



Biotech Daily

Monday December 10, 2020

Daily news on ASX-listed biotechnology companies

A Year In The Grass – Medical Marijuana Review

A Biotech Daily Special Edition

By **PETER OLSZEWSKI**

(AKA Jay Jerilderie McRoach, former Nation Review Marijuana Columnist)

Perhaps the October issue of Elle magazine best summed-up the state of play of the 2020 Australia medical marijuana market by assessing the efficacy of CBD-infused skincare products.

The article asked if cannabidiol (CBD) oil skincare really works, and the answer suggested not really.

Pointing out that “CBD oil is one of beauty's biggest buzzwords,” Elle figured out that “its much-hyped reputation” wasn’t quite up to scratch, in an article laced with modifiers, such “it is thought”, “alleged benefits”, “may work” and “may potentially help”.

The magazine quoted Sydney’s forensic nutritional medicine practitioner, skin therapist and former director of Skinstitut, Fiona Tuck, who said: “There is limited evidence to support claims to treat skin conditions such as acne, psoriasis and eczema, although research looks promising”.

And that’s the state of play of the medical marijuana industry: promising but right now limited by numerous factors.

Most products are not proven to actually work, and are mostly avoided by skeptical physicians, or not prescribed by physicians who don’t understand the cannabis lore, although doctors cognizant of the alleged benefits of marijuana are now increasing in number with the advent of medical marijuana clinics.

Melbourne's first stand-alone medical cannabis clinic and dispensary, The Releaf Clinic, opened in St Kilda early in February and there are now more than a dozen clinics in Australia.

The industry is also dogged by reams of confusing, time-consuming and expensive regulations emanating from numerous bodies such as the Therapeutic Goods Administration (TGA) and the under-resourced Office of Drug Control (ODC).

Partly as a result of the bureaucratic costs, the industry is also impeded by overpricing. It's estimated that the average medical marijuana patient pays about \$400 a month for the medication, and the new clinics also add fees.

Plus, there's further confusion around the pricing - there are more than 150 medications available for prescription, and expensive drugs can cost more than double the cheaper versions of a medication with the same ingredients.

In July, Biotech Daily - having earlier advised the industry of the benefits of undercutting the black market in pricing - published the results of the first survey of Australian marijuana products and pricing, to date delivered by 21 ASX-listed marijuana for human health companies.

Price-wise, most of the companies said their medications would be available for less than \$200 for a one-month supply.

The survey noted: "By undercutting the black market, the legitimate companies can make regulated medical-grade tetrahydrocannabinol (THC) and cannabidiol (CBD) products available, making the illegal industry less attractive to participants."

A great leap forward in the pricing department occurred in November when Australian private health insurer Health Insurance Fund became the first Aussie insurer to back medical marijuana as a treatment for a range of debilitating illnesses.

The insurer partnered with Western Australia's Little Green Pharma and under the deal, the health fund will pay rebates for medicinal cannabis for all but one of its Extras policies with eligible members receiving up to \$105 back per script, a first for the health fund sector.

Industry insiders also believe pricing is driving consumers into the black market.

And that black market is thriving, while the medical marijuana industry suffers paucity of supply of raw product, i.e. marijuana, and relies too heavily on imported products.

Only two companies supply medications that are wholly Australian grown and produced.

Retired hippy growers and Calabrian cultivators from the 1970s must be rolling their eyes in amazement that the industry cannot grow enough marijuana to meet local supply, let alone import the product, while illicit cultivation is booming.

In 2018, police reported that there was so much small-scale illicit marijuana-growing that it added up to large scale production, and the Australian Broadcasting Corporation reported: "Hiding in plain sight in homes all across Australia, international crime syndicates are growing millions of dollars' worth of cannabis."

In November 2019, cops made one of the biggest busts since the 1970s, nabbing more than \$40 million worth of weed, noting: "The biggest difference is in 1975 outdoor crops were seasonal, so criminal groups were restricted to one crop a year, whereas these grow houses are weather-controlled enabling the harvest of new plants every 12 weeks or so."

The Daily Telegraph, in its report of the story, said: "As Australia's medicinal cannabis prescription numbers continue to rise, so too do arrests of those found cultivating the plant illegally."

Typical of the growing pains among legitimate operators is the unlisted company MPX Australia, which last year made news when former New South Wales premier Morris Iemma departed shortly after being appointed chair, because the company said it couldn't afford him.

In November this year, MPX ditched the \$8 million grow-house it had started to build in Launceston, and said it would import products from Malta, Canada and South Africa.

The company's executive director Tibor Vertes said: "We can bring it in a lot cheaper from overseas than you can grow it here."

He curiously added that the Tasmanian operation was never intended to be more than a "showcase".

The cumulative result of all such problems besetting the relatively new industry, including trying to market to a slightly bewildered and underwhelmed general public, is that the mostly speculative Aussie marijuana stocks – stubbornly static in the long-term with short-term bouts of volatility - are, with a couple of exceptions - poorly performing penny dreadfuls, yet the sector is hyped as bound-to-boom.

Take the case of the high-profile Western Australian MGC Pharmaceuticals, a serial issuer of press releases which bills itself as "a biopharma company with a 'Nature to Medicine' strategy at the forefront of the emerging phyto-cannabinoid and plant derived medicine markets."

On November 23, MGC announced it had completed a \$1.4 million acquisition of Cannvalate Pty Ltd's Medicinal Cannabis Clinics, with the result that its share price shot up 4.8 percent - translate that to a very humble 0.1 cents increase - to a share price of 2.2 cents.

According to Biotech Daily, no matter what the company did last year, it only went up to 3.4 cents before returning to 3.3 cents.

This year it closed as high as 3.8 cents in January and as low as 1.6 cents in March, spending most of the year around 2.4 cents, despite announcing a series of deals including a seven-year supply and distribution agreement with Brazil's Onix Empreendimentos e Participações, an agreement with Polish NGO Cannabis House Association to provide from 15 pharmacies to potentially 250 pharmacies, and an 18-month minimum white label supply agreement with THC Global for Australian and New Zealand.

And yet despite such figures, hype and more hype surrounds and largely drives the industry.

In April, the London-based Prohibition Partners predicted a mammoth jump for Australia's cannabis market, jumping from a current value estimation of "just US\$40 million" to an "expected" value of more than \$US1.5 billion by 2025 "making it the largest legal cannabis market in the Oceania region".

In mid-November Sydney-based The Green Fund - which says it is "Asia Pacific's preeminent media house ... "Committed to driving the industry forward" - enthusiastically reported that "the Australian cannabis market has continued to expand at a rapid pace in 2020".

The Green Fund seemingly relies on figures from its Australian Cannabis Index, which comprises a basket of 16 ASX-listed companies, only one of which is not a medical marijuana company.

Biotech Daily's Cannabis Corner analyzes data from 22 medical marijuana companies – up from 18 companies in January – and its figures show that the combined market cap fell by more than 50 percent in the second half of 2019 and has barely recovered.

The year kicked-off on a high for the medical marijuana industry with media reports in Australia and the US in January suggesting that a March review by the regulator, TGA, could result in some CBD medications soon being available over-the-counter rather than by prescription only.

Perhaps fuelled by this optimism Cannabis Corner was up 21.2 percent in January from the historic low of \$869 million to \$1,052 million.

But this was still 45 percent down from the July 2019 high of \$1,913 million.

Initial Covid-19 bleakness then set-in universally, and the Corner went into decline with all companies but one falling further – in March the companies were collectively down 23.1 percent to \$816 million, and this was down 46.8 percent year-on-year.

In April, reflecting a global up-tick in CBD product sales during Covid-19 lockdown boredom, Cannabis Corner shot up 36.9 percent to \$1,117 million, and the rise continued into May, with the sector up 8.3 percent, but down 31.4 percent year-on-year.

Rises continued through June to August, and in September, the Therapeutic Goods Administration confirmed that low-dose CBD medications were all but cleared for over-the-counter sale in pharmacies.

This good news as such was tempered by research from the University of Sydney's Lambert Initiative for Cannabinoid Therapeutics, showing that regulators were emphasizing the 'low' in low-dose, and pointing out that the 60 milligrams per day limit is well below that of global standards, where typical doses are from 300mg to 1,500mg.

Nevertheless, shares in several medicinal cannabis companies briefly rose in the week after the news broke – Bod Australia was up 22.5 percent, Elixinol Global up 9.7 percent, Althea up nine percent, THC Global up 8.5 percent, Cann Group up seven percent and Medlab Clinical up seven percent.

In November, Cannabis Corner recovered 25.6 percent to a collective \$1,450 million, down 8.3 percent for the year to November 30.

While 2020's figures are a good springboard into 2021, the results for most medical marijuana companies are a bit - as experts are wont to say - Mickey Mouse.

Some companies in the sector perform so poorly that they are relegated by industry observers into the sham company category, often pretending to be medical marijuana, but really aiming at the recreational - as some indeed admit.

"My guess is that they want to be on the ground floor of a big company when it goes recreational, but they don't really have a clue on how to do it," a savvy industry insider says.

"When recreational is allowed and with people growing dope at home, I think the 20-odd companies will amalgamate or die off to three or four."

The writer was the co-founder of the Australian Marijuana Party and stood as Senate candidate JJ McRoach in the 1977 Australian Federal Election. Biotech Daily editor David Langsam was his campaign director.