

# KuuHubb Inc.

## Preliminary FQ318 Results; Approaching Cash Flow Breakeven

KUU-TSXXV: C\$0.92  
Speculative Buy  
C\$4.00 Target

**Event:** KuuHubb announced preliminary results. All figures are in US\$ unless otherwise noted.

**Investment Thesis:** KUU announced preliminary FQ318 results and expects to report revenue of \$6.6M (EWP: \$7.0M), up from \$6.3M q/q. Revenue was generated from existing and new user sales of the Recolor app, the in-application purchases of virtual goods from the My Hospital game, along with in-application advertising revenue. Advertising revenue started to trickle in the quarter, with KUU seeing immediate contribution once introduced. KUU neared cash-flow breakeven in the quarter, which we estimate lies around \$7-\$8M in revenue (depending on marketing spend). Additionally, KUU accelerated its Asian market expansion with \$1.6M in funds secured from a pre-payment from advertising partners and a bank loan. We look for full FQ318 results in May and will provide additional commentary at that time. The preliminary FQ318 results show constructive growth which we expect to accelerate in coming quarter with the launch of Japan, India and advertising revenue and continued brand/IP owner partnerships. **We maintain our SPECULATIVE BUY rating and DCF-based target of C\$4.00, and reiterate KUU as one of our Top Picks.**

### Focus Points:

**Experienced Team.** KuuHubb's co-founder and CEO, Jouni Keränen, has over 18 years of international business and management experience, with particular experience and in-depth knowledge of the online games industry and market in China and elsewhere in Asia, which are a particular area of focus for KuuHubb in its business plans.

**Focus on Asian Markets.** Asia is the world's largest and fastest growing market for online games. Jouni Keränen has extensive experience and expertise in the online games marketplace in Asia. He and his team also have a wide range of valuable relationships that KuuHubb believes will facilitate the introduction of its games in Asia and future growth in this key market. **We should see India and Japan launches this quarter.**

**Recolor.** Recolor is the number one digital colouring book application on mobile, has more than 30M all-time downloads, over 200M quarterly sessions, and over 6M Monthly Active Users (MAUs). We estimate another ~1M MAUs with My Hospital.

**Upside Potential.** We believe there is plenty of upside in our estimates as KUU expands across demographics and into adjacent lifestyle categories (like interior design, fashion and jewelry, home and garden, etc.). We note that the Global Social App comparables are trading on average (excl. FB) at a multiple of \$46/MAU. **Applying this multiple to KUU's 7.0M MAUs would value KUU at \$320M (or C\$5.50-6.50/shr).**

Projected Total Return: 335%

| Market Data (C\$)     |                 |
|-----------------------|-----------------|
| Market Capitalization | 48              |
| Net Debt              | 2               |
| Enterprise Value      | 50              |
| Basic Shares O/S      | 52              |
| Avg. Daily Volume (M) | 0.05            |
| 52 Week Range         | \$2.44 / \$0.78 |
| Dividend Yield        | 0.0%            |

| Management |                   |
|------------|-------------------|
| CEO        | Jouni Keränen     |
| CIO        | Christian Kolster |
| CFO        | Arsi Rosengren    |

| Top Institutional Ownership            |  | % Held |
|--|--|--------|
| Fidelity (Canada) Asset Management ULC |  | 15.0%  |
| Fidelity Management & Research Co.     |  | 0.0%   |

| Total Insider Ownership |  | 50.1% |
|-------------------------|--|-------|
|-------------------------|--|-------|

| Revisions (US\$) |        | New    | Old |
|------------------|--------|--------|-----|
| 2018 Revenue     | 24.53  | 24.93  |     |
| 2018 Adj. EBITDA | (3.17) | (3.20) |     |
| 2018 EPS         | (0.10) | (0.10) |     |

| Financial Metrics (US\$M) |        |        |        |
|---------------------------|--------|--------|--------|
| FYE 30-Jun                | F2018E | F2019E | F2020E |
| Total Revenue             | 24.5   | 35.2   | 45.8   |
| Adj. EBITDA               | (3.2)  | 0.2    | 3.2    |
| Diluted EPS               | (0.10) | (0.05) | (0.00) |

| Valuation Data       |        |        |         |
|----------------------|--------|--------|---------|
| DCF - Current/Target |        | 0.92   | 4.00    |
| EV/Rev               | 1.6    | 1.1    | 0.9     |
| EV/EBITDA            | (12.4) | 192.7  | 12.2    |
| P/E                  | (7.2)  | (15.7) | (190.4) |

| Quarterly Data (US\$M) |      |        |        |        |        |
|------------------------|------|--------|--------|--------|--------|
|                        | 2018 | FQ1    | FQ2    | FQ3    | FQ4    |
| Revenue                | 2018 | 3.6    | 6.3    | 6.6    | 8.0    |
|                        | 2019 | 8.1    | 8.9    | 8.3    | 10.0   |
| Adj. EBITDA            | 2018 | (2.2)  | (0.2)  | (0.5)  | (0.3)  |
|                        | 2019 | 0.0    | 0.1    | 0.0    | 0.1    |
| EPS                    | 2018 | (0.05) | (0.02) | (0.02) | (0.02) |
|                        | 2019 | (0.01) | (0.01) | (0.01) | (0.01) |

**Company Description**  
KuuHubb is a company active in the digital space that focuses mainly on lifestyle and mobile video game applications. Its strategy is to create sustainable shareholder value through acquisitions of proven, yet underappreciated, assets with robust long-term growth potential. Headquartered in Helsinki, Finland, the Company has a global presence with a strong focus on developing U.S. brand collaborations and Asian partnerships.



Source: Consensus Data - FactSet,  
Historicals - Company Filings,  
Forecasts/Estimates - Echelon Wealth  
Partners

## Valuation

KUU is currently trading at a C2018 EV/Sales of 1.6x, versus its Gaming/Social comparables at 4.7x.

### Exhibit 1 – Global Gaming/Social Comparables











#### GAMING/SOCIAL COMPARABLES

| Company                           | Ticker        | Price (Local) | Mkt Cap. (US\$) | LTM Rev (US\$) | EV/Sales   |            |            | EV/EBITDA   |             |             | P/E         |             |              |
|-----------------------------------|---------------|---------------|-----------------|----------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|--------------|
|                                   |               |               |                 |                | 2017       | 2018       | 2019       | 2017        | 2018        | 2019        | 2017        | 2018        | 2019         |
| <b>KuuHubb Inc</b>                | <b>KUU-CA</b> | <b>0.92</b>   | <b>25</b>       | <b>9</b>       | <b>NM</b>  | <b>1.6</b> | <b>0.9</b> | <b>NM</b>   | <b>NM</b>   | <b>17.3</b> | <b>NM</b>   | <b>NM</b>   | <b>170.1</b> |
| Tencent Holdings Ltd.             | 700-HKG       | 417.20        | 505,094         | 35,181         | 13.5       | 9.5        | 7.1        | 32.8        | 26.7        | 20.4        | 44.9        | 38.6        | 29.4         |
| Activision Blizzard, Inc.         | ATVI          | 65.77         | 49,895          | 7,017          | 7.0        | 6.7        | 6.2        | 19.8        | 16.6        | 14.4        | 28.6        | 25.0        | 21.9         |
| Electronic Arts Inc.              | EA            | 118.86        | 36,458          | 5,063          | 6.3        | 5.8        | 5.5        | 18.2        | 15.8        | 14.1        | 27.8        | 23.8        | 21.1         |
| Netmarble Games Corp.             | 251270-KR     | 139000.00     | 11,083          | 1,912          | 3.6        | 3.0        | 2.5        | 15.2        | 10.9        | 8.4         | 35.7        | 24.1        | 17.9         |
| KONAMI HOLDINGS CORP              | 9766-JP       | 5500.00       | 7,375           | 2,192          | 2.6        | 2.4        | 2.4        | 10.2        | 9.0         | 8.7         | 22.7        | 19.9        | 19.3         |
| Gungho Online Entertainment, Inc. | 3765-JP       | 366.00        | 3,256           | 823            | 2.2        | 2.4        | 2.5        | 5.8         | 6.5         | 7.1         | 11.6        | 14.2        | 15.0         |
| Capcom Co., Ltd.                  | 9697-JP       | 2200.00       | 2,784           | 733            | 2.4        | 2.5        | 2.3        | 9.4         | 9.8         | 8.9         | 20.6        | 20.8        | 18.0         |
| PearlAbyss Corp.                  | 263750-KR     | 243700.00     | 2,757           | 101            | NM         | NM         | 3.5        | NM          | NM          | 6.2         | NM          | NM          | 9.5          |
| Rovio Entertainment Oyj           | ROVIO-HEL     | 4.80          | 470             | 360            | NM         | NM         | NM         | NM          | NM          | NM          | NM          | 17.7        | 12.4         |
| Glu Mobile Inc.                   | GLUU          | 3.68          | 513             | 287            | 1.4        | 1.3        | 1.1        | NM          | NM          | 12.6        | NM          | NM          | 17.1         |
| Facebook, Inc. Class A            | FB            | 157.93        | 458,774         | 40,653         | 10.5       | 7.7        | 6.1        | 15.8        | 12.5        | 10.1        | 25.6        | 21.7        | 18.0         |
| Snap, Inc. Class A                | SNAP          | 14.15         | 17,359          | 825            | 17.5       | 11.0       | 7.3        | NM          | NM          | NM          | NM          | NM          | NM           |
| Twitter, Inc.                     | TWTR          | 28.01         | 21,033          | 2,443          | 7.5        | 6.6        | 5.9        | 20.7        | 18.5        | 15.9        | 63.7        | 46.5        | 39.6         |
| Match Group, Inc.                 | MTCH          | 43.42         | 11,911          | 1,331          | 10.4       | 8.6        | 7.5        | 29.5        | 23.3        | 19.6        | 29.1        | 35.9        | 29.4         |
| Pandora Media, Inc.               | P             | 4.74          | 1,208           | 1,467          | 1.0        | 0.9        | 0.8        | NM          | NM          | NM          | NM          | NM          | NM           |
| ANGI Homeservices Inc Class A     | ANGI          | 13.16         | 6,294           | NM             | 7.8        | 5.0        | 4.0        | 146.7       | 21.3        | 15.0        | NM          | NM          | 42.4         |
| Meet Group Inc                    | MEET          | 2.31          | 166             | 124            | 1.5        | 1.4        | 1.1        | 6.0         | 9.2         | 6.4         | -2.8        | -26.7       | 115.5        |
| theScore, Inc. Class A            | SCR-CA        | 0.13          | 30              | 20             | 1.2        | 1.1        | 1.0        | NM          | NM          | NM          | NM          | NM          | NM           |
| <b>Averages:</b>                  |               |               |                 |                | <b>6.0</b> | <b>4.7</b> | <b>3.9</b> | <b>27.5</b> | <b>15.0</b> | <b>12.0</b> | <b>28.0</b> | <b>21.8</b> | <b>28.4</b>  |

Source: Consensus Data - FactSet

**Monthly Active Users (MAU).** We note that in June 2017, Houzz raised \$400M at a \$4B valuation. According to a recent Seeking Alpha article, Houzz has grown to over 40M MAU and 1.5M home professionals in 60 categories. Its marketplace, launched in C2014, has more than 9M products from more than 20,000 sellers. It sells a wide range of products from tools, cookware, furniture, home decor items, home improvement items like tiles and building material, outdoor furniture, and lighting fixtures. The recent funding would value Houzz at ~\$100/MAU. From the exhibit below, we note that the Global Social App comparables are trading on average (excl. FB) at a multiple of US\$46/MAU. **Applying this multiple to KUU's 7.0M MAUs would value KUU at \$320M (or ~C\$5.50-6.50/shr).**

### Exhibit 2 – Global Social Apps Comparables – Monthly Active Users (MAUs)

|                                    |  FB-US |  SNAP-US |  SPOT-US |  TWTR-US |  MTCH-US |  P-US |  GLUU-US |  MEET-US |  SCR-V |  KUU-V |
|------------------------------------|---|---|---|---|---|---|---|---|---|---|
| Mkt Cap (US\$)                     | 449.1B  | \$17.1B   | \$26.7B   | \$20.6B   | \$11.7B   | \$1.2B  | \$514.0M  | \$139.0M  | \$30.8M   | \$39M   |
| MAU (M)                            | 2.12B   | 275M  | 159M  | 330M  | 70M   | 75.7M   | 28.6M   | 10M   | 4.3M  | 7.0M  |
| Value/MAU (US\$)                   | \$212   | \$62  | \$168   | \$62  | \$17  | \$16  | \$18  | \$14  | \$7   | \$6   |
| <b>Average Value/MAU:</b>          |   |   |   |   |   |   |   |   | \$64  |   |
| <b>Average Value/MAU (ex. FB):</b> |   |   |   |   |   |   |   |   | \$46  |   |

Source: Consensus Data – FactSet, KUU 7.0M MAU includes Recolor and My Hospital

**KuuHubb Inc. – Tear Sheet**

**(KUU - TSXV, SPEC BUY, C\$4.00 PT)**



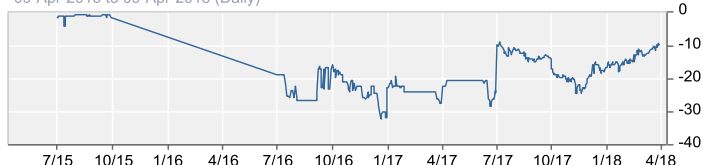
**Company Description**  
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| Consensus | Current  | Return |
|-----------|----------|--------|
| Rating:   | Spec Buy |        |
| Target:   | \$ 4.00  | 335%   |
| Median:   | \$ 4.00  | 335%   |
| High:     | \$ 4.00  | 335%   |
| Low:      | \$ 4.00  | 335%   |

| Consensus Distribution |   |
|------------------------|---|
| Buy                    | 1 |
| Hold                   | - |
| Sell                   | - |
| # of Ratings           | 2 |

**Enterprise Value to EBITDA**

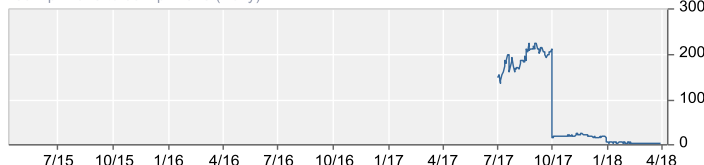
09-Apr-2015 to 09-Apr-2018 (Daily)



Source: FactSet Fundamentals

**Enterprise Value to Sales**

09-Apr-2015 to 09-Apr-2018 (Daily)



Source: FactSet Fundamentals

| Financial Summary/Key Metrics | FQ118  | FQ218  | FQ318E | FQ418E | F2018E | F2019E | F2020E   | F2021E   |
|-------------------------------|--------|--------|--------|--------|--------|--------|----------|----------|
| <b>Total Revenue</b>          | 3.6    | 6.3    | 6.6    | 8.0    | 25     | 35     | 46       | 57       |
| Growth y/y                    |        |        |        |        |        | 44%    | 30%      | 25%      |
| <b>EBITDA</b>                 | (2.2)  | (1.1)  | (0.4)  | (0.3)  | (4.0)  | (0.3)  | 3.3      | 8.7      |
| Growth y/y                    |        |        |        |        |        | -93.1% | -1278.1% | 163.8%   |
| <b>Consensus Diluted EPS</b>  | (0.05) | (0.02) | (0.02) | (0.02) | (0.10) | (0.05) | (0.00)   | 0.07     |
| Growth y/y                    |        |        |        |        |        |        | -91.8%   | -1813.6% |
| <b>Net Debt</b>               | 0.4    | 2.3    | 1.6    | 2.0    | 2.0    | 2.3    | (0.7)    | (8.7)    |
| <b>Capex</b>                  | -      | -      | 0.0    | 0.0    | 0.0    | 0.1    | 0.1      | 0.1      |

| Top Inst. Ownership         | % Held |
|-----------------------------|--------|
| Fidelity (Canada) Asset Man | 15.0%  |
| Fidelity Management & Rese  | 0.0%   |

| Balance Sheet                                      | FQ118 | FQ218 | FQ318E | FQ418E | F2018E | F2019E | F2020E | F2021E |
|--|-------|-------|--------|--------|--------|--------|--------|--------|
| <b>Cash</b>  | 4     | 1     | 2      | 1      | 1      | 1      | 3      | 11     |
| <b>Trade &amp; Other Receivables</b>               | 0     | 0     | 0      | 0      | 0      | 0      | 0      | 0      |
| <b>Total Current Assets</b>                        | 8     | 6     | 7      | 7      | 7      | 7      | 11     | 20     |
| <b>Total Assets</b>                                | 38    | 30    | 31     | 31     | 31     | 31     | 36     | 44     |
| <b>Deferred Revenue</b>                            | -     | -     | -      | -      | -      | -      | -      | -      |
| <b>Trade &amp; Other Payables</b>                  | 5     | 4     | 5      | 6      | 6      | 6      | 7      | 8      |
| <b>Total Current Liabilities</b>                   | 8     | 6     | 7      | 8      | 8      | 8      | 9      | 10     |
| <b>Total Liabilities</b>                           | 9     | 7     | 8      | 9      | 9      | 9      | 10     | 11     |
| <b>Total Liabilities &amp; Shareholders Equity</b> | 38    | 30    | 31     | 31     | 31     | 31     | 36     | 44     |

| Key Statistics         | Value |
|------------------------|-------|
| 52 Wk High             | 2.44  |
| 52 Wk Low              | 0.78  |
| YTD Chg.               | -41%  |
| 1 Yr. Chg.             | -8%   |
| Beta                   | 0.49  |
| Market Cap             | 32    |
| EV                     | 48    |
| Shares Outstanding (M) | 35    |
| LTM Dividend           | -     |
| Dividend Yield         | 0.0%  |

| Valuation | 2018E  | 2019E   |
|-----------|--------|---------|
| EV/Rev    | 2.0    | 1.4     |
| EV/EBITDA | (12.0) | (172.8) |
| P/E       | (9.1)  | (19.9)  |

| Comparables<br>Multiples Analysis | Price   | Target | Div Yield | Return |         |         |      |        | Rev (US\$M) |        | EBITDA (US\$M) |        | EPS (US\$) |        |
|-----------------------------------|---------|--------|-----------|--------|---------|---------|------|--------|-------------|--------|----------------|--------|------------|--------|
|                                   |         |        |           | 1 Week | 1 Month | 3 Month | YTD  | 1 Year | 2017        | 2018   | 2017           | 2018   | 2017       | 2018   |
| KUU-CA                            | 0.92    | 4.00   | 0.0%      | 10%    | -19%    | -35%    | -41% | -8%    | NM          | 24     | NM             | (3)    | NM         | (0.08) |
| FB                                | 157.93  |        | 0.0%      | 2%     | -15%    | -16%    | -11% | 12%    | 40,653      | 55,327 | 26,901         | 34,097 | 6.16       | 7.27   |
| SCR-CA                            | 0.13    |        | 0.0%      | -19%   | 0%      | -7%     | -19% | NM     | 21          | 22     | (4)            | (0.6)  | (0.02)     | (0.01) |
| SNAP                              | 14.15   |        | 0.0%      | -2%    | -21%    | 0%      | -3%  | NM     | 825         | 1,319  | (721)          | (643)  | (2.95)     | (1.06) |
| TWTR                              | 28.01   |        | 0.0%      | 0%     | -21%    | 16%     | 17%  | 96%    | 2,400       | 2,702  | 863            | 970    | 0.44       | 0.60   |
| 263750-KR                         | 251,000 |        | 0.0%      | 4%     | 3%      | 12%     | 1%   | NM     | 95          | 566    | 56             | 350    | 2.92       | 21.81  |

| Comparables<br>Multiples Analysis | EV      | FCF Yield |      | EV/Rev |      | EV/EBITDA |      | P/E  |      |
|-----------------------------------|---------|-----------|------|--------|------|-----------|------|------|------|
|                                   |         | 2017      | 2018 | 2017   | 2018 | 2017      | 2018 | 2017 | 2018 |
| KUU-CA                            | 38      | NM        | NM   | NM     | 1.6  | NM        | NM   | NM   | NM   |
| FB                                | 425,130 | 3.6%      | 3.5% | 10.5   | 7.7  | 15.8      | 12.5 | 25.6 | 21.7 |
| SCR-CA                            | 25      | NM        | NM   | 1.2    | 1.1  | NM        | NM   | NM   | NM   |
| SNAP                              | 14,473  | NM        | NM   | 17.5   | 11.0 | NM        | NM   | NM   | NM   |
| TWTR                              | 17,905  | NM        | NM   | 7.5    | 6.6  | 20.7      | 18.5 | 63.7 | 46.5 |
| 263750-KR                         | 2,319   | NM        | NM   | 24.4   | 4.1  | 41.3      | 6.6  | 77.0 | 10.5 |

Source: Consensus Data - FactSet, Historicals- Company Filings, Forecasts/Estimates-Echelon Wealth Partners estimates

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**Company:** KuuHubb Inc. | KUU:TSXV

I, Ralph Garcea, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

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|  |        |
|--|--------|
| Is this an issuer related or industry related publication?   | Issuer |
| Does the Analyst or any member of the Analyst's household have a financial interest in the securities of the subject issuer?<br>If Yes: 1) Is it a long or short position? No position; and, 2) What type of security is it? None.   | No     |
| Does the Analyst or household member serve as a Director or Officer or Advisory Board Member of the issuer?  | No     |
| Does Echelon Wealth Partners Inc. or the Analyst have any actual material conflicts of interest with the issuer?   | No     |
| Does Echelon Wealth Partners Inc. and/or one or more entities affiliated with Echelon Wealth Partners Inc. beneficially own common shares (or any other class of common equity securities) of this issuer which constitutes more than 1% of the presently issued and outstanding shares of the issuer? | No     |
| During the last 12 months, has Echelon Wealth Partners Inc. provided financial advice to and/or, either on its own or as a syndicate member, participated in a public offering, or private placement of securities of this issuer?   | Yes    |
| During the last 12 months, has Echelon Wealth Partners Inc. received compensation for having provided investment banking or related services to this Issuer?   | Yes    |
| Has the Analyst had an onsite visit with the Issuer within the last 12 months? Helsinki head office Sept 2017.   | Yes    |
| Has any Analyst, Partner, Director or Officer been compensated for travel expenses incurred as a result of an onsite visit with the Issuer within the last 12 months?  | No     |
| Has the Analyst received any compensation from the subject company in the past 12 months?  | No     |
| Is Echelon Wealth Partners Inc. a market maker in the issuer's securities at the date of this report?  | No     |

**RATING DEFINITIONS**

|                         |  |
|-------------------------|--|
| <b>Buy</b>              | The security represents attractive relative value and is expected to appreciate significantly from the current price over the next 12 month time horizon.                          |
| <b>Speculative Buy</b>  | The security is considered a BUY but in the analyst’s opinion possesses certain operational and/or financial risks that are higher than average.                                   |
| <b>Hold</b>             | The security represents fair value and no material appreciation is expected over the next 12-18 month time horizon.  |
| <b>Sell</b>             | The security represents poor value and is expected to depreciate over the next 12 month time horizon.  |
| <b>Under Review</b>     | While not a rating, this designates the existing rating and/or forecasts are subject to specific review usually due to a material event or share price move.                       |
| <b>Tender</b>           | Echelon Wealth Partners recommends that investors tender to an existing public offer for the securities in the absence of a superior competing offer.                              |
| <b>Dropped Coverage</b> | Applies to former coverage names where a current analyst has dropped coverage. Echelon Wealth Partners will provide notice to investors whenever coverage of an issuer is dropped. |

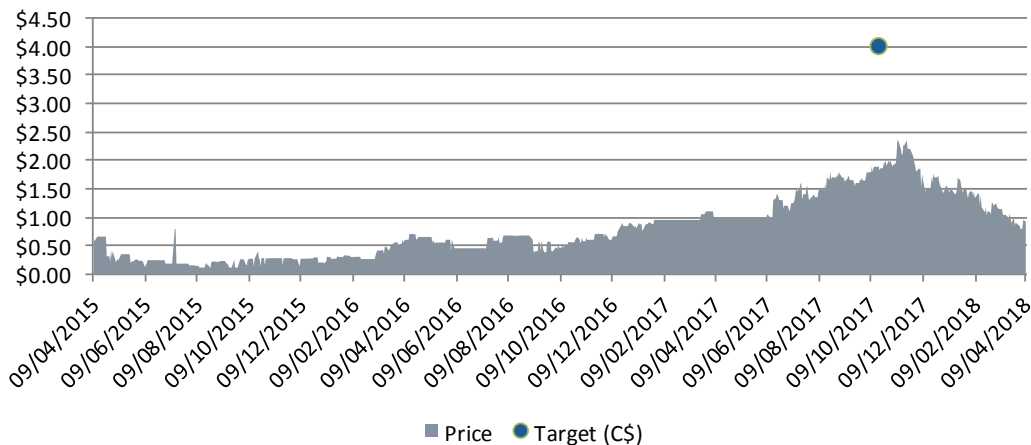
**RATINGS DISTRIBUTION**

| Recommendation Hierarchy                   | Buy | Speculative Buy | Hold | Sell | Under Review | Restricted | Tender |
|--|-----|-----------------|------|------|--------------|------------|--------|
| Number of recommendations                  | 54  | 51              | 12   | 1    | 4            | 0          | 3      |
| % of Total (excluding Restricted)          | 44% | 42%             | 10%  | 1%   | 3%           |            |        |
| Number of investment banking relationships | 7   | 27              | 1    | 1    | 0            | 0          | 2      |
| % of Total (excluding Restricted)          | 19% | 75%             | 3%   | 3%   | 0%           |            |        |

**PRICE CHART, RATING & PRICE TARGET HISTORY**

**KuuHubb Inc. (TSXV:KUU)**

Date: 19-Oct-17  
Target (C\$): 4.00  
Rating: Spec Buy



Coverage initiated: 10/19/2017

Data sourced from FactSet

**Toronto Wealth Management**

1 Adelaide Street East, Suite 2000  
Toronto, ON M5C 2V9  
416-572-5523

**Ottawa Wealth Management**

360 Albert Street, Suite 800  
Ottawa, ON K1R 7X7  
1-877-967-5866

**Victoria Wealth Management**

730 View Street, Suite 210  
Victoria, BC V8W 3Y7  
1-877-978-9300

**Saskatoon Wealth Management**

402-261 First Avenue North  
Saskatoon, SK S7K 1X2  
306-667-2282

**Toronto Capital Markets**

130 King Street West, Suite 2500  
Toronto, Ontario M5X 2A2  
416-649-4273

**Calgary Wealth Management**

350 - 7th Avenue SW, 19th Floor  
Calgary, AB T2P 3N9  
403-218-3144

**Oakville Wealth Management**

1275 North Service Road, Suite 612  
Oakville, ON L6M 3G4  
289-348-5936

**Tokyo Capital Markets**

Holland Hills Mori Tower; RoP #603  
5-11-1 Toranomom, Minato-Ku,  
Tokyo, 105-0001, Japan  
+81.90.1470.1684

**Montreal Wealth Management and Capital Markets**

1000 De La Gauchetière St. W., Suite 1130  
Montréal, QC H3B 4W5  
514-396-0333

**Vancouver Wealth Management and Capital Markets**

1055 Dunsmuir St. Suite 3424; P.O Box 49207  
Vancouver, BC V7X 1K8  
604-647-2888

**London Wealth Management**

495 Richmond St., Suite 830  
London, ON N6A 5A9 V8W 3Y7  
519-858-2112