000	-
A/P		3,544,000	23,064,000	(23,617,625)	23,022,125
HST receivable		(525,000)	(12,304,000)	-	-
Inventory			(1,151,000)	802,375	(14,224,006)
Other Current Assets		(451,000)	(2,687,000)		
Other		(165,000)	(13,697,000)	-	-
NET CASH USED IN OPERATING ACTIVITIES	(96,679)	(4,152,000)	(44,965,000)	(32,866,188)	80,443,775
INVESTING ACTIVITIES					
PPE	(274,318)	(6,747,000)	(98,933,000)	(104,994,158)	(46,356,570)
Associate	(3,937,445)		(10,608,000)		
Acquisitions			(8,411,000)	(15,054,000)	
Intangibles			(226,000)		
Other Non-Current Assets					
NET CASH USED IN INVESTING ACTIVITIES	(4,211,763)	(6,747,000)	(118,178,000)	(120,048,158)	(46,356,570)
FINANCING ACTIVITIES					
Deferred Share Subscription Receipts		(3,176,000)	(16,000,000)		
Increase in Restricted Cash		3,176,000	(34,000,000)	50,000,000	
Proceeds from PP	7,082,281	72,344,000	273,307,000		
Proceeds from Options			2,435,000		
Proceeds from Warrants			63,399,000		
Proceeds from Special Warrants			23,349,000		
Interest Received		117,000	2,007,000		
ST Debt			(1,001,000)		
LT Debt			104,000		
Advances to/from Related Parties	250,000	(446,000)	(7,356,000)		
Repayment on Related Party Loans	(215,101)	(250,000)	7,270,000		
NET CASH FROM FINANCING ACTIVITIES	7,117,180	71,765,000	313,514,000	50,000,000	-
Foreign Exchange / Others		61,000	(558,000)		
INCREASE IN CASH FOR THE YEAR	2,808,738	60,927,000	149,813,000	(102,914,345)	34,087,205
CASH, BEGINNING OF THE YEAR	-	2,809,000	63,736,000	213,549,000	110,634,655
CASH, END OF THE YEAR	2,808,738	63,736,000	213,549,000	110,634,655	144,721,860

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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