

Succeeding in European Cannabis

Fall 2020 Report

 BRIGHTFIELD GROUP



A NOTE FROM LEADERSHIP

Trustworthy data is essential to building a successful strategy, particularly across a region with vastly different legislative and cultural attitudes towards cannabis medicines.

Hanway are delighted to have partnered with Brightfield Group to produce this European report to shine a light on where the market is heading.

Each European nation is developing at its own pace, and the data can be difficult to find or apply to your business. This report tells the story of a market with great potential, developing with science, but currently restrained by several barriers to growth.

For regulators and policymakers the message is clear – there is a real opportunity here for jurisdictions that embrace cannabis. For businesses this report reveals where they need to focus their efforts and innovation in the years ahead.

Unlocking wider patient access by appealing to the sensibilities of European doctors and policymakers is how this sector delivers on its lofty ambitions. Patient data, competitive pricing, pharmaceutical formulations, and advanced medical devices all have a part to play in building the foundations being laid today.

We hope that this collaboration brings together the data, the analysis and the strategy that you need to operate in Europe.

Alastair Moore, Co-founder of Hanway Associates



The European cannabis market, while in its infancy stage today, is poised to become a strong, stable and lucrative market for key players over the longer term. Governments are still fumbling through the challenges of regulating a previously illegal plant, but the results of initial programs overwhelmingly show that patient demand for medical cannabis is strong.

It is not a fast or easy market to tap. The barriers to entry are high, but this will serve to protect the investments of companies willing to do the hard work of building a stable industry from the ground up. Those that are looking at making this investment will need to take a serious, data-driven approach to their business strategies and deserve to have a data source they can rely on to realistically project the market and its potential.

As seasoned experts in sizing emerging markets, we know the key to understanding markets is to come at it with multiple data sources and a strong foundation in primary research. With their precise knowledge and deep network of contacts, partnering with Hanway Associates adds a local understanding of each market to this report. Together we provide governments, global businesses, and local players the best in global market research. The nuanced business strategy we provide will be imperative to building the foundations needed for a strong, successful European market.

Thank you to all who contributed to this report.

Bethany Gomez, Managing Director of Brightfield Group





Section 1

INTRODUCTION

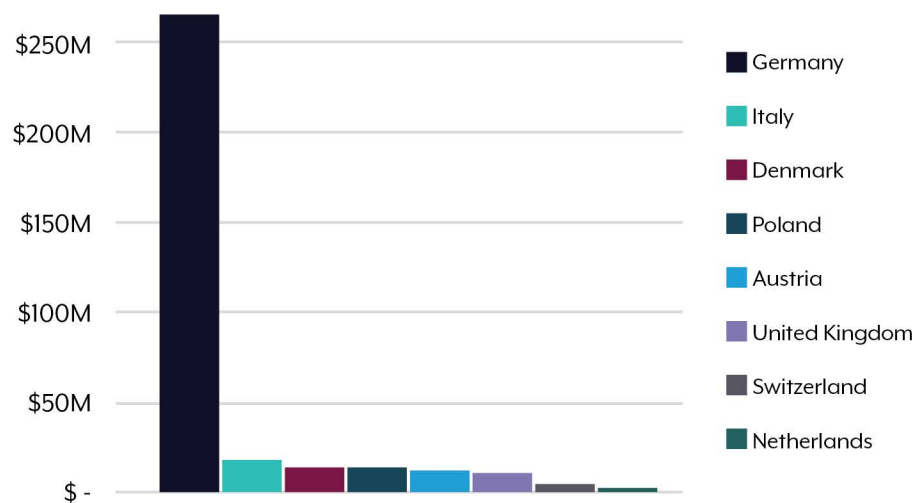
The international community appears to be warming up to the prospect of legal, regulated cannabis markets. The United Nations (UN) and World Health Organization (WHO), as well as virtually all national governing bodies, have maintained a strictly anti-cannabis stance over the course of decades. But new regulatory and cultural developments have shed more light on international cannabis opportunities, particularly in Europe. European countries are driving a movement by developing and adapting regulatory systems to open, build upon and expand cannabis operations.

Although Europe's legal cannabis market is still rather small, it is poised to grow rapidly, especially once more supportive national and continent-level regulations are in place. Once established, each will help will pave the way toward a more cohesive, stable and scalable medical cannabis ecosystem across the region. The various adult-use trials in the works are also expected to lead to sizeable, sustainable growth over the longer term.

MARKET SIZES & PROJECTIONS

- Europe's cannabis market is projected to reach US \$359 million in 2020, an incline of 25% from 2019, and will grow to over US \$3.1 billion by 2025, with a 2020-2025 CAGR of 52%.
- The largest medical cannabis market today and projected for 2025 is that of Germany, which will reach sales of \$267 million in 2020 and is expected to make up a \$2.1 billion market by 2025.
- The greatest medical market growth rate in Europe will be seen in the United Kingdom, which is expected to allow for domestic cultivation and general practitioner prescribing in the coming years, resulting in a 2020-2025 CAGR of 98%.

2020 European Medical Market Sizes (USD)



Source: Brightfield Group

WHAT WILL DRIVE GROWTH?

- The market grew 28% in 2020 despite previous cannabis sales projected to take a big hit due to COVID-19. This is in part because telehealth became more common and encouraged the medical cannabis enrollment of trepidatious new patients, and in addition, physicians and pharmacists were some of the only entities to keep the doors open during 2020, leaving current and potential patients with registration and renewal options. In addition, supply chains have gone by-and-large uninterrupted, keeping the market well-stocked.
- A number of countries have adopted policies allowing cannabis products onto the market beyond pharmaceutical compounds (e.g. Sativex, Marinol), which has opened up the market to a great deal of additional consumers who either did not have a need for these specific formulations, or who could not afford their hefty price tags.

OPPORTUNITIES & CHALLENGES



OPPORTUNITY:

Telehealth opens doors for new and increased access.

Contrary to expectations, the spread of COVID has done little to limit cannabis market growth in Europe – instead leading to the expansion of telehealth services in much of the region. This has provided current and potential medical cannabis patients with an additional, more accessible avenue through which to receive prescriptions, free of any associated stigma. Patients formerly put off by visiting a cannabis clinic are in some cases more inclined to do so from the privacy of their own homes, making access to telehealth a boon to an emerging cannabis market.

CHALLENGE:

Physicians remain resistant to the market.

Beyond regulatory challenges, one of the primary bottlenecks to medical cannabis growth is physicians' hesitation to prescribe it. Doctors approached by patients interested in cannabis may deter them, citing a lack of sufficient clinical evidence, or concerned with their own inexperience with it and lack of understanding of dosage or format.

Thus, doctors are a vital part of the equation when looking to grow the market in general, as well as the success of brands themselves. Companies looking to build brand loyalty as well as a strong network of prescribing physicians must create an effective feedback loop with doctors on the ground – supporting them to both understand what works, how it works, and the evidence available to back its use. Efforts to bring medical experts– both doctors and pharmacists – into the fold and expose them to more patients are already taking place. These include registries, networks, educational platforms and more.

Some examples include:

Project Twenty21 – United Kingdom

The effort aims to get 20,000 medical patients in the UK registered through private clinics, and its founders have partnered with both producers and a network of clinicians to provide patients with access to more affordable cannabis medicine.

Cannamedical's CannAcademy – Germany

Launched in 2020, the free program aims to give the medical community a better understanding of how cannabis treatment works (indications, dosage, insurance reimbursement) via online modules for pharmacists and doctors.



CHALLENGE:

Patient access is a large, complex issue.

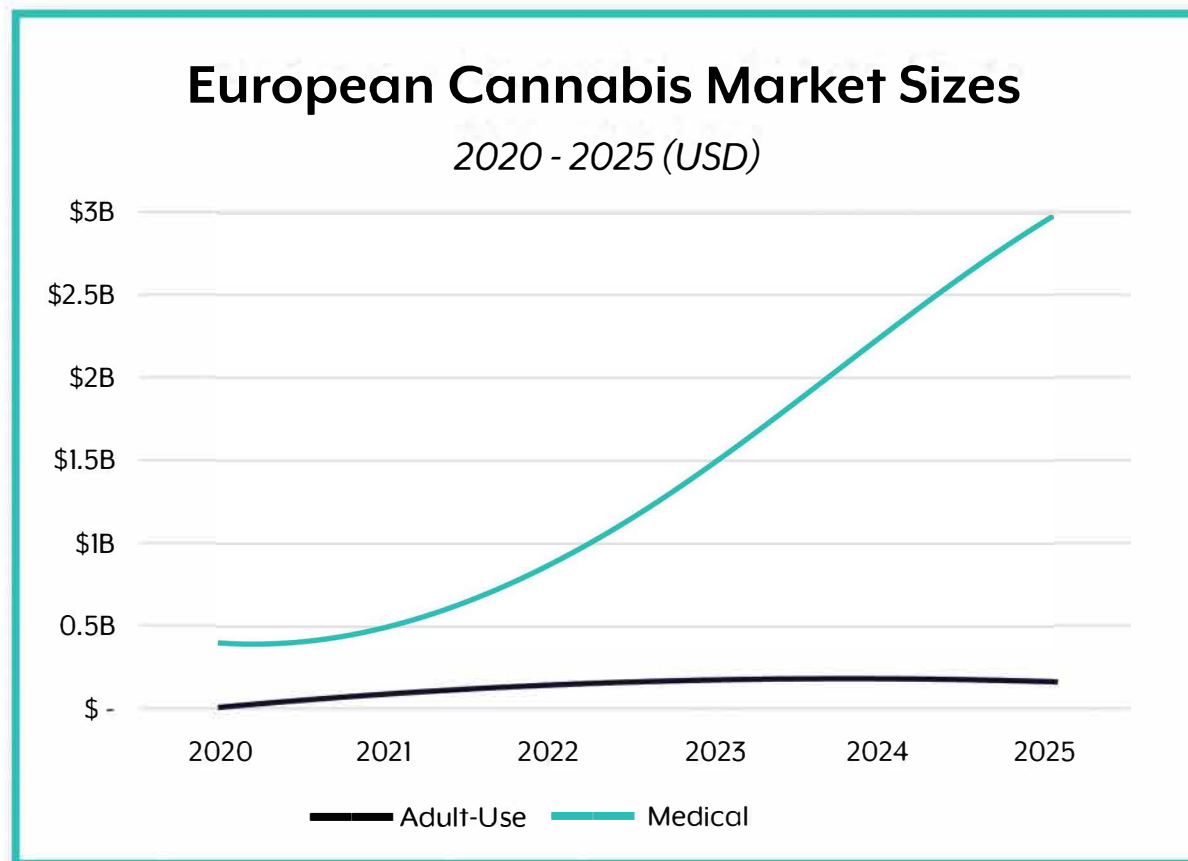
Access to product varies across countries, but the overwhelming majority have highly restrictive regulatory policies, limited or no insurance coverage available (combined with high pricing structures), and a culture that deters cannabis use and prescription. In the UK, for example, patients must be seen by specialists to access cannabis, virtually no one receives reimbursement, and NHS will typically only prescribe expensive licensed pharmaceuticals in highly specific circumstances. This forces many to defer to costly private clinics or out of the market altogether. In Poland, Denmark, and others – despite having had medical cannabis programs for years – patient numbers remain in the hundreds or low thousands. In Germany, until 2021, all product has been required to be imported – in fact, most of Europe either requires product be imported, or supplements very limited local grow operations with imports (though this is slowly changing as domestic markets ramp up in Denmark, Portugal, etc.). Regardless, these restrictive policies make access both difficult and expensive, and when combined with stigma, discourage patients from entering these markets even when there is a clear case of them benefiting from medical cannabis.



OPPORTUNITY:

There is little competition from full-scale adult-use markets.

Only the Netherlands and Switzerland have upcoming adult-use pilot programs on the docket – though both are small-scale and it remains unknown whether they will eventually transform into full-scale markets. Luxembourg is looking to legalize adult-use in the medium term (2023 expected) but the market is minuscule. As such, most of those interested in investing or expanding in the medical space can do so relatively unencumbered by the prospect of competing adult-use markets. Though in North America this has been a true challenge to medical operations – which plateaued in Canada and were at times absorbed or pushed out by more accessible adult-use markets (depending on the state) in the US – Europe is not expected to see the same fate.



Source: Brightfield Group

OPPORTUNITY:

Canadian Licensed Producers are scaling back.

Since Canada was the first major developed nation to federally legalize cannabis several years ago, its market participants (deemed LPs) offered one of the only stable, legal channels through which to invest. Canadian LPs were thus able to garner a great deal of capital as interest in cannabis rapidly grew. Much of this was channeled toward expanding their influence globally, given a relatively low ceiling on growth in Canada. As such, most markets in Europe are heavily dominated by Canadian companies today.

However, as these LPs have struggled financially throughout 2019 and 2020, many have been forced to pull back or shutter some European operations and focus on either Canada or a narrower scope of global markets. Though they remain a tremendous force in Europe, forward momentum among LPs will slow in the near future, especially in newer or smaller markets – limiting competition and giving local European companies an unprecedented opportunity to invest and grow in their home markets. Furthermore, unburdened with the additional expenses born by LPs having to attain EU-GMP or other European certifications and ship from Canada, European companies are well-positioned to create efficient, quickly scalable operations that compete successfully even without the same funding opportunities. One caveat, however, is that a number of LPs have in recent years established major grow (Denmark, Portugal) and distribution (Germany) operations locally, many of which are just getting off the ground, thus companies like Aurora, Aphria and Tilray will have enhanced reach in the region as those scale to full capacity – even with minimal additional investment.



Section 3

HOW TO BE A SUCCESSFUL CANNABIS BUSINESS IN EUROPE

Provided by:



1

Europe is not North America 2.0

European entrepreneurs and policymakers have watched North American cannabis with interest - but it's a mistake to assume the region will chart a similar path.

European markets are already distinct from their Atlantic cousins. Access to medical cannabis is tightly-regulated with a high degree of physician oversight, product-specific prescriptions, pharmacy dispensing and formulation, and pharmaceutical standards applied throughout. Home-grow for medical use is not formally permitted, and recreational opportunities are much more limited - for the time being at least.

Killer products and winning business models from North America aren't guaranteed to replicate in Europe - now or in five years' time. European operators need a Europe-specific strategy, reflecting the unique regulatory framework and distinct sensibilities of the region. Whether a small local operator or multinational entrant, getting properly to grips with the market here will save businesses time, trouble, and from some costly mistakes.

2

Do your homework

Despite regional similarities, there's plenty that differentiates national cannabis markets from one another - with no prospect for European harmonization anytime soon. Operators should take the time to properly research their target markets, crafting an entry strategy that considers each country based on its regulatory framework, addressable patient base, potential for reform and its level of market maturity.

Some countries, such as Greece, actively court cannabis cultivation and the foreign investment it brings; others, like Poland, are content to supply their medical market through imports. Country-specific rules on products and formats also vary; several companies have tripped up in Germany by lacking approvals to sell irradiated cannabis, while suppliers eying the likes of Poland, Denmark and Portugal must go through lengthy product registrations before making it to market. And while Germany represents the lion's share of Europe's medical market, other countries may yield sector-specific opportunities for growth or the prospect of near-term reform.

3

Utilize local partners and expertise

Whether a multinational operator or a homespun startup, leveraging local partners with relevant market experience is always a strong strategy. For the medical market, hiring talent with pharma or controlled environment agriculture experience can be a huge plus, as is knowledge of national regulations and the healthcare landscape.

Partnerships with established operators can significantly shorten an entrant's route-to-market, particularly companies with the right infrastructure, expertise or required licenses. Acquiring local businesses with non-cannabis revenue may also prove a smart strategy - as Aphria's acquisition of the German distributor CC Pharma has demonstrated. And while boots-on-the-ground presence is indispensable for some activities, there's no need to build HQs in every possible market: collaborating with strategic knowledge partners and local service providers allows for a flexible, less capital-intensive strategy, and can help unlock growth in a sustainable manner.



4

Identify gaps in the market

Europe's legal cannabis markets are early-stage with significant potential for development. Medical markets – currently the key driver of growth - are still under-served, both in terms of differentiated products and the number of doctors educated in cannabis treatment.

Beyond cultivation and distribution plays there's plenty to keep intrepid European entrepreneurs busy, much of which involves protectable IP: from optimizing plant genetics for specific conditions and innovative product formulations, to education platforms, sophisticated cannabis consumption devices, and secure, intelligent patient data collection apps. There are still few 'breakthrough' companies in the European industry, and operators with a keen view of the workings and gaps in the regions' medical cannabis markets have much to take advantage of.

5

Look for institutional backing

Europe's pharmaceutical approach to cannabis and socialized health systems give medical bodies and regulators a major role in determining patient access. In countries such as the UK, cannabis coverage is hugely limited by the lack of accepted data on its safety and cost-effectiveness. Engaging productively with policymakers on data needed and how the industry can supply this will be vital for expanding patient numbers in these markets. Companies should also consider outreach to condition-specific charities and professional associations - such as those for epilepsy, chronic pain, and autism - to gain the understanding and trust of healthcare institutions, help educate potential prescribing doctors, and - crucially - understand the needs and views of patients and their families.

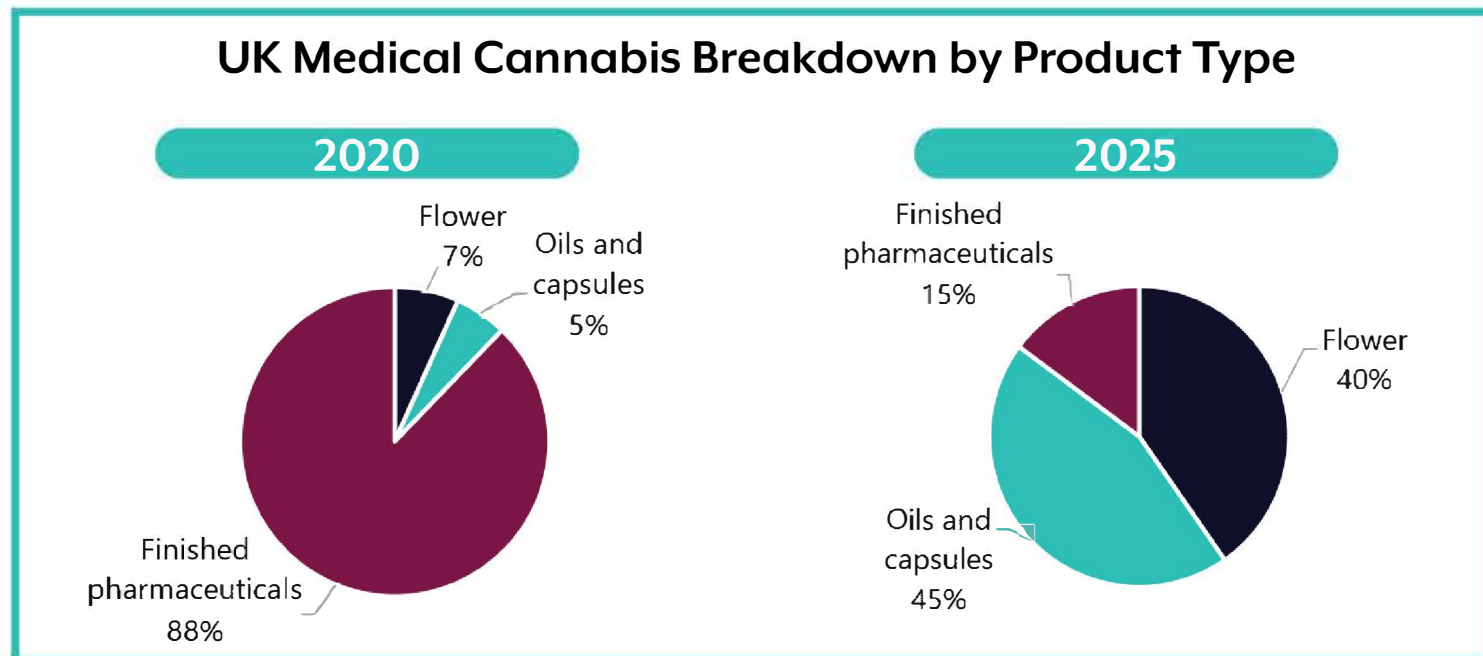
As European governments slowly warm towards cannabis, new opportunities for financial listings, investment support, research calls and grants have emerged for businesses to take advantage of. In just the last few months, the UK's Financial Conduct Authority has started to clear the route for medical cannabis companies to list on UK exchanges, and a Scottish development agency granted a cannabis cultivation and manufacturing startup £690,000 in early risk capital. The synthetic Cannabinoid company Octarine has also received funding from Denmark's development fund, while the Dutch government recently issued a EUR 1.9m grant for the study of medicinal cannabis in the treatment of neuropathic pain.

6

Play for the long-term

There are few 'quick wins' in European cannabis. Governments will not rush reform at the expense of regulatory oversight, and securing licenses, constructing compliant facilities and developing consistent, patient-appropriate products takes time. Setting realistic growth prospects and shareholder expectations is important.

Opportunities in the adult-use segment - where there's greater fit with North American cannabis products, distribution models and strategies - will likely emerge within the next 5 years, but timelines are uncertain with few imminent opportunities. Tiny Luxembourg will likely be the first EU country to legalize recreational use (expected 2023), but full legalization in the Netherlands once their four-year pilot concludes is also expected - with 149 applicants chasing just 10 cultivation licenses available for the pilot scheme. That said, there is tremendous long-term potential in European cannabis, particularly for companies with a strategic and clear-headed view. Those that can navigate the regulatory hurdles, adapt to a rapidly changing landscape (see UK product breakdown expectations below), build a compliant supply chain, and capture Europe's growing patient base will be rewarded for their efforts for many years to come.



Source: Brightfield Group

NEXT STEPS



Brightfield Group is the leading consumer insights and market intelligence firm for the CBD and Cannabis industries. They work with Marketing, Product and Insights leaders providing strategic data and guidance for these dynamic markets. Leveraging a unique multi-source approach, Brightfield Group delivers a forward-looking view into the everchanging brand, market, and consumer landscape. Learn more at brightfieldgroup.com.



Hanway Associates is the leading European strategic consultancy, specialising in cannabis research, new market entry, commercial diligence and M&A strategy. Whether you are looking to understand the market, expand into new markets, apply for licences, protect your reputation, find the right partners, or start a business from scratch, the multidisciplinary Hanway team can help. Their clients include listed-pharmaceutical companies, global FMCG consumer brands, top tier cannabis companies, investors, and innovative life science startups. hanwayassociates.com



If you are a European regulator looking to implement a new cannabis access program, or a pharmaceutical company looking to understand the impact of the cannabis market on your business, please contact **Brightfield Group** or **Hanway Associates** to hear how you can build a regional strategy based on global data.