

REVISIONS

Rating/Target	Rev.	Prior
Rating	Buy	-
Target Price (C\$)	\$0.30	-
Revenue F2021E (M)	\$29.5	-
Adj. EBITDA F2021E (M)	\$2.2	-
Adj. EPS F2021 (M)	\$0.00	-

MARKET DATA

Date:	Nov 11, 2020
Current Price (C\$):	\$0.11
Target Price (C\$):	\$0.30
52-Week Range:	\$0.05 / \$0.13
Shares O/S (M):	39.3
Mkt Cap (C\$M):	\$4.3
EV (C\$M):	\$15.1
Avg. Weekly Vol. (M):	0.35
Website:	www.organicgarage.com

FINANCIALS	F2020A	F2021E	F2022E
Revenue (\$M)	\$24.2	\$29.5	\$32.7
Adj. EBITDA (\$M)	-\$3.0	\$2.2	\$3.2
EPS (S)	-\$0.14	\$0.00	\$0.03
Cash (\$M)	\$0.2	\$0.8	\$2.0
Current Assets (\$M)	\$2.2	\$1.7	\$3.0
Net Cash (\$M)	-\$11.2	-\$10.4	-\$11.2
Total Assets (\$M)	\$17.4	\$15.7	\$19.0
Debt (\$M)	\$2.7	\$2.8	\$2.8
Total Liabilities (\$M)	\$14.6	\$12.8	\$14.9
Fiscal Year End:	31-Jan		

Source: Company Reports, S&P Capital IQ, Yahoo!Finance, eResearch Corp.

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Organic Garage Ltd. (TSXV:OG)

Low-cost Healthy Food from an Undervalued Grocery Retailer

COMPANY DESCRIPTION:

Organic Garage Ltd. (“Organic Garage” or “the Company”) is an independent, Canadian chain of organic and natural product grocery stores that operate in Toronto and the Greater Toronto Area (“GTA”) in southern Ontario, Canada. The Company focuses on providing customers with healthy choices at a low cost. Its ability to efficiently source organic products allows it to pass along the savings to customers. Its store concept checks multiple boxes with today’s food customer: healthy food, good value, small store convenience, and an overall premium shopping experience.

INVESTMENT HIGHLIGHTS:

- **Recent COVID-19 sales bump should continue.** With the upswing in food retail due to the stay-at-home measures from the current COVID-19 health crisis, Organic Garage recognized revenue increases in the past two quarters of 19% and 29% year-over-year. We believe this sales trend should continue for at least 3 more quarters.
- **Online ordering and delivery strategy meet COVID-19 demands.** The timing of the Company’s partnership with Cornershop was fortuitous in meeting the demand brought about by the COVID-19 health crisis. Online sales, currently representing 6.0% of total sales, should continue to increase.
- **New Leaside store should increase revenue in CY2021 and beyond.** The Company’s fifth store, slated to open in the first half of CY2021, should boost revenue by 10-20% in F2022 and 15-25% in F2023. After the new Leaside store is operational, Organic Garage plans to open a new store annually.
- **Focus on cost savings should continue to improve margins.** The Company leverages its strong relationships with its suppliers to keep prices low. Cost reductions implemented during F2020 and the shift to a decentralized distribution model should help with margins in F2021 and beyond.
- **Experienced management team.** Organic Garage has established a highly experienced team of professionals in the retail food industry.
- **Valuation discount should improve.** There is a valuation discount with its peers that we believe should lessen as revenue continues to uptick, online sales grow, margins continue to improve, and once the new Leaside store is open.

FINANCIAL ANALYSIS & VALUATION:

- **We estimated Organic Garage’s financials as:**
 - **F2021E: Revenue \$29.5 million; EBITDA \$2.2 million;**
 - **F2022E: Revenue \$32.7 million; EBITDA \$3.2 million.**
- We calculated an equal-weighted price per share of \$0.28 from a multiple of 0.6x the one-year forward Revenue of \$30.0M, a multiple of 9x the one-year forward EBITDA of \$2.3M, and a DCF from a multiple of 9x the five-year forward terminal EBITDA of \$3.9M of at a 10% discount rate.
- **We are Initiating Coverage with a Buy rating and a one-year price target of \$0.30.**

All figures in CAD unless otherwise stated.

eResearch Corporation

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www.eresearch.com

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INVESTMENT THESIS – Why Invest in Organic Garage

MODERN ORGANIC GROCER FITS WELL WITH CHANGING DEMOGRAPHICS

Organic Garage is one of the more differentiated grocery store concepts in the Canadian food market. Its low priced but pure organic strategy resonates well with health-conscious buyers and is in step with current food buying trends. In 2019, the Company won awards for the Best Organic Food store and the Organic Retailer of the Year.



RECENT COVID-19 SALES BUMP SHOULD CONTINUE

With the upswing in food retail due to the stay-at-home measures from the current COVID-19 health crisis, Organic Garage recognized revenue increases in the past two quarters of 19% and 29% year-over-year. This sales increase should remain until at least the first quarter of next year as the health crisis continues.

ONLINE ORDERING AND DELIVERY STRATEGY MEET COVID-19 DEMANDS

The timing of the Company's partnership with Cornershop was fortuitous in meeting the demand brought about by the COVID-19 health crisis. Online sales, currently representing 6.0% of total sales, should continue to increase.

NEW LEASIDE STORE IN TORONTO SHOULD INCREASE REVENUE IN F2021 AND BEYOND

The Company's 5th store, slated to open in the first half of CY2021, should boost revenue by 10-20% in F2022 and 15-25% in F2023. After the new Leaside store is operational, Organic Garage plans to open a new store annually. However, market awareness takes time. As the Company continues to grow the number of locations, market awareness improves and builds the customer base which should increase repeat visitors and recurring revenue.

FOCUS ON COST SAVINGS SHOULD CONTINUE TO IMPROVE MARGINS

The Company leverages its strong relationships with its suppliers to keep prices low. Cost reductions implemented during F2020 should continue and help with margins in F2021 and beyond. The shift to a decentralized distribution model by the start of CY2021 should also help lower costs and improve margins.

PRIVATE LABEL OFFERING HAS ROOM TO GROW

In 2017, Organic Garage launched its private label program under the Kitchen Originals banner that primarily focuses on Certified Organic products. The Company continues to expand its private label offering, now with 60 SKUs, and plans to add new products each year, which is anticipated to enhance gross margins.

ORGANIC SALES CONTINUE STRONG ANNUAL GROWTH

Recent market research showed that Canadian consumers are on track to spend \$6.9 billion on organic products in 2020, up from \$5.4 billion in 2017, a Compound Annual Growth Rate ("CAGR") of 8.7%, and four times the growth rate of the overall grocery industry. The organic market share is still small at only 3.2% of overall food sales but up 23.0% from 2.6% in 2017.

EXPERIENCED MANAGEMENT TEAM

Organic Garage has established a highly experienced team of professionals in the food industry. The Company's CEO Matt Laurie is a fourth-generation grocer, bought his first food franchise business when he was 19 years old, and now has over 14 years of experience running Organic Garage.

VALUATION DISCOUNT SHOULD IMPROVE

There is a valuation discount with its peers that we believe should lessen as revenue continues to uptick, online sales grow, margins continue to improve, and once the new Leaside store is open.

COMPANY INFORMATION

Company Summary

Organic Garage was incorporated in 2005 with the registered office located at 475 West Georgia Street, Suite 610, Vancouver, British Columbia, Canada, and its head office and mailing address at 50 Akron Road, Toronto, Ontario, Canada.

In 2016, the Company merged with Crestwell Resources Inc. (CSE:CER), completed a 4-for-1 share consolidation, relisted on the TSX Venture Exchange (“TSXV”) under the trading symbol “OG”, and commenced trading on the TSXV in April 2017.

Modern Organic Grocer

Organic Garage is an independent, Canadian retail chain of organic and natural product grocery stores that operate in Toronto and the GTA in southern Ontario, Canada. The Company focuses on providing customers with healthy choices at a low cost. Its ability to efficiently source organic products allows it to pass along the savings to customers.

Organic Garage has critical guidelines for the products it sells in its stores ensuring customers are getting quality products while its sourcing and distribution networks help customers save money.

Its stores have products in a variety of organic categories: produce, grocery, meat, bakery, vitamins and supplements, and health and beauty. Each category meets its strict standards for organic certified products. The Company’s small store footprint allows shoppers to quickly pick up their basic (and organic) needs without having to traverse a large store.

Being an independent retail grocer, Organic Garage sets itself apart from its national competition, which has allowed it to compete alongside larger national brands. The Company brand holds itself to high-quality standards while fitting customers’ expectations of costing less than the rest of the organic grocer competition.

In 2019, Organic Garage won Toronto’s Best Organic Food store, an award given by the Toronto Star’s Readers’ Choice magazine. Over 40,000 votes were cast, which nominated Organic Garage as Toronto’s best organic food store. Also in 2019, Organic Garage received the Organic Retailer of the Year award from the Canadian Organic Trade Association and the Best of Canada’s Sign Industry reward for design features at the Liberty Village store.



The Organic Garage store concept checks multiple boxes with today’s food customer: healthy food, good value, small-store convenience, and an overall premium shopping experience.

Figure 1: Junction Store Entrance



Source: Company website; eResearch Corp.

Location, Location, Location

Organic Garage currently has four retail stores and a 40,000-square foot distribution centre in Etobicoke, Ontario. The distribution centre is expected to close in FQ4/2021. The exhibit below highlights the Company’s current retail locations.

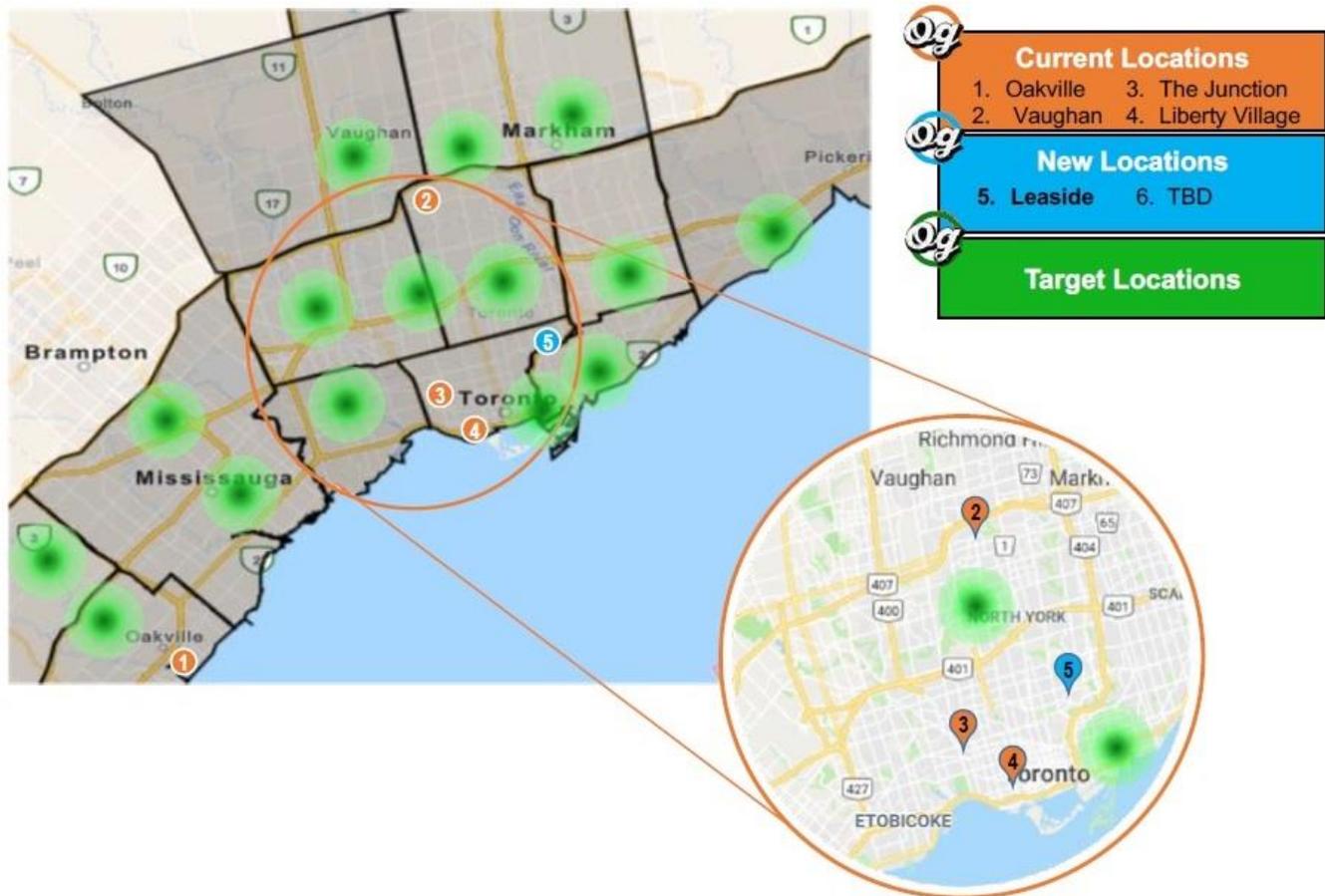
	LOCATION	CITY	PROV.	SIZE (Sq. ft.)	OPENED
1	Organic Garage Oakville	Oakville	Ontario	13,000	2006
2	Organic Garage Thornhill	Thornhill	Ontario	13,000	2013
3	Organic Garage Junction	Toronto	Ontario	15,000	2017
4	Organic Garage Liberty Village	Toronto	Ontario	13,000	2018
5	Organic Garage Leaside	Toronto	Ontario	12,000	Q2/2021

Source: Company website; eResearch Corp.

Organic Garage thoroughly researches each new location and uses demographic information to find the right locations that fit its customer profile. The Company chooses high traffic, prime retail locations and caters to a unique experience for customers. Its stores have received numerous awards and recognitions as one of the best organic grocery stores in the last few years.

Organic Garage is currently concentrating on its presence in the GTA, with its addition of the Leaside location, but believes there is a larger market in Ontario and the rest of Canada for its retail focus.

Figure 2: Organic Garage Locations and Targets



Source: Company presentation; eResearch Corp.

Company History

The Organic Garage founders come from a long line of grocers dating back to the 1930s. Staying in the family grocery business, the first Organic Garage was opened in 2006 by CEO Matt Lurie in Oakville, Ontario. Mr. Lurie, having been exposed to the retail grocery business, noticed the high price of healthy and organic products. He believed that through smart sourcing, he could pass along the savings to customers and the idea of Organic Garage was born.

In order to finance Organic Garage's expansion, the Company listed on the Toronto Venture Exchange in 2017. Since then, Organic Garage has expanded throughout the GTA and currently operates four stores. Construction of a fifth store in the Toronto neighbourhood of Leaside began in November 2019 and is set to open in the second quarter of CY2021.

Product Mix and Pricing

Organic Garage offers a variety of natural and organic products aimed at being both healthy and affordable. The Company concentrates on a few brands that give customers the most value and allow it to carry fewer product stock-keeping units ("SKUs") thus reducing inventory costs and improving margins. Organic Garage carries 12,000-14,000 SKUs compared to a larger grocer that might carry 20,000-30,000 SKUs.



Organic Garage is critical of the products that it allows to be sold in its stores. Its signature "dump-list" is a list of ingredients that its products cannot contain. These strict standards give customers peace of mind knowing that the products within the stores are high quality and healthy choices.

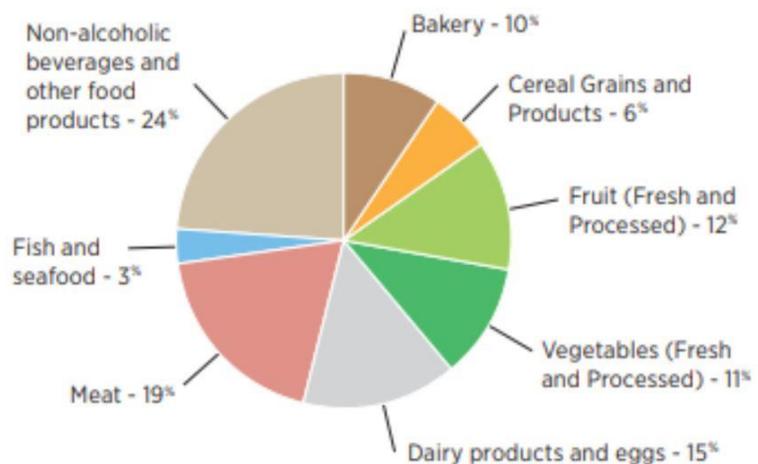
The Company also sources locally grown products to add to its variety of healthy choices. In a new initiative, certain locations have added kiosks that allow local vendors to sell their products within Organic Garage's stores.

In CY2017, the Company launched its private label program under the Kitchen Originals banner and primarily focuses on Certified Organic products. The goal of the private label program is to deliver the highest quality products to its customers at a good price.

Organic Garage adopts a highly competitive pricing philosophy and aims at being a low-cost provider of organic and natural products, targeting pricing that is 10%-20% lower than its key competitors. Its slogan "Healthier food for less!" aims at attracting a healthy and budget-conscious customer.

While organic and health-conscious products tend to have a higher cost, Organic Garage combats this through sourcing and partnerships. Its ability to price its organic products competitively depends on its ability to build relationships with its product sources and efficiently manage product distribution.

Figure 3: Grocery Basket Breakdown (2010-2017)



Source: Retail Council of Canada (2019)

Business Strategy

Organic Garage boasts an honest straightforward approach to organic and healthy products. Transparency within Organic Garage adds to the Company’s unique feel.

Organic Garage’s business model has six key strategic areas:

- (1) Centralized buying to reduce costs;
- (2) Direct relationships with suppliers to maximize discounts;
- (3) Streamline the number of product SKUs to reduce inventory costs and focus on high-margin products to maximize gross margins;
- (4) Tight management of labour costs;
- (5) Low capital outlay for expansion;
- (6) Small store footprint for customer convenience.

Figure 4: Junction Store Produce Section



Source: eResearch Corp.

The Company’s competitive advantage is in its ability to source its organic products in a cost-effective way. Through its partnership agreements with vendors, Organic Garage is able to get better deals on its organic products. Access to local vendors within the Toronto market also gives it a competitive advantage in sourcing natural products. Customers are attracted to goods produced within their area and are thus able to support the local Ontario farmers.

To compare prices, we visited the Organic Garage Junction store, Whole Foods, and Farm Boy and purchased various items from different departments. The basket from Organic Garage was 17% less expensive than from Whole Foods and 10% less expensive than from Farm Boy, so they are true to their mottos “We cut prices not corners” and “Low Prices, High Standards.”

Figure 5: Basket of Goods from Organic Garage, Whole Foods, and Farm Boy

	Organic Garage	Whole Foods	Farm Boy
Gala Apples (per pound)	\$1.97	\$1.99	\$1.99
Banana (per pound)	\$0.87	\$0.99	\$1.29
Blueberries (170 g)	\$4.97	\$4.99	\$4.99
Raspberries (170 g)	\$5.97	\$4.99	\$4.99
Strawberries (454 g)	\$7.97	\$12.69	\$8.99
Eggs - large - dozen	\$6.97	\$8.99	\$7.49
Califia Farms Almond Milk (1.4 L)	\$5.97	\$6.99	\$7.99
Ripple Pea Beverage (1.4 L)	\$6.47	\$6.99	\$6.99
Organic Meadow milk (1 L)	\$3.97	\$3.99	\$3.99
Butter (454 g)	\$9.47	\$10.99	\$10.99
Organic Oats	\$4.47	\$5.99	\$4.99
Fever Tree soda - 4 pack	\$6.47	\$7.99	\$6.99
Ezekiel - Sprout Bread	\$5.97	\$7.99	\$7.49
Family salad	\$9.97	\$14.99	\$11.99
Roar Organic drink (530 ml)	\$2.97	\$2.99	\$2.99
Tonica Kombucha 1.1L	\$7.97	\$8.99	\$7.99
Organic chocolate bar	\$3.97	\$3.99	\$4.79
LaCroix berry water - 8 cans	\$4.87	\$5.99	\$5.99
TOTAL	\$101.26	\$122.52	\$112.92

Source: eResearch Corp.

After going public in 2017, the Company was focused on opening one to two new locations every year to leverage the distribution centre and increase its brand presence in Canada, with the ultimate goal of becoming one of the largest natural food grocers.

After opening new locations in 2017 and 2018, cash flow and debt issues, and construction delays at its new Leaside store slowed down the rollout. For the past two years, Organic Garage has focused on increasing revenue and reducing costs to generate positive cash flows.

Other areas that are part of its business strategy include:

- (1) **Basket Size:** Organic Garage reported that its average basket size is in the \$45-\$50 range and at the higher end of the market. Because the Company focuses on low prices, customers tend to purchase more products during each visit resulting in a high value basket. Since Organic Garage focuses on higher-margin products and does not promote “loss leaders”, gross margins tend to be higher than a traditional grocer. Organic Garage’s gross margins were 28.0% compared with Empire at 24.9% and Metro at 19.9%. Both Loblaws and North West’s gross margins were higher as they included drug retail and other products.

Figure 6: Average Basket Size

	BASKET SIZE	STORE TYPE
Low Range	\$18-\$24	Discount Chain
Mid-Range	\$25-\$35	Grocery Store
High End	\$50 and above	Specialty Store

Source: Company presentation (2016)

Figure 7: Performance Comparison

	Organic Garage	Empire	Loblaws	Metro	North West
Revenue (\$M)	27.2	26,588.2	47,099.0	16,767.5	2,094.4
Gross Margins	28.0%	24.9%	30.7%*	19.9%	31.7%**
Number of Stores	4	1,500	1,088	950	249
Average Store Size (sq. ft.)	13,500	26,500	30,600 - 65,000	22,800	9,100
Revenue per Store (\$M)	6.8	17.7	43.3	17.7	8.4
Revenue per Sq. Ft. (\$)	504	668	665	774	919**
Report Date	Jul-31-2020	May-02-2020	Dec-31-2019	Sep-28-2019	Jan-31-2020

* Includes Food & Drug Retail

** Includes Food, Everyday Products and Services

Source: Financial Statements; Company presentations & websites; S&P Capital IQ

- (2) **Strategic Partnerships:** The Company has created several relationships to improve services or lower costs.

In 2017, at its Liberty Village location, Organic Garage implemented a “Handpicked Partner” Program that allows local vendors to sell their products in kiosks within the store. The store benefits by driving more traffic into the location and also helps reduce the occupancy costs through a shared revenue/rent model with the partners, which will make the stores incrementally more profitable. After its success at the Liberty Village location, the Company expanded the program to its Oakville location in 2019 and plans to implement the initiative through the rest of its stores.

In January 2020, Organic Garage entered into an agreement with Cornershop to utilize Cornershop’s digital app and website for online ordering and the delivery of groceries from all Organic Garage retail locations. Cornershop allows users to order groceries for delivery in as little as 60 minutes and is owned by Uber Technologies Inc. (NYSE:UBER).

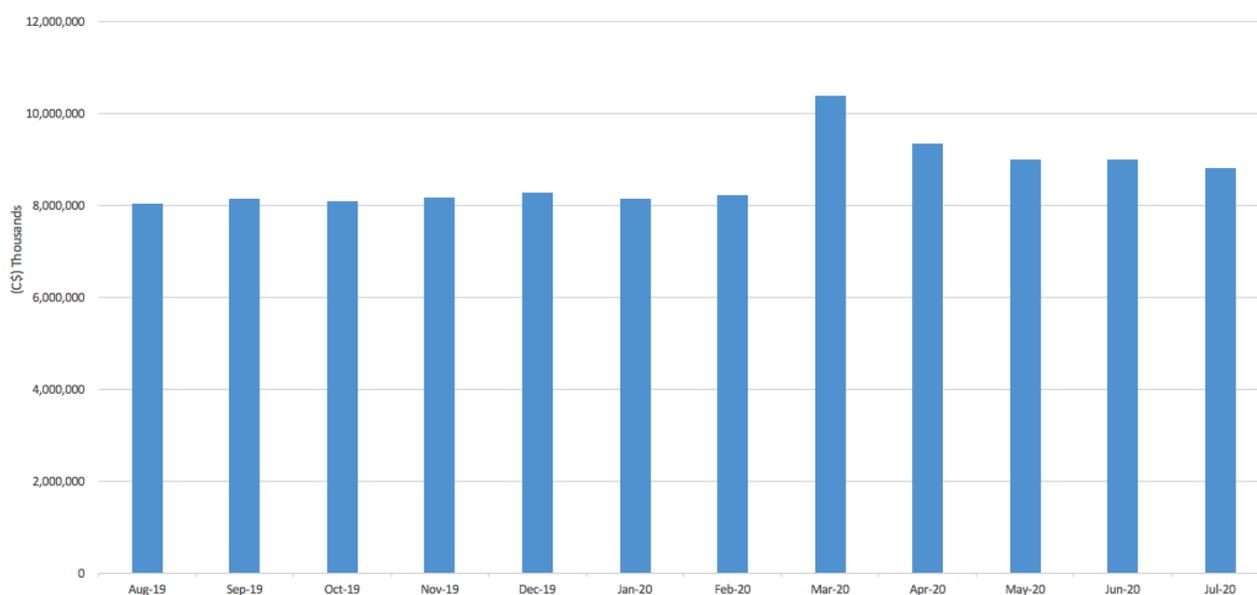
INDUSTRY OVERVIEW: FOOD – Everyone Has To Eat

The food & beverage retail industry is made up of retailers such as supermarkets and grocery stores, convenience stores, mass merchandisers, specialty stores, and beer, wine & liquor stores. According to Statistics Canada, retail sales of food and beverage in Canada amounted to \$124 billion in 2017, with a four-year CAGR of 2.3%.

The majority of Canadian food & beverage retail sales is attributed to supermarkets and other grocery stores, accounting for \$85.9 billion in 2017, with the majority of sales coming from the larger supermarket chains including Loblaws, Sobeys and Metro, in order of the top three grocers by revenue.

According to Statistics Canada, there are over 7,700 grocery stores in Canada with over 2,400 grocery stores in Ontario, which generated \$104 billion in sales for the last 12 months ending July 31, 2020. In March, due to heightened demand from the pandemic keeping consumers at home, grocery sales spiked by 27% to \$10.4 billion from the prior month.

Figure 8: Canada Grocery Store Sales (August 2019-July 2020)



Source: eResearch; Statistics Canada

Trends in the Food Industry

Even before the tectonic consumer shift due to the COVID-19 health crisis, the North American food industry was undergoing a transformation that was reshaping the competitive environment, including:

- Digital disruption – the change from physical stores to online ordering. In 2019, online sales accounted for 3%-4% of the U.S. grocery market and are expected to increase to more than 10% by 2025¹;
- Convenient food – the shift from ingredient purchases to the: (i) purchase of in-store prepared meals, (ii) delivery of meal kits (e.g. Blue Apron (NYSE:APRN) or Goodfood Market (TSX:FOOD)), or (iii) delivery of prepared meals (McDonald's (NYSE:MCD) or Pizza Pizza (TSX:PZA));
- Socially responsible food is a differentiator – according to a report from PwC², consumers are looking for organic, local, and sustainable food in an effort to balance social, environmental, and economic considerations. This trend is particularly strong in the 18-24-year-old demographic with the top two shopping criteria being (i) locally produced - 74%, and (ii) organic -70%;

¹ McKinsey & Company, "Five grocery industry trends to watch" (2020)

² PwC, "Shifting consumer demands in grocery" (2019)

- Rise of healthy eating – more people have become focused on diet and wellness. As a result, suppliers are offering a wide (and sometimes confusing) array of products that are organic, non-GMO, gluten-free, plant-based (meat-free), peanut-free, and without artificial flavourings and colouring. In 2019, Loblaws introduced the No Name® Simple Check™ product line, with over 500 products that are made without 10 ingredients including artificial colours & flavours, artificial sweeteners, hydrogenated oil, and monosodium glutamate;
- For any food retailer looking to meet customers’ preferences, fresh produce and organic and/or natural food are must-have requirements.

Figure 9: Canadian Organic Logo



Source: www.inspection.gc.ca

Organic Food Sector Continues to Grow

The organic food industry that we see today has evolved from a patchwork of unregulated local farmers to governments regulating the use of the name “Organics” on food products.

In Canada, the Canadian Food Inspection Agency (“CFIA”) adopted new Canadian government regulations in 2009 and introduced the Canada Organic label. Any food that is labelled organic is regulated by the CFIA. Food producers must be prepared to demonstrate that the organic claims are “truthful and not misleading” and that all requirements have been met.

Figure 10: USDA Organic

If a product meets the Canadian Organic Standards, contains at least 95% or more organic content, and has been certified by a CFIA-accredited certification body, then the product can use the Canadian organic logo.

In the U.S., the U.S. Department of Agriculture (“USDA”) regulates the labelling of food or other agricultural products, and the use of the “organics” label needs to meet the organics standards and be verified by a USDA-accredited certifying agent before products can be labelled USDA organic.



Source: www.usda.gov

The Organic Foods Production Act of 1990 established the National Organic Program (“NOP”). The NOP develops the rules & regulations for all USDA organic products and oversees the enforcement of agricultural products sold, labelled, or represented as “organic” within the U.S., and the use of the USDA organic logo.

Last month, the USDA released the results from the 2019 Organic Survey³, which revealed total sales of US\$9.93 billion in organic products, up from US\$7.56 billion in 2016, a CAGR of 9.5%. The results of the survey show the continued growth of organic sales in the U.S. The survey also showed that 29% of farms plan to increase their level of organic production, which should help reduce prices as supply increases.

Figure 11: Organic Sales in Canada



Source: Canada Organic Trade Association (2020)

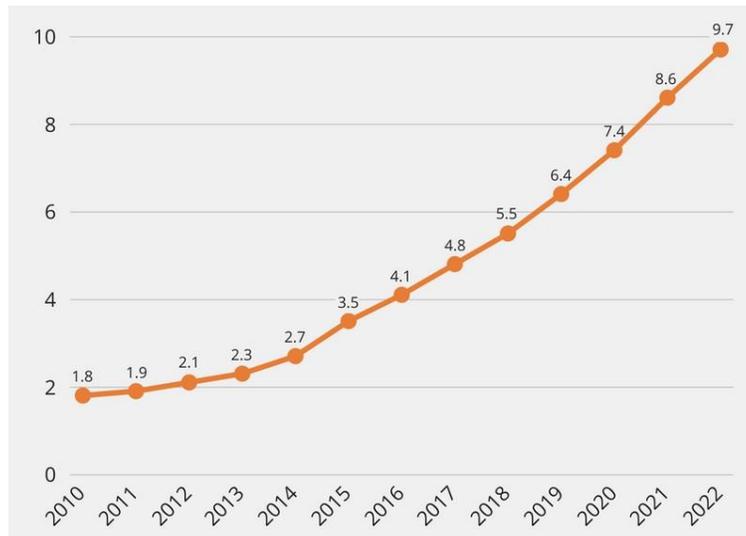
In Canada, new research from the Canada Organic Trade Association (“COTA”) showed that Canadian consumers are on track to spend \$6.9 billion on organic products in 2020, up from \$5.4 billion in 2017, a CAGR of 8.7%. The organic market share is still small at only 3.2% of sales but up 23.0% from 2017.

³ USDA, “2019 Organic Survey results show sales up 31% from 2016” (2020)

Online Ordering

The pandemic fuelled a sharp growth in online shopping as consumers refrained from going to retail stores due to social and physical distancing guidelines, which included online shopping for groceries. According to a 2018 report from OneSpace⁴, the proportion of U.S. online grocery spend could reach 10% by 2022, however, this report was written before the current health crisis.

Figure 12: Proportion of U.S. Grocery Spending Online



Source: OneSpace (2018)

According to a U.S. consumer survey by Coresight Research⁵ in August 2020, 60% of respondents reported buying groceries online in the past 12 months. In addition, 36% of online grocery customers responded that they do not expect to change their online grocery habits post-pandemic.

Almost every major grocer offers some sort of online ordering option with either curbside pickup or home delivery.

- Amazon subsidiary, Whole Foods Market offers home delivery utilizing the Amazon Prime delivery network.
- Instacart offers ordering and delivery services, and has partnered with more than 400 retailers, covering more than 30,000 stores in 5,500 North American cities and can reach more than 85% of U.S. and 70% of Canadian households.
- In Canada, Costco, Walmart and Loblaws offer grocery same-day delivery using Instacart; Loblaws started using the service in 2018, Walmart partnered with Instacart in 2019, and Costco just recently launched the service in July 2020.
- In January, Organic Garage partnered with Cornershop for online shopping and home delivery.
- In June, Sobeys launched a new grocery home delivery service called Voila.

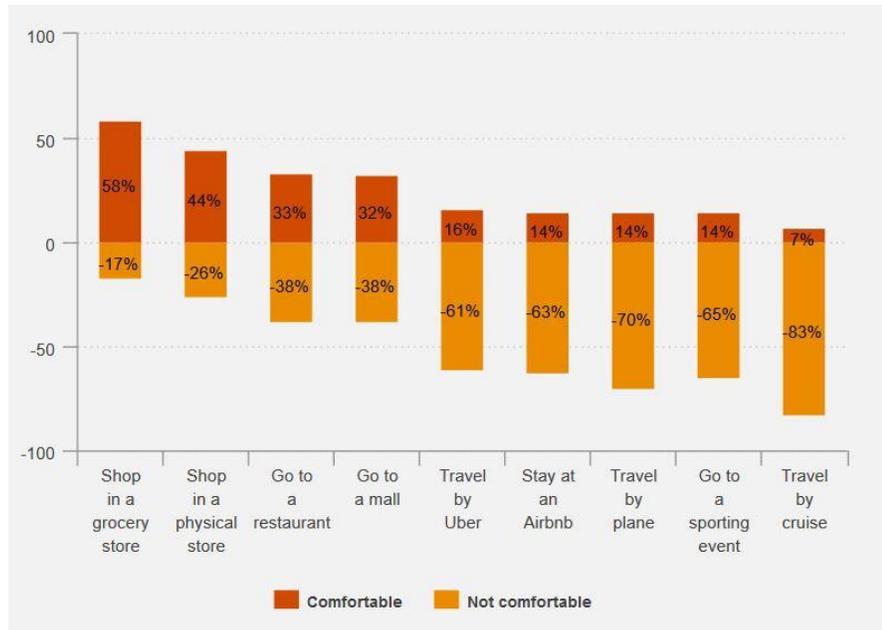
According to QYResearch⁶, the global online grocery market was \$27.5 billion in 2018, and is expected to potentially reach \$129.5 billion by 2025, growing at a CAGR of 25%.

⁴ OneSpace, "Online Grocery & Food Shopping Statistics" (2018)

⁵ Coresight Research, "Online Grocery Shopping Looks To Be Here ToStay" (2020)

⁶ QYResearch, "Global Online Grocery Market Size, Status and Forecast 2019-2025" (2020)

Figure 13: Consumer Insight – Which Activities Will You Resume?



Source: PwC, Canadian Consumer Insight (2020)

Post COVID-19

According to a recent PwC report⁷, the impact of COVID-19 has accelerated the shift that was already occurring in online ordering and PwC expects this trend to continue post-COVID-19. Retail locations may need to shift in response to more online ordering and require grocers to rethink store design around pick-and-pack, grocery pick-up, and delivery.

The good news from grocers is that consumers are more inclined to return to grocery shopping and shopping in a physical store versus travelling or going to a sporting event (see Figure 11).

Figure 14: Rendering of New Leaside Location



Source: Company website

⁷ PwC, “Accelerating shifts driving a radical rethink of the customer journey” (2020)

Competitors

Organic Garage competes with other organic and natural food grocers and larger grocery stores that offer organic and natural products. For example, Loblaws offers the PC Organic product line, Metro has the Naturalia product line, and Empire is expanding its Farm Boy locations and Farm Boy product line, which emphasizes its organic offerings.

Some competitors, such as Whole Foods Market, have a greater brand presence. There are also several small “neighbourhood” organic and natural food grocers within the GTA that are in direct competition with Organic Garage. As Organic Garage continues to expand, greater brand exposure will help make its presence more broadly known within the organic market in Canada.

Large Grocers in the Canadian Market

Empire Company Limited (TSX:EMP.A)

- www.empireco.ca
- Empire, together with its subsidiaries, engages in the food retail and real estate businesses in Canada and operates 1,500 food stores under the Sobeys and Farm Boy brands.
- Ontario-based Farm Boy stores focus on farm-fresh produce and organic, natural and locally sourced foods, with its private label “Farm Boy” products and chef-prepared meals that are made in each store’s kitchen. Empire bought Farm Boy in 2018 for \$800 million. Currently, there are 33 Farm Boy locations in Ontario with another 10 slated to open by 2021.



Loblaw Companies Limited (TSX:L)

- www.loblaw.ca
- Loblaw is a Canadian-based, food and pharmacy company, engaging in the grocery, pharmacy, health and beauty businesses in Canada.
- Loblaw operates over 1,000 food stores and almost 1,350 drug stores in Canada under the Loblaws, Real Canadian Superstore, No Name, No Frills, PC Express, Zehrs, Independent, Valu-Mart, Provigo, Fortinos, T&T, Wholesale Club, President Choice, Shoppers Drug Mart and Life Brand brands.



Longo Brothers Fruit Markets Inc.

- www.longos.com
- Longo’s is headquartered in Vaughan, Ontario, and owns and operates a chain of 36 full-service grocery stores in the GTA.



Metro Inc. (TSX:MRU)

- www.metro.ca
- Metro is a Montreal-based retailer, distributor, and manufacturer in the food and pharmaceutical businesses in Canada, operating 950 food stores under the Metro, Metro Plus, Super C, Food Basics, Adonis, and Première Moisson brands, as well as approximately 650 drugstores under the Jean Coutu, Brunet, Metro Pharmacy, and Food Basics Pharmacy brands.



The North West Company Inc. (TSX:NWC)

- www.northwest.ca
- The North West Company has 249 stores and engages in the sale of food, household products, and services to rural communities and urban markets in Canada, Alaska, the South Pacific, and the Caribbean.
- The North West Company was founded in 1668 and is headquartered in Winnipeg, Canada.
- The North West Company’s Canadian operations comprise 117 Northern stores, 5 NorthMart stores, 44 Giant Tiger junior discount stores, and 22 Quickstop convenience stores.



Whole Foods Market

- www.wholefoodsmarket.com
- Headquartered in Austin, Texas, Whole Foods is an organic grocer that was bought by Amazon.com, Inc. (NASDAQ:AMZN) in 2017 for US\$14.6 billion.
- Whole Foods has over 500 stores in North America and the United Kingdom, and operates six stores in the GTA.

**Large Mixed Retailers in the Canadian Market****Costco Wholesale Corporation (NASDAQ:COST)**

- www.costco.com
- Based in Issaquah, Washington, Costco operates membership warehouses in 13 countries including Canada offering a variety of household products and merchandise including groceries.
- Costco's Canadian sales were \$25 billion last year and it operates 114 stores nationally and 44 stores in Ontario.

Walmart Inc. (NYSE:WMT)

- www.walmart.com
- Headquartered in Bentonville, Arkansas, Walmart describes itself as the "largest retailer in the world" with F2020 revenue of US\$523 billion.
- In Canada, Walmart operates 343 Walmart Supercenters and 65 Walmart Discount Stores. The Supercenters have grocery departments.

"Neighbourhood" Organic and Natural Food Grocers in the GTA and Southern Ontario**Goodness Me!**

- www.goodnessme.ca
- Goodness Me! is a natural food retailer with 10 stores in southern Ontario, all outside of Toronto, and also offers classes on food education and healthy living.

Fresh City Farms

- www.freshcityfarms.com
- Fresh City Farms is an online retailer of organic produce and prepared foods with eight stores in Toronto under three brands – Fresh City, Mabel's Bakery & Specialty Foods, and The Healthy Butcher.

Natures Emporium

- www.naturesemporium.com
- Natures Emporium bills itself as "Your Neighbourhood Health Food Market" and operates four stores in the GTA but does not have a store in Toronto.

Noah's Natural Foods

- www.noahsnaturalfoods.ca
- Noah's Natural Foods is a Canadian-owned health food store with four Toronto locations.

The Big Carrot

- www.thebigcarrot.ca
- The Big Carrot is a worker-owned natural food store with two locations in Toronto.

Fiesta Farms

- fiestafarms.ca
- Fiesta Farms claims to be Toronto's largest independently owned grocery store and garden centre, selling organic, local, healthy, gourmet, artisan, and traditional fare.

REVIEW OF RECENT FINANCIALS

Financial and Business Highlights for F2019, FQ1/2020 and FQ2/2020

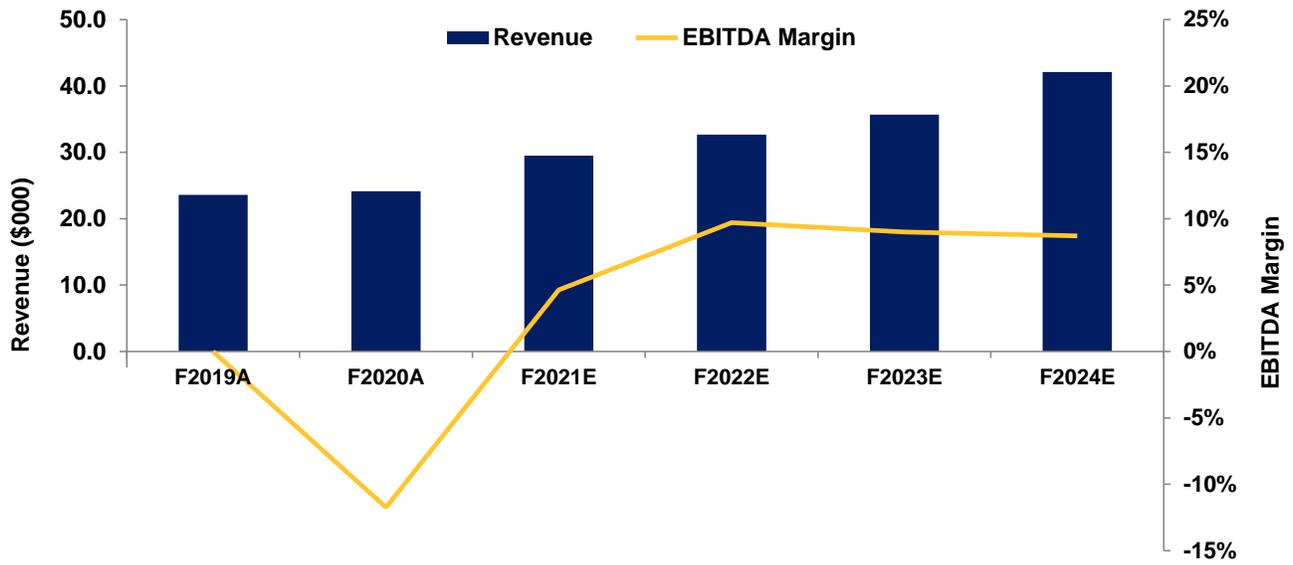
- F2020 Revenue & Gross Profit (Year ended January 31, 2020)
 - F2020 Revenue was \$24.1 million, an increase of 2.3% from \$23.6 million in F2019.
 - Gross Profit increased to 27.75% from 27.42%.
- FQ1/2020 Revenue, Gross Profit & EBITDA (Quarter ended April 30, 2020)
 - FQ1/2020 Revenue was \$7.95 million, an increase of 19% from \$6.7 million in FQ1/2019.
 - Online sales steadily increased from 1.3% in February to 6.6% in April.
 - Gross Profit increased to 30.6% from 29.4%.
 - FQ1/2020 EBITDA was \$1.2 million compared to EBITDA of \$0.4 million in FQ1/2019.
- FQ2/2020 Revenue, Gross Profit & EBITDA (Quarter ended July 31, 2020)
 - FQ2/2020 Revenue was \$8.1 million, an increase of 29% from \$6.2 million in FQ2/2019.
 - Online sales represented 6.0% of sales.
 - Normalized Gross Profit increased to 29.0% from 23.9%.
 - FQ2/2020 EBITDA was \$0.4 million compared to an EBITDA loss of \$0.4 million in FQ2/2019.
 - Cash balance increased to \$0.9 million from \$0.2 million as of January 31, 2020.
- Business
 - During FQ2/2020, Organic Garage made progress on phasing out its current centralized distribution centre as it moves towards a decentralized model by the start of CY2021.
 - Construction has started on its Leaside location in Toronto, the Company's fifth store with expected completion in the first half of 2021.
 - The Company continues to expand its "Kitchen Originals" private label product offering.
- COVID-19 Impact
 - With the upswing in food retail due to the stay-at-home measures from the current COVID-19 health crisis, Organic Garage recognized revenue increases in the past two quarters of 19% and 29% year-over-year.
 - Fortunately for the Company, its previously announced agreement with Cornershop allowed Organic Garage to offer online shopping and delivery.
 - The Company also instituted a "Curbside Pickup" option at its Oakville and Thornhill stores.
 - However, additional costs accompanied the enhanced health and safety protocols, including the installation of plexiglass dividers, as well as the Company's policy of increasing the hourly wages for all team members during the initial months of the health crisis.
 - Revenue was also negatively impacted, albeit slightly, as some self-serve features, programs, and in-store demos were suspended.

Figure 15: Financial Highlights and Estimates

	F2019A	F2020A	FQ121A	FQ221A	FQ321E	FQ421E	F2021E
Total Revenue	\$23,609,377	\$24,154,621	\$7,952,876	\$8,063,735	\$6,828,878	\$6,635,057	\$29,480,546
Total Operating Expenses	\$8,261,684	\$11,511,358	\$2,245,073	\$2,396,618	\$2,096,408	\$2,040,326	\$8,778,425
Operating Income	(\$1,788,978)	(\$4,807,473)	\$188,837	(\$202,693)	(\$30,148)	(\$49,809)	(\$93,814)
Adjusted EBITDA	(\$670,590)	(\$3,014,318)	\$1,063,296	\$443,600	\$350,000	\$300,000	\$2,156,896
Diluted EPS	(\$0.06)	(\$0.14)	\$0.01	(\$0.01)	\$0.00	(\$0.00)	(\$0.00)
Cash	\$2,055,764	\$194,268	\$1,208,004	\$902,944	\$762,142	\$839,945	\$839,945
Debt	\$3,002,118	\$2,718,632	\$2,743,473	\$2,768,866	\$2,768,866	\$2,768,866	\$2,768,866

Source: Company reports; eResearch Corp.

Figure 16: Revenue and EBITDA Margins



Source: Company reports; eResearch Corp.



Source: eResearch Corp.

VALUATION

Organic Garage's stock trades at 0.5x Enterprise Value to F2021E Revenue (EV/Revenue) and 6.8x Enterprise Value to F2021E EBITDA (EV/EBITDA) compared with the overall Canadian Food Grocer Industry averages for CY2020E of 0.9x EV/Revenue and 9.3x EV/EBITDA (see [APPENDIX D: FOOD INDUSTRY COMPARABLES](#)).

Organic Garage's F2021 estimates with a year end of January 31, 2021, are the closest comps to CY2020 estimates.

Comparable M&A transactions, with transaction multiples (see [Figure 17](#)), indicate average transaction multiples at 0.8x EV/Revenue and 8.7x EV/EBITDA.

There is a valuation discount with its peers, which we believe should subside for the following reasons:

- Increased sales from the current health crisis should continue for the remainder of F2021 and into FQ1/2022;
- Online sales, currently representing 6.0% of sales, should continue to increase;
- The new Leaside store opening in the first half of F2022 should boost revenue by 10-20% in F2022 and 15-25% in F2023;
- Cost reductions implemented during F2020 should continue and help with overall margins;
- Market awareness takes time. As the Company continues to grow the number of locations, market awareness improves and builds the customer base, which should increase repeat visitors and recurring revenue.

Assumptions:

- Same-store sales will increase 3% annually.
- Revenue will increase by 18% when the new store in Leaside is fully operational.
- Organic Garage will open a new store in F2024.
- Closing of the Distribution Warehouse will save \$500,000 annually starting in FQ1/2022.

Valuation Method 1: Our DCF model with a 10% WACC and a five-year terminal multiple of 9x EBITDA yields a one-year target share value of \$0.33.

Valuation Method 2: Using a revenue multiple of 0.6x and a one-year ahead Revenue of \$32.1 million yields a one-year target share price of \$0.24.

Valuation Method 3: Using an EBITDA multiple of 9x and a one-year ahead EBITDA of \$2.3 million yields a one-year target share price of \$0.28.

The equal-weighted target price per share is \$0.29 and we are setting the one-year price target at \$0.30.

Figure 17: Target Price (1-year) Calculation

				TARGET PRICE
Method 1:	DCF	WACC:10%	Terminal Multiple:9x EBITDA	\$0.37
Method 2:	Revenue Multiple	0.6x	1 Year Fwd Revenue (Est.): \$30M	\$0.21
Method 3:	EBITDA Multiple	9.0x	1-Year Fwd EBITDA (Est.): \$2.3M	\$0.27
Equal-Weighted Target Price (1 year forward)				\$0.28

Source: eResearch Corp.

We are Initiating Coverage on Organic Garage with a (blended) one-year price target of \$0.30.

Figure 18: Organic Garage DCF Analysis

Organic Garage Ltd. FYE (January 31)								
DCF Analysis (C\$)	F2019A	F2020A	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E
Revenue (\$)	23.6	24.2	29.5	32.7	35.7	42.1	43.4	44.7
Revenue Growth		2.3%	22.0%	10.8%	9.3%	18.0%	3.0%	3.0%
EBITDA (\$)	(0.7)	(3.0)	2.2	3.2	3.2	3.7	3.8	3.9
EBITDA Growth		n/a	n/a	46.9%	1.4%	14.1%	3.0%	3.0%
EBITDA Margin	-2.8%	-12.5%	7.3%	9.7%	9.0%	8.7%	8.7%	8.7%
Depreciation and Amortization	0.7	1.7	1.4	1.2	1.1	1.1	1.1	1.0
EBIT (\$)	(1.4)	(4.7)	0.7	2.0	2.1	2.6	2.7	2.9
NOPAT	-	(4.6)	(0.1)	1.7	1.8	2.2	2.1	2.9
Plus Amortization (\$)	0.7	1.7	1.4	1.2	1.1	1.1	1.1	1.0
Less Capital Expenditures (\$)	(2.2)	(0.6)	(0.2)	(1.1)	(0.3)	(1.0)	(0.4)	(0.5)
Capital Intensity	9.2%	2.4%	0.7%	3.4%	0.8%	2.5%	0.9%	1.1%
Net Working Capital Changes	0.3	0.1	(0.6)	(0.1)	0.0	0.1	(0.0)	(0.0)
EPS (Continuing)	(0.06)	(0.14)	(0.00)	0.03	0.01	0.01	0.00	(0.00)
Unlevered Free Cash Flow (\$)	(1.2)	(3.4)	0.5	1.7	2.7	2.4	2.7	3.5
PV of Unlevered FCFs (\$)	(1.4)	(3.7)	0.5	1.5	2.2	1.8	1.8	2.1

Valuation Assumptions:

Discount Rate	10.0%
Terminal Multiple	9.0x

Valuation Analysis:

	Current	1-Yr Target	2-Yr Target
Total PV of FCFs (\$M)	9.9	10.4	9.5
Terminal Value (\$M)	35.0	35.0	35.0
PV of Terminal Value (\$M)	21.3	23.4	25.7
Net (debt) cash position (\$M)	(4.6)	(4.4)	(4.9)
Total Value (\$M)	26.6	29.4	30.4
DCF Value/Share (C\$)	C\$0.33	C\$0.37	C\$0.38
DCF Value/Share (US\$)	US\$0.26	US\$0.29	US\$0.29
FD Shares O/S (M)*	79.4	79.4	79.4

		Terminal EV/EBITDA Multiplier						
		6.00	7.00	8.00	9.00	10.00	11.00	12.00
Discount Rate	6.0%	0.32	0.36	0.39	0.43	0.47	0.51	0.55
	8.0%	0.29	0.33	0.36	0.40	0.43	0.47	0.51
	10.0%	0.27	0.30	0.34	0.37	0.40	0.44	0.47
	12.0%	0.25	0.28	0.31	0.34	0.37	0.40	0.43
	14.0%	0.23	0.26	0.29	0.32	0.35	0.37	0.40
	16.0%	0.22	0.24	0.27	0.30	0.32	0.35	0.37

Source: Company reports; eResearch Corp.

Figure 19: Historical M&A Transactions

Date	Target	Ticker	Acquirer	Ticker	Transaction Size (US\$ M)	Revenue Multiple	EBITDA Multiple
Oct-30-2020	Freshly, Inc.		Nestlé USA / Nestlé S.A.	SWX:NESN	950.0	2.2x	
Apr-16-2019	Smart & Final Stores	NYSE:SFS	Apollo Management IX LP	NYSE:APO	2,135.4	0.4x	11.3x
Dec-10-2018	Farm Boy		Sobeys Inc. / Empire	TSX:EMP.A	C\$800.0	1.6x	14.1x
Aug-28-2017	Whole Foods Market	NASDAQ:WFM	Amazon.com	NASDAQ:AMZN	14,620.8	0.9x	10.8x
Apr-21-2016	The Fresh Market	NASDAQ:TFM	Apollo Management IX LP	NYSE:APO	1,390.8	0.7x	6.7x
Nov-10-2015	Roundy's, Inc.		The Kroger Co.	NYSE:KR	835.3	0.2x	6.7x
Mar-06-2014	Safeway	NYSE:SWY	Albertsons Companies	NYSE:ACI	12,390.9	0.2x	4.7x
Jul-09-2013	Harris Teeter Supermarkets		The Kroger Co.	NYSE:KR	2,658.0	0.5x	6.6x
Jul-24-2009	T&T Supermarket Inc.		Loblaw Companies	TSX:L	C\$225.0	0.2x	
					Average	0.8x	8.7x

Source: S&P Capital IQ; eResearch Corp.

APPENDIX A: FINANCIAL STATEMENTS

Figure 20: Income Statement

Organic Garage Income Statement - FYE (January 31)	F2019A	F2020A	FQ121A	FQ221A	FQ321E	FQ421E	F2021E	F2022E	F2023E
Total Revenue	23,609,377	24,154,621	7,952,876	8,063,735	6,828,878	6,635,057	29,480,546	32,653,832	35,690,447
Total Cost of Sales	17,136,671	17,450,736	5,518,966	5,869,810	4,762,619	4,644,540	20,795,935	22,857,682	24,983,313
Gross Profit	6,472,706	6,703,885	2,433,910	2,193,925	2,066,260	1,990,517	8,684,612	9,796,149	10,707,134
Sales & Marketing	2,154,247	2,352,573	501,932	672,213	580,455	563,980	2,318,579	2,449,037	2,676,784
General and Administrative	1,961,145	1,824,886	363,988	421,533	341,444	331,753	1,458,718	1,404,115	1,606,070
Rent & Utilities	2,452,302	1,541,640	351,080	386,215	307,300	298,578	1,343,172	1,142,884	1,427,618
Other operating costs	575,602	1,765,136	496,572	624,116	546,310	530,805	2,197,803	1,632,692	1,784,522
Stock Based Compensation	427,536	59,920	8,211	-	17,072	16,588	41,871	81,635	89,226
Depreciation of Property & Equipment	690,852	1,733,235	523,290	292,541	303,827	298,624	1,418,282	1,164,891	1,138,263
Total Operating Expenses	8,261,684	11,511,358	2,245,073	2,396,618	2,096,408	2,040,326	8,778,425	7,875,254	8,722,483
Operating Income	(1,788,978)	(4,807,473)	188,837	(202,693)	(30,148)	(49,809)	(93,814)	1,920,896	1,984,651
Total Other Income	(228,920)	(276,093)	566	969	43,203	(109,748)	(65,011)	(725,348)	(1,518,863)
EBT	(2,017,898)	(5,083,566)	189,403	(201,724)	13,054	(159,558)	(158,825)	1,195,548	465,788
Income Taxes	-	-	-	-	(1,305)	-	(1,305)	(119,555)	(48,376)
Net Income (Loss)	(2,017,898)	(5,083,566)	189,403	(201,724)	11,749	(159,558)	(160,130)	1,075,993	417,412
EPS									
Basic EPS	(0.06)	(0.14)	0.01	(0.01)	0.00	(0.00)	(0.00)	0.03	0.01
Diluted EPS	(0.06)	(0.14)	0.01	(0.01)	0.00	(0.00)	(0.00)	0.03	0.01
Adjusted EBITDA	(670,590)	(3,014,318)	1,063,296	443,600	350,000	300,000	2,156,896	3,167,422	3,212,140
Shares Outstanding									
Shares Outstanding, Basic	36,569,278	37,168,753	37,617,028	38,365,084	38,506,764	38,506,764	38,506,764	38,506,764	38,506,764
Shares Outstanding, Diluted	36,569,278	37,168,753	37,617,028	38,365,084	38,365,084	38,365,084	38,365,084	38,365,084	38,365,084

Source: Company reports; eResearch Corp.

Figure 21: Balance Sheet

Organic Garage Balance Sheet - FYE (January 31)	F2019A	F2020A	FQ121A	FQ221A	FQ321E	FQ421E	F2021E	F2022E	F2023E
Current Assets									
Cash	2,055,764	194,268	1,208,004	902,944	762,142	839,945	839,945	1,985,929	3,382,599
Account Receivables	89,583	7,004	29,907	55,076	26,175	25,432	25,432	30,519	31,434
Prepaid Expenses & Other Assets	76,121	25,418	19,193	19,715	24,173	23,555	23,555	22,364	23,196
Inventory	1,817,174	2,018,540	2,018,314	1,869,280	834,518	813,828	813,828	976,593	1,005,891
Total Current Assets	4,038,642	2,245,230	3,275,418	2,847,015	1,647,008	1,702,760	1,702,760	3,015,405	4,443,120
Non-Current Assets									
Property and Equipment	7,119,291	15,033,347	14,592,520	14,343,414	14,096,960	13,854,724	13,854,724	13,796,387	12,927,463
Goodwill	2,233,968	0	0	0	0	0	0	0	0
Other	337,509	145,175	145,175	145,175	145,175	145,175	145,175	2,145,175	2,145,175
Total Assets	13,729,410	17,423,752	18,013,113	17,335,604	15,889,143	15,702,659	15,702,659	18,956,967	19,515,758
Current Liabilities									
Accounts Payables	2,484,768	2,809,230	3,195,200	2,714,054	1,323,645	1,289,822	1,289,822	1,224,607	1,270,152
Lease Liability	151,435	417,789	405,581	426,317	341,444	331,753	331,753	493,648	500,257
Short-Term Debt	3,002,118	0	0	0	0	0	0	0	0
Total Current Liabilities	5,638,321	3,227,019	3,600,781	3,140,371	1,665,089	1,621,575	1,621,575	1,718,255	1,770,409
Non-Current Liabilities									
Lease Liability	524,000	8,628,359	8,549,461	8,437,443	8,437,443	8,437,443	8,437,443	10,437,443	10,437,443
Convertible debentures	0	2,718,632	2,743,473	2,768,866	2,768,866	2,768,866	2,768,866	2,768,866	2,768,866
Total Liabilities	6,162,321	14,574,010	14,893,715	14,346,680	12,871,398	12,827,884	12,827,884	14,924,564	14,976,718
Shareholders Equity									
Capital Stock	10,921,267	10,926,017	10,998,059	11,069,309	11,069,309	11,069,309	11,069,309	11,069,309	11,069,309
Warrants & Options	0	0	2,351,848	2,351,848	2,351,848	2,351,848	2,351,848	2,351,848	2,351,848
Contributed Surplus	1,982,168	2,343,637	0	0	17,072	33,660	33,660	115,294	204,521
Deficit	(5,336,346)	(10,419,912)	(10,230,509)	(10,432,233)	(10,420,484)	(10,580,042)	(10,580,042)	(9,504,049)	(9,086,637)
Total Shareholders Equity	7,567,089	2,849,742	3,119,398	2,988,924	3,017,745	2,874,775	2,874,775	4,032,403	4,539,040
Total Liabilities & Shareholders Equity	13,729,410	17,423,752	18,013,113	17,335,604	15,889,143	15,702,659	15,702,659	18,956,967	19,515,758

Source: Company reports; eResearch Corp.

Figure 22: Cash Flow Statement

Organic Garage Cash Flow Statement - FYE (January 31)	F2019A	F2020A	FQ121A	FQ221A	FQ321E	FQ421E	F2021E	F2022E	F2023E
Cash Provided By Operating Activities									
Net Income (Loss)	(2,017,898)	(5,083,566)	189,403	(201,724)	11,749	(159,558)	(160,130)	1,075,993	417,412
Depreciation of Property & Equipment	690,852	1,733,235	523,290	292,537	303,827	298,624	1,418,278	1,164,891	1,138,263
Stock Based Compensation Expense	427,536	59,920	8,211	-	17,072	16,588	41,871	81,635	89,226
Finance Cost	-	-	70,274	71,836	-	-	142,110	-	-
Other	-	2,435,126	96,883	96,643	-	-	193,526	-	-
Changes in Non-Cash Working Capital									
Account & Other Receivables	362,257	82,579	(22,903)	(25,169)	28,901	743	(18,428)	(5,086)	(916)
Inventory	(230,647)	(201,366)	226	149,035	1,034,762	20,690	1,204,713	(162,766)	(29,298)
Prepaid Expenses & Other Current Assets	(3,598)	(88,472)	6,225	(522)	(4,458)	618	1,863	1,191	(832)
Accounts Payable & Other Payables	(15,683)	277,004	243,654	(506,898)	(1,390,409)	(33,823)	(1,687,476)	(65,216)	45,545
Other	200,000	-	-	-	-	-	-	-	-
Lease Liabilities	-	-	-	-	(84,873)	(9,691)	(94,564)	161,895	6,609
Total Cash Provided By Operating Activities	(587,181)	(785,540)	1,371,317	(380,316)	(83,428)	134,190	1,041,763	2,252,538	1,666,010
Investing Activities									
Purchase of Property & Equipment	(2,168,949)	(575,963)	(82,463)	(17,473)	(57,374)	(56,388)	(213,697)	(1,106,554)	(269,339)
Total Cash From Investing Activities	(2,168,949)	(575,963)	(82,463)	(17,473)	(57,374)	(56,388)	(213,697)	(1,106,554)	(269,339)
Financing Activities									
Operating Line (Repayment)	2,833,338	-	-	515,281	-	-	515,281	-	-
Repayment of Loan	-	(3,002,118)	-	-	-	-	-	-	-
Issue/Repurchase of Equity / Convertible	-	2,925,000	72,042	(72,042)	-	-	-	-	-
Proceeds from exercise of Stock Options and Warrants	463,695	-	-	-	-	-	-	-	-
Total Cash From Financing Activities	3,103,984	(499,993)	(275,118)	92,729	-	-	(182,389)	-	-
Net Increase in Cash	347,854	(1,861,496)	1,013,736	(305,060)	(140,802)	77,802	645,677	1,145,984	1,396,670
Beginning Cash	1,707,910	2,055,764	194,268	1,208,004	902,944	762,142	194,268	839,945	1,985,929
Ending Cash	2,055,764	194,268	1,208,004	902,944	762,142	839,945	839,945	1,985,929	3,382,599

Source: Company reports; eResearch Corp.

APPENDIX B: OUTSTANDING SHARES, OPTIONS & WARRANTS

Figure 23: Shares Outstanding for Fully Diluted Share Count and Valuation

Shares Outstanding - Valuation ('000)		
Shares Outstanding: End of Quarter	July 31/20	38,507
Shares Outstanding: Basic - End of Previous Quarter	Apr 30/20	37,828
Shares issued in Quarter		679
Shares Outstanding: Basic - current quarter		38,507
- In the money options: Stock Price above Strike Price		-
- In the money warrants: Stock Price above Strike Price		-
Shares Outstanding, Fully Diluted: current quarter		38,507

Note: Shares increase when Share Price is greater than Derivative Strike Price

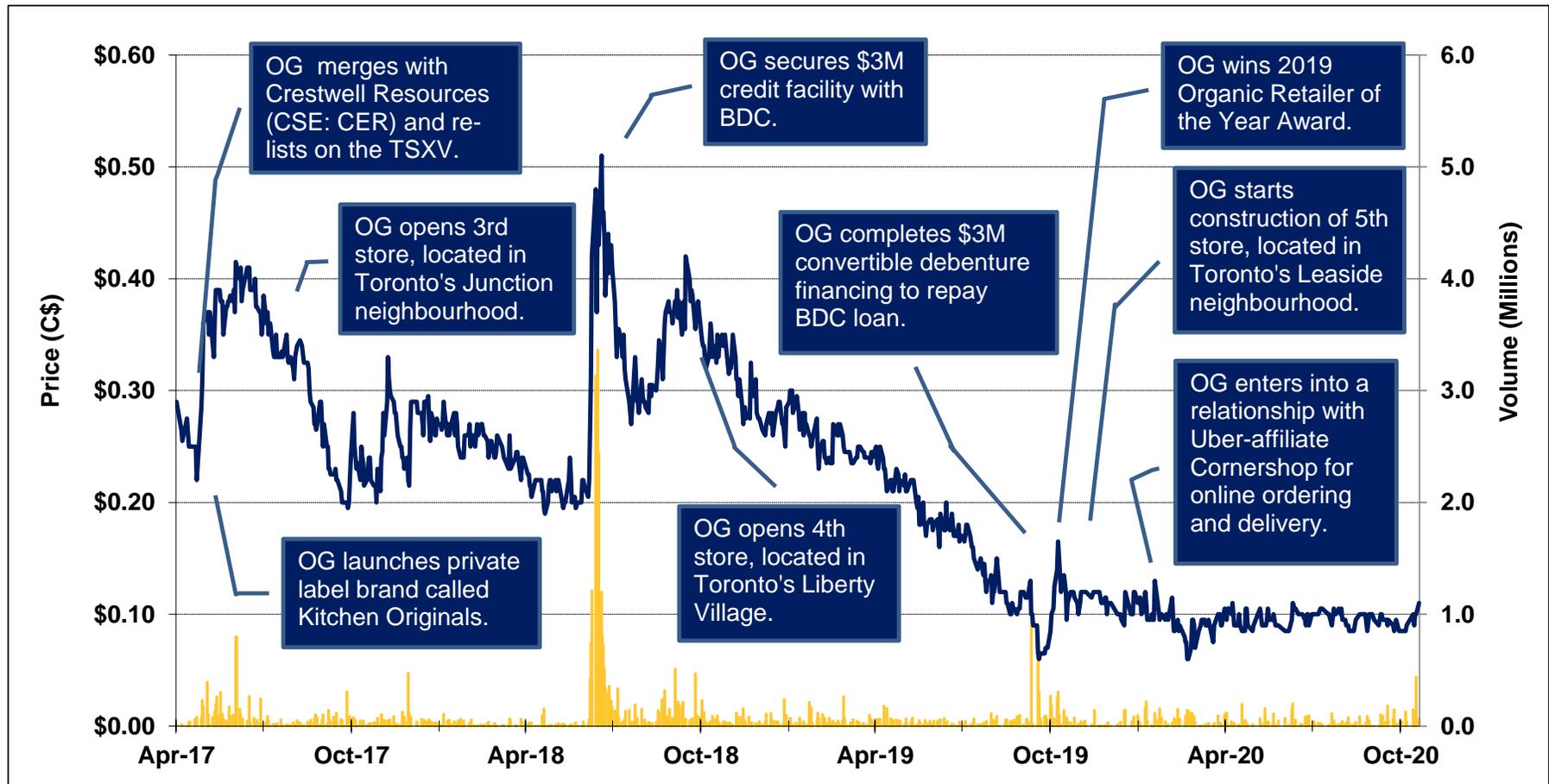
Shares Outstanding - DCF ('000)	
Shares Outstanding: Basic - current quarter	38,507
- In the money options: Target Price above Strike price	-
- In the money warrants: Target Price above Strike price	-
- Convertible Debt	40,909
Shares Outstanding, Fully Diluted: current quarter	79,416

Note: Shares increase when Target Price is greater than Derivative Strike Price

Source: Company reports; eResearch Corp.

APPENDIX C: STOCK CHART AND CORPORATE EVENTS

Figure 24: Stock Chart with Corporate Events since Listing in April 2017



Source: S&P Capital IQ; Company reports; eResearch Corp.

APPENDIX D: FOOD COMPARABLES

Figure 25: Food Comparables

Name	Ticker	Nov 10 Close (US\$)	Mkt Cap (US\$ M)	EV** (US\$ M)	REVENUE (US\$ M)			EBITDA (US\$ M)			EV/Revenue			EV/EBITDA		
					2019A	2020E	2021E	2019A	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
US Comps																
Albertsons Companies, Inc.	NYSE:ACI	\$14.99	\$7,085	\$21,106	\$61,035	\$69,249	\$64,867	\$2,667.1	\$2,729	\$3,376	0.3x	0.3x	0.3x	7.9x	7.7x	6.3x
Costco Wholesale Corporation	NASDAQ:COST	\$366.62	\$161,763	\$159,965	\$154,674	\$165,568	\$179,568	\$6,379.0	\$7,596	\$7,977	1.0x	1.0x	0.9x	25.1x	21.1x	20.1x
The Kroger Co.	NYSE:KR	\$31.92	\$24,738	\$42,533	\$122,286	\$122,274	\$132,321	\$5,354.0	\$6,631	\$6,118	0.3x	0.3x	0.3x	7.9x	6.4x	7.0x
Natural Grocers by Vitamin	NYSE:NGVC	\$11.38	\$256	\$623	\$904	\$1,000	\$1,000	\$46.1	\$0	\$0	0.7x	0.6x	0.6x	13.5x		
Sprouts Farmers Market, Inc.	NASDAQ:SFM	\$20.01	\$2,360	\$3,727	\$5,635	\$6,446	\$6,479	\$345.5	\$489	\$429	0.7x	0.6x	0.6x	10.8x	7.6x	8.7x
Village Super Market, Inc.	NASDAQ:VLGEA	\$23.89	\$348	\$659	\$1,659	\$0	\$0	\$49.1	\$0	\$0	0.4x			13.4x		
Walgreens Boots Alliance, Inc.	NASDAQ:WBA	\$42.35	\$36,672	\$77,874	\$137,412	\$139,176	\$143,147	\$6,536.0	\$6,520	\$7,094	0.6x	0.6x	0.5x	11.9x	11.9x	11.0x
Walmart Inc.	NYSE:WMT	\$145.56	\$412,481	\$471,704	\$523,964	\$521,416	\$547,622	\$32,935.0	\$33,968	\$34,832	0.9x	0.9x	0.9x	14.3x	13.9x	13.5x
Weis Markets, Inc.	NYSE:WMK	\$46.77	\$1,258	\$1,249	\$3,543	\$0	\$0	\$175.3	\$0	\$0	0.4x			7.1x		
Mean											0.6x	0.6x	0.6x	10.9x	9.5x	9.3x
Median											0.6x	0.6x	0.6x	11.9x	9.8x	9.8x

Name	Ticker	Nov 10 Close (C\$)	Mkt Cap (C\$ M)	EV** (C\$ M)	REVENUE (C\$ M)			EBITDA (C\$ M)			EV/Revenue			EV/EBITDA		
					2019A	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Organic Garage Ltd.*	TSXV:OG	\$0.11	\$4.3	\$15.1	\$24.2	\$29.5	\$32.7	-\$3.0	\$2.2	\$3.2	0.6x	0.5x	0.5x	6.8x	4.7x	
Canadian Comps																
Alimentation Couche-Tard Inc.	TSX:ATD.B	\$45.84	\$51,017.5	\$57,082.4	\$57,558.5	\$45,255.7	\$54,162.2	\$3,649.9	\$4,615.0	\$4,274.9	1.0x	1.3x	1.1x	15.6x	12.4x	13.4x
Empire Company Limited	TSX:EMP.A	\$36.30	\$9,770.6	\$15,807.6	\$25,796.2	\$28,085.2	\$27,358.2	\$1,367.7	\$2,079.6	\$2,029.2	0.6x	0.6x	0.6x	11.6x	7.6x	7.8x
Loblaw Companies Limited	TSX:L	\$65.98	\$23,225.0	\$38,204.2	\$48,037.0	\$52,163.3	\$51,406.2	\$3,548.0	\$4,947.8	\$5,227.1	0.8x	0.7x	0.7x	10.8x	7.7x	7.3x
Metro Inc.	TSX:MRU	\$62.15	\$15,586.9	\$19,976.4	\$16,819.6	\$18,234.9	\$18,004.9	\$1,359.5	\$1,718.7	\$1,729.1	1.2x	1.1x	1.1x	14.7x	11.6x	11.6x
The North West Company Inc.	TSX:NWC	\$33.64	\$1,641.5	\$2,072.5	\$2,094.4	\$2,346.8	\$2,132.1	\$180.0	\$280.1	\$249.1	1.0x	0.9x	1.0x	11.5x	7.4x	8.3x
Mean											0.9x	0.9x	0.9x	12.8x	9.3x	9.7x
Median											1.0x	0.9x	1.0x	11.6x	7.7x	8.3x

*NOTE: Organic Garage recorded as next Fiscal Year

Name	Ticker	Nov 10 Close (local)	Mkt Cap (M)	EV** (M)	REVENUE (M)			EBITDA (M)			EV/Revenue			EV/EBITDA		
					2019A	2020E	2021E	2019A	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Specialty Foods																
Blue Apron Holdings, Inc.	NYSE:APRN	US\$5.57	98.5	118.9	454.9	455.6	477.0	-17.3	-4.3	14.7	0.3x	0.3x	0.2x			8.1x
Goodfood Market Corp.	TSX:FOOD	C\$8.29	556.3	554.5	188.0	304.4	381.9	-19.9	10.1	8.6	2.9x	1.8x	1.5x		54.9x	64.9x
HelloFresh SE	DB:HFG	€ 41.44	7,194.0	6,754.8	1,809.0	3,616.6	4,037.4	-10.9	431.1	440.2	3.7x	1.9x	1.7x		15.7x	15.3x
Marley Spoon AG	ASX:MMM	AUD 2.00	412.3	445.9	129.6	250.8	310.3	-33.1	0.9	8.9	3.4x	1.8x	1.4x		495.4x	50.1x
Mean											2.6x	1.4x	1.2x	15.7x	11.7x	
Median											3.2x	1.8x	1.4x	54.9x	32.7x	

**NOTE: Enterprise Value includes Lease Liability in Net Debt

Source: S&P Capital IQ; eResearch Corp.

APPENDIX E: RISKS

Organic Garage operates in the competitive retail grocery industry through various leased locations across Toronto, Canada. Organic Garage has risks inherent to a business in its early growth stage, as profits are reinvested and capital is raised to fund expansions. Other risks include the following.

Business and Operating Risks:

- Organic Garage's growth and ability to scale depends on increasing sales in existing stores and on new store openings, which if not achieved could negatively affect both short- and long-term profitability.
- Organic Garage works with perishable consumable products that have inherent risks for inventory due to shelf-life concerns and cases of damaged goods.
- Organic Garage leases property in a market that is appreciating in price, which brings concerns for changes in future lease payments and obligations.
- Uncertainty in future prices and supply of natural and organic products due to potential problems with harvest and shortages from suppliers may affect short-term business operations.
- Organic Garage has no proprietary product or service and operates in the competitive niche organic foods silo within the retail grocery industry.
- Organic Garage must maintain an efficient supply chain system to ensure stores have an assortment of appropriate products.

Financial Risks:

- Organic Garage has a history of losses as it continues to reinvest profits into the business.
- Organic Garage has directly or through its subsidiaries entered into various lease agreements expiring between CY2020 and CY2028, therefore there are foreseeable reoccurring lease obligations that may affect short-term profitability and increase liquidity risk.
- Organic Garage's main credit risk relates to its accounts receivables from sales paid with credit. A broader customer base and a review of customer credit profiles reduce this risk.

Legal and Regulatory Risks:

- Organic Garage has numerous levels of employees in its multiple retail stores, therefore appropriate labour laws, rules, and regulations must be addressed and maintained across all employees.
- Organic Garage has an obligation to diligently maintain the privacy and security of information related to customers and suppliers, such as credit card information, personal information, and business information.

Sales and Marketing Risks:

- The retail grocery industry has a competitive landscape, therefore potential competitors, such as Loblaw Companies Limited and Whole Foods Market, Inc. (owned by Amazon.com, Inc.), that have significant resources and brand recognition may capture and maintain significant market share.
- Organic Garage needs to effectively manage its product allocations to respond appropriately to consumer trends, as sales and consumers may decrease if the most wanted products are not held for sale.

Technology Risks:

- Additional capital may be needed in the near future for innovating and improving operational processes, which may incur expenses for licensing, hardware, and training.

APPENDIX F: MANAGEMENT & BOARD OF DIRECTORS

Matt Lurie, Chairman, CEO, President & Director

Mr. Matt Lurie is a fourth-generation grocer in his family business. He started Organic Garage with his mother and sister in 2006. Prior to Organic Garage, he bought his first Subway franchise when he was 19 years old, which eventually led to the ownership of three Subway franchises, making Mr. Lurie one of the youngest multi-unit franchise operators in Canada.

Nelson Lamb, CFO

Mr. Nelson Lamb has over 10 years of experience in accounting services and consulting. Prior to Organic Garage, he held positions in audit and assurance at PricewaterhouseCoopers, as well as Manager of Accounting Services at PubCo Reporting Solutions, a financial consulting service group. Mr. Lamb is a Chartered Professional Accountant and received a Bachelor of Commerce from the University of Victoria in British Columbia.

Ken Villazor, Independent Director

Mr. Ken Villazor has more than 20 years of experience in corporate affairs including public policy and relations, and business development. He is currently the President and CEO at Flower One Holdings Inc., and holds a position on the board of the Ottawa Senators Foundation. Mr. Villazor received a Bachelor of Science Degree from St. Michael's College at the University of Toronto, in Toronto, Canada.

Kevin Williams, Independent Director

Mr. Kevin Williams has over 20 years of experience in the investment and capital markets industry. He is currently the Head of U.S. Institutional Equity Sales at Cormark Securities and has held positions on Cormark's board since 2006 and Executive Committee since 2009. Mr. Williams received a Bachelor of Arts and a Master of Business Administration from the Richard Ivey School of Business in London, Canada.

Evan Clifford, Independent Director

Mr. Evan Clifford has 19 years of experience as an entrepreneur and business owner in various industries including music production, electric vehicles, and consumer goods. He is currently a co-founder at Mountain Valley MD and previous co-founder of Flower One Holdings Inc. Mr. Clifford played a significant role in Organic Garage's IPO which successfully raised \$5 million.

Michael Lovsin, Independent Director

Mr. Michael Lovsin has more than 35 years of experience in product development, quality management, and regulatory affairs within the retail industry for natural foods and pharmacy. He currently holds the positions of Managing Director at BMX Limited and President & CEO at Brilliant Ideas Group Canada, and has held previous executive roles at Loblaws, ULTA Beauty, and Shoppers Drug Mart. Mr. Lovsin received a Bachelor of Commerce at the Schulich School of Business at York University, in Toronto, Canada.

Keith K. Stein, Independent Director

Mr. Keith Stein has over 20 years of experience as a lawyer and is a board member of various companies on the Toronto Stock Exchange with interests including real estate and restaurants. He currently serves as Counsel at Dentons after working at Heenan Blaikie from 2008 to 2014. Prior to Heenan Blaikie, he was Senior Vice President of Corporate Affairs at Magan. Mr. Stein received his Bachelor of Laws Degree from the Osgoode Hall Law School at York University in Toronto, Canada.

Dennis Hancock, Member of Advisory Board

Mr. Dennis Hancock has over 25 years of experience as a senior sales and marketing executive in various industries including automotive, technology, telecommunications, retail, and financial services. He is currently the President and Founding Partner of multiple companies including Mountain Valley MD, PerformanceSPARK, and Brand Soapbox. Mr. Hancock received a diploma from Humber College in Toronto, Canada.

APPENDIX G: RECENT NEWS RELEASES

Organic Garage Reports Second Quarter Results and a 29% Increase In Sales

September 29, 2020

Organic Garage released its financial results for the second quarter, ended July 31, 2020, and announced a significant increase in sales and gross profit for the quarter. Highlights included:

- Sales increased 29% to \$8.1 million from \$6.2 million;
- Normalized gross profit percentage increased to 29.0% from 23.9%;
- Gross profit dollars increased 47% to \$2.2 million from \$1.5 million;
- Net loss of \$0.01 per share compared to a net loss of \$0.03 per share;
- EBITDA increased to earnings of \$0.4 million from a loss of -\$0.4 million;
- Cash balance increased to \$0.9 million compared to \$0.2 million as of January 31, 2020.

Organic Garage Announces Conversion of Debenture Interest into Equity

August 31, 2020

In accordance with the terms and conditions of the convertible debenture issued in October 2019, Organic Garage has agreed to issue 791,668 common shares as settlement of interest payments equal to \$71,250 accrued from May 1, 2020 to July 31, 2020.

Organic Garage Reports First Quarter Results

June 29, 2020

Organic Garage released its financial results for the first quarter ended April 30, 2020, and announced an increase in sales, gross profit, and positive earnings per share for the quarter. Highlights included:

- Sales increased 19% to \$8.0 million from \$6.7 million;
- Gross profit percentage increased to 30.6% from 29.4%;
- Gross profit dollars increased 24% to \$2.4 million from \$2.0 million;
- Net income of \$0.01 per share compared to a net loss of \$0.01 per share;
- EBITDA increased 157% to \$1.2 million from \$0.4 million.

Organic Garage Reports Year-End Results for Fiscal 2020

May 29, 2020

Organic Garage released its annual audited financial results for its year ended January 31, 2020. Highlights included:

- Sales increased 2.3% from \$23.6 million to \$24.1 million;
- Gross profit percentage increased from 27.42% to 27.75%;
- Gross profit dollars increased 3.57%.

Organic Garage Announces Conversion of Debenture Interest into Equity

May 13, 2020

In accordance with the terms and conditions of the convertible debenture issued in October 2019, Organic Garage has agreed to issue 678,572 common shares as settlement of interest payments equal to \$71,250 accrued from February 1, 2020 to April 30, 2020.

Organic Garage Provides Corporate Update – Implementation of COVID-19 Safety Protocols, Significant Increase in Sales and Volumes, Ample Inventory to Meet Demand

April 8, 2020

Organic Garage provided a corporate update pertaining to its business and operational activities due to the current COVID-19 pandemic.

Organic Garage Announces Conversion of Debenture Interest into Equity

March 3, 2020

In accordance with the terms and conditions of the convertible debenture issued in October 2019, Organic Garage issued 626,452 common shares as settlement for interest payments equal to \$72,042 accrued from November 1, 2019 to January 31, 2020.

**Organic Garage Enters Into an Agreement with Uber Affiliate Cornershop
January 29, 2020**

Organic Garage announced that it has entered into a partnership with Cornershop to utilize Cornershop's digital app or website for online ordering and delivery of groceries from all Organic Garage retail locations. The go-live date is scheduled for January 29, 2020. Cornershop is an on-demand grocery app that allows users to order groceries for delivery in as little as 60 minutes, and is owned by Uber Technologies Inc. (NYSE:UBER).

**Organic Garage Announced New CFO and Conversion of Debenture Interest into Equity
December 2, 2019**

Organic Garage appointed Nelson Lamb, who previously was a Chartered Professional Accountant at PricewaterhouseCoopers, as Chief Financial Officer. Organic Garage thanks Mr. Paul Mason, the previous Chief Financial Officer, for his services.

**Organic Garage Announced the Commencement of Construction on its Leaside Store
November 28, 2019**

Organic Garage has started construction on its fifth store in the Leaside neighbourhood within Toronto, which follows Organic Garage's two recent Toronto store openings in the Junction and Liberty Village. The Leaside area is dense in population with 229,000 households and an average household income of over \$139,000 per year.

**Organic Garage Wins Toronto's Best Organic Food Store
November 26, 2019**

Organic Garage is proud to have won Toronto Star Reader's top choice reward for "Best Organic Food Store", which had approximately 40,000 casted votes. Organic Garage has also previously received the Organic Retailer of the Year award from the Canadian Organic Trade Association and the Best of Canada's Sign Industry reward for design features in the Liberty Village store.

**Organic Garage Repays BDC Loan
November 4, 2019**

Organic Garage announced the repayment of \$2.5 million in outstanding principal and interest to BDC Capital Inc. using proceeds from a private placement of unsecured convertible debentures which were accounted in October 2019. The new financing with lower interest rates and the option of paying interest with stocks will allow preservation of capital to focus on reinvesting into growth initiatives.

**Organic Garage Provides Corporate Update
October 28, 2019**

Organic Garage received \$3 million in unsecured convertible debentures at an interest rate of 9.5%, replacing a previous loan from BDC Capital which had an interest rate of 14.5%. While Organic Garage continues its growth initiatives with the development of its fifth store in Leaside, a stronger focus will be put on positive cash flows through leveraging infrastructure and scaling operations.

**Organic Garage Reports Second Quarter Results
October 1, 2019**

Organic Garage reported financial results for its second quarter ending July 31, 2019, with quarterly sales increasing 9.56% to \$6.2 million. Bottom line performance was negatively affected by non-cash expenses from changes to IFRS rules regarding lease accounting and depreciation. Organic Garage continued to search for a financing solution to restructure its existing loan with BDC to reduce its expenses in an effort to increase profitability.

APPENDIX H: ERESEARCH DISCLOSURE

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ANALYST ACCREDITATION

eResearch Analyst on this Report: Chris Thompson CFA, MBA, P.Eng.

Analyst Affirmation: I, Chris Thompson, hereby state that, at the time of issuance of this research report, I do not own common shares, share options or share warrants of Organic Garage Ltd. (TSXV: OG).

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A third-party company paid eResearch a fee to have it conduct research and publish reports on Organic Garage for one year.

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