

Medical Cannabis and CBD: opportunities for investors

Published 1 October 2020

Companies are putting the pieces in place to benefit once the industry does take off, although legislation and regulation means UK investors remain cautious.

Marcus Stuttard, Head of AIM and UK Primary Markets at London Stock Exchange, does not give definitive figures on how many cannabis-related companies are listed, but says it remains a growing sector.

Stuttard says existing pipeline companies on AIM, London Stock Exchange's market for dynamic high-growth and medium size companies, include businesses that are active in the CBD and wellness space, and companies investing in businesses that are producing pharmaceuticals or providing infrastructure such as hydroponics or greenhouses.

To be admitted onto AIM, companies must undergo a vetting process managed by a nominated adviser, known as a Nomad. AIM keeps a register of about 20 licensed Nomads, usually smaller investment banks or corporate finance houses.

Nomads work with the company, its lawyers and accountants and any other relevant sector specialists. "They do all the due diligence to prepare the company for admission to AIM, and produce admission documents which set out the core information about the company, its financial position and growth prospects," says Stuttard.

Where companies 'overlap' between recreational and pharmaceutical products, Stuttard says Nomads would look closely at the business model to make sure there is nothing in it that falls foul of POCA or any other legislative requirements, whilst also taking into account the overriding requirement that any applicant must be appropriate for AIM.

Risk remains

POCA was not drafted with the modern cannabis industry in mind, and deliberately couched in broad terms. One consequence is that investors could in theory face prosecution under POCA for receiving dividends or interest payments from an overseas company even though the operations of that company are entirely lawful in its home country. While the filing of a "Suspicious Activity Report", amongst other things, may in certain circumstances provide some relief, areas of doubt - and therefore risk - can remain.

The FCA recently attempted to address this issue by setting out its approach to listings of cannabis-related businesses (18 September 2020). This clarity has been broadly welcomed by the sector and it will be interesting to see what impact it has on investment in the longer term.

Reading between the lines, broader investor protection concerns would also seem to be a motivation. In Canada, some people made a lot of money during the "greenrush" when it seemed that the share prices of listed cannabis companies could only go in one direction - up. But since Canada's recreational cannabis legalisation on 17 October 2018, share prices of Canadian cannabis companies have typically fallen by a significant amount, with many investors losing money, an experience UK regulators do not wish to see repeated on stock markets here.

Investors are cautious

Melissa Sturgess is the Chief Executive Officer of UK company Ananda Developments plc, listed on London's AQSE Growth Market, Aquis Stock Exchange's market for earlier stage, entrepreneurial companies seeking access to growth capital.

She agrees that UK investors and entrepreneurs are cautious and that POCA is one factor. Nevertheless, the company has spent more than a year putting together the case for an application to the Home Office to grow medical cannabis initially for research and development purposes and ultimately for commercial supply to the UK medical cannabis sector and internationally.

Ananda is partnering with Dr Dedi Meiri's laboratories at The Technion in Israel. Dr Meiri is working on a wide range of projects, ultimately focused on identifying which cannabinoids, flavonoids and terpenes are working in entourage to treat various indications.

"With the expertise we will gain growing and stabilising 65 strains of cannabis at scale, when the time comes for cannabis to be grown meaningfully in the UK, we will be one of the turnkey companies," Sturgess says.

Given that most of the medicinal cannabis available in the UK is grown and processed elsewhere, Sturgess adds that patients, doctors and investors are increasingly interested in a UK supply of medical cannabis. “Our partners grew medicinal cannabis

for GW Pharmaceuticals’ Epidiolex trials and so we have a very good opportunity to provide the UK industry with high quality product for both the API and unlicensed CBMP markets.”

She also feels there are opportunities in education given the relatively new (1992) discovery of the body’s endocannabinoid system which produces its own cannabinoids. “Medical education is starting in this country and as our understanding of cannabis grows this will become increasingly in demand.”

Moving away from opioids

Eoin Keenan says that across the world most requests for medical cannabis come from patients eager to move away from opioid-based pain relief. He says that in addition to the conditions such as spasticity in MS and childhood epilepsies, medical cannabis can be prescribed for rheumatoid arthritis, fibromyalgia, dementia (including Alzheimer’s) and Crohn’s disease.

“In the long term, research and data will influence how we prescribe cannabis-based medicines,” he says. “If you look at the clinical trial registers, a lot of the studies focus on chronic pain and Parkinson’s disease, but mental health issues such as anxiety, insomnia and PTSD feature frequently.”

Nick Tulloch, Director at Fetlar Capital, says the rapid expansion of the CBD market has thrown up some high-quality products. But he adds: “There’s also a dark side of people literally creating CBD products in their kitchens where not only the composition of each product may be different, but some of the ingredients are undesirable. For example, tests in 2019 showed a handful of CBD products on UK shelves contained illegal solvents.”

Tulloch calls for the equivalent of a kitemark on CBD products so that consumers know they can be trusted. “Often products have nothing on the label that says how much CBD is in it. For an industry that wants to be as big as CBD does, that’s unacceptable,” Tulloch says. “More regulation will do everyone good and take out the people that are doing things they shouldn’t. It would also make consumers more confident and probably push prices up a bit, but at least everyone would know products are what they claim to be.”

Novel Foods legislation

It remains to be seen what the ultimate impact of the guidance will be; but the February 2020 UK Food Standards Agency guidance on the application of the “novel foods” legislation to CBD products has been broadly welcomed by many companies at the forefront of the UK CBD industry. Companies may continue to sell existing products in the UK after 31 March 2021 only if, prior to that date, they have submitted a proper “novel foods” authorisation application. Anecdotally, it is clear that “quality” operators believe this should have quite an effect in terms of improving overall standards, specifically because it is believed that many smaller market participants simply won’t have the funding or the capability to comply.

The position for European Union countries currently seems less clear because it has been reported that the European Union is considering classifying hemp-derived CBD as a controlled narcotic; if this occurs, it would probably result in significant restrictions on EU market participants and may create opportunities, as well as some challenges, for those in the UK CBD industry.

While the UK is a long way from following US states such as California and Alaska, where recreational cannabis is legal, Tulloch points out the benefits. “Legalisation has closed down large swathes of organised crime and taken recreational cannabis into a regulated field where people know that what they buy is tested and high quality. It has also generated a large amount of revenue as it is taxed like tobacco and alcohol.”

Market analysts agree that medicinal cannabis could be an investor goldrush, but Tulloch advises investors to be careful. “Back those companies that have a high social media profile, good branding, a clear strategy, good financial controls and most importantly have products that are differentiated. A copycat company is going to struggle in the long term.”

[Click here to download ‘Medical Cannabis and CBD: Challenges and opportunities’ in full.](#)

Authors



Jonathan Deverill

London - Walbrook

+44 (0)20 7894 6045

jdeverill@dacbeachcroft.com

