


BBY Company Research		25 March 2015			
Phytotech Medical Limited Healthcare, Equipment & Services					
PYL	A\$0.33	TARGET PRICE	N/A	SPECULATIVE BUY	0.0X
PhytoTech Medical Limited is the first medicinal cannabis company to list on the Australian Stock Exchange and aims to be an Australian pioneer in the development of medicinal cannabis delivery systems.				Marc Kennis +61 2 9226 0167 mak@bby.com.au	

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Merging with MMJ Bioscience: a major move into the medical marijuana market

On 24 March PYL announced a merger with Canada-based MMJ Bioscience, which will create a vertically integrated medical marijuana company, active in R&D, production/distribution and licensing/legislation. We believe this merger is a major step in the execution of the company's strategy and will start to bring in revenues from July onwards. We reiterate our Speculative Buy recommendation.

- ◆ The newly merged entity will comprise of four operating units:
 - **United Greeneries**; two cannabis growing facilities, one of which (10,000 ft² cultivation area) is awaiting license approval by Health Canada. A pre-license inspection is planned in April. Maximum capacity at this facility is 700,000 grams/year. The second facility is in the early stages of its license application. If and when this license is granted this facility could ramp up to 12m grams/year in due time, making it the largest facility of its kind in Canada by far.
 - **AgriChem Analytical**; biochemical QA/QC services for testing, analysis and compliance around cannabis and medical marijuana. These services will be used in-house by the merged group and made available to third parties.
 - **Satipharm**; Development and commercialisation of cannabis-based pharmaceutical, nutraceutical and cosmetic products based in Switzerland. Satipharm developed a CBD-based pill as a dietary supplement that will go on sale OTC in the EU from July 2015 at EUR 3 per pill. Production is scheduled to ramp up to 135,000 pills per month.
 - **PhytoTech Therapeutics**; Israel-based R&D company focussed on bringing cannabis extracts and ingredients based pharmaceutical products to market, i.e. vaporisers, oral pills, cheek patches etc.
- ◆ The transaction is share-based and, using the share price of A\$ 0.305 at the time of the announcement, values MMJ at A\$ 15.5m in PYL shares upfront plus an additional A\$ 5.2m in performance shares. 50% of this relates to MMJ being granted a license under MMPR within 12 months and the other 50% relates to MMJ generating at least CAD 5m in revenues within 36 months.
- ◆ Due diligence should be completed by 14 April. A shareholder meeting is planned for May 18, while the transaction should close on 25 May. Post closing of the transaction, we would expect PYL to update the market on the financials of the newly formed company.

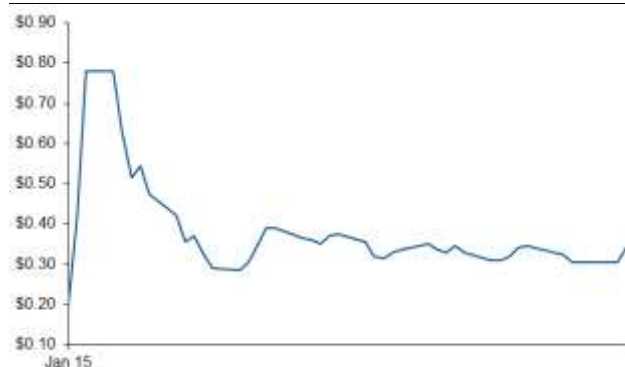
Company Data

Number of shares	34M
Market capitalisation	\$11M
Free Float (%)	n/a
12 month high/low	\$0.92/\$0.26
Average monthly turnover	\$6M
% S&P/ASX 200	n/a
% All Ordinaries	n/a
DDM Ranking	#188/500
ESG Score (Ranking)	
GICS Industry Group	Pharmaceuticals, Biotechnology & Life Sciences

BBY Technical View – as at 25/03/2015

Short Term	- Resistance	\$0.35
Long Term	- Support	\$0.31

PYL Share Price Performance



Source: BBY, Company Reports. BBY contributes all company estimates to Bloomberg, Thomson Reuters, FactSet and Capital IQ.

Note: Numbers displayed are a sub-set

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or BBY Limited policies.

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Secondary recommendation - Market weight relative to the S&P/ASX 300 under a weighting range of 0-3, with intervals of 0.5 (7 point scale). 1.0 indicates a market weight position in the stock while a weight over 1.0 indicates an overweight position and the current level of analyst conviction.

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Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

Terminal Value methodology - BBY's Discounted Cash Flow (DCF) valuation applies a terminal growth rate to the last forecast year's cash flow and discounts the amount using Weighted Average Cost of Capital (WACC). The Terminal Value is tested using ASX-listed company multiples. For resource companies there is no terminal value because cashflows are forecast to the end of mine life.

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