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# Elixinol Global (EXL)

## An Investment In Hemp CBD

**Speculative**

See key risks on Page 6 and Biotechnology Risk Warning on Page 25. Speculative securities may not be suitable for Retail Clients.

**Recommendation**  
**Buy** (Initiation)  
**Price**  
**\$1.59**  
**Valuation**  
**\$2.12** (initiation)  
**Risk**  
**Speculative**

**GICS Sector**  
**Pharmaceuticals & Biotechnology**

**Expected Return**

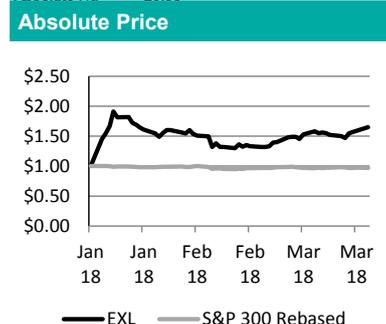
Capital growth	<b>33.3%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>33.3%</b>

**Company Data & Ratios**

Enterprise value	<b>\$145.1m</b>
Market cap	<b>\$163.7m</b>
Issued capital	<b>102.9m</b>
Free float	<b>24%</b>
Avg. daily val. (52wk)	<b>\$87,724</b>
12 month price range	<b>\$1.23 - \$1.995</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	1.37		
Absolute (%)	20.88		



SOURCE: IRESS

### Industrial hemp and medicinal cannabis

Elixinol Global is a new company operating in the industrial hemp and the emerging medical cannabis sectors. It has three business units across Australia and the US, two of which have several years of operations with multiple products on market and led by a vastly experienced management team.

Elixinol US is an established, leading brand in the nascent US market for hemp based nutraceutical products. The category is currently experiencing explosive revenue growth following recent regulatory changes to legalise the cultivation of hemp in the US and a growing acceptance of the clinical benefit from these products in controlling the symptoms of numerous chronic medical conditions.

Health Foods Australia is based in NSW and is a company focussed on commercialising Hemp “superfood”. Elixinol Australia has been formed to develop and commercialise medicinal cannabis for the Australian and international markets. While Elixinol Australia is yet to commence operations, the legal framework is now established for the medicinal cannabis industry to commence in this country.

The Group is led by Chief Executive Paul Benhaim who is the co-founder of both Elixinol US and Health Foods Australia. Following the IPO he retains 53% of the listed entity and is the largest shareholder by a considerable margin. Mr Benhaim is considered an expert in the field of industrial hemp and medicinal cannabis following more than two decades of experience in the sector both in Australia, the US and Europe. The Chairman is Mr Andrew Duff who is well known to institutional investors.

### Valuation and Recommendation

We commence coverage with a Buy recommendation and valuation of \$2.12.

### Earnings Forecast

December Year End	FY17*	FY18e	FY19e	FY20e
Revenues	16.5	26.4	43.0	59.7
EBITDA \$m	0.0	0.1	3.7	7.7
NPAT (reported) \$m	-0.6	0.2	2.4	5.2
NPAT (underlying) \$m	-1.9	-1.1	1.1	3.9
EPS underlying (cps)	-0.6	0.2	2.4	5.0
EPS growth %	na	large	large	112%
PER (x)	na	na	65.3	30.8
FCF yield (%)	-1%	-2%	-1%	-2%
EV/EBITDA (x)	7,009	998	38.2	18.3
Dividend (cps)	-	-	-	-
Franking	0%	0%	0%	0%
Yield %	0.0%	0.0%	0.0%	0.0%
ROE %	0.0%	0.2%	2.5%	5.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES. \* FY17 revenues and earnings based on company data for pro-forma earnings

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# Investment Case

**New product launches expected in the US and Australia in 2018**

The Company operates in the industrial hemp industry in Australia and the United States and intends to operate in the medicinal cannabis sector in Australia. Within the industrial hemp sector, the Company has operations in the nutraceuticals and food products segments, including healthcare products, hemp food products, retail, processing, manufacturing and distribution.

The group consists of the following companies:

Elixinol LLC (Elixinol US) founded in 2014 and manufactures and distributes hemp based nutraceutical, dietary supplements and skincare products, with operations based in Colorado;

Hemp Foods Australia (HFA) – founded in 1999 and manufactures and distributes industrial hemp derived food products in Australia; and

Elixinol Australia – intends to participate in the Australian market for medicinal cannabis. The company is yet to commence operations and its future is dependent upon the granting of multiple licences in this heavily regulated sector.

## **BUSINESS MODEL**

Elixinol US and HFA are two well established but independent businesses. These businesses were acquired by Elixinol Global at the IPO.

Both have multiple products on the market producing consolidated revenues in CY2017 of \$16.5m. Revenues grew by approximately 70% in CY17. Raw materials are sourced from contracted, licenced growers. Products are manufactured at company owned plant in NSW and the US using proprietary manufacturing techniques.

For Elixinol US the key distribution channel is via on line sales to predominantly retail customers. Customer acquisition is mainly via social media and other on line content.

Unlike traditional pharmaceuticals, the driver of Hemp based nutraceutical sales is largely overwhelming public demand for affordable, effective natural solutions to chronic disease conditions. The treatments have become popular in certain chronic diseases including pain management, anxiety, nausea and PTSD to mention a few. While the efficacy of these products is not yet supported by robust clinical data, recent law changes have facilitated increased distribution and many new customers for the products.

The US market for hemp based products was estimated at US\$688m in 2016 and growing at ~20% annually. Elixinol is considered a leading brand in a crowded market place for nutraceuticals. In our view the Elixinol brand, which has been built on a reputation for high quality product, is fundamental to its future success. The research shows the US market is highly fragmented, hence Elixinol US is well positioned to participate in sector growth.

HFA recently upgraded its manufacturing facility at Bangalow in NSW. Its products consist of Hemp Seeds and Hemp Seed oil. Recent regulatory change has seen these products included on the Aust and NZ Food Standards code. The main driver of future revenue growth is due to the emergence of hemp as a “superfood”. HFA is a leading brand in the nascent market for hemp foods in Australia.

The company’s intention for the \$20m raised at the recent IPO is to provide working capital for the two operating business and for the start up of Elixinol Australia. The company has ambitious plans to develop Medicinal Cannabis products for the relief of human suffering and treatment of disease. We expect significant news flow over the next one to two years as plans for new products begin to take shape.

# Cannabis vs Hemp

The chemical compounds within the Cannabis plants known as cannabinoids are the active ingredient. Current research has revealed over 60 different cannabinoids so far, but THC and CBD are the most well known. THC is credited with causing the marijuana high.

Cannabinoids effect certain receptors within the human body spread throughout various organs including the brain, lungs, liver etc. Consequently the use of different cannabinoids may have a very wide variety of effects for various ailments. The mechanism of action for CBD is beyond the scope of this document, however, the Elixinol website contains some excellent reference material on this topic. For further reference readers should refer to the following link: <https://elixinol.com/blog/how-does-cannabidiol-cbd-work/>

While marijuana plants contain high levels of THC, hemp contains very little of the psychoactive chemical. This single difference is what most (including law enforcement) rely on to distinguish hemp from marijuana. For example, countries including Canada and the United States set the maximum THC content of hemp at 0.3%. Any cannabis with higher THC levels is not considered legal.

Suffice to say that the positive effects of CBD on depression, pain, appetite, nausea anxiety and cancer cell proliferation are not dependent on the presence of THC. CBD blocks the psychoactive action of THC, this being one of the reasons it's generally considered advantageous to combine CBD and THC when for treatment purposes. However, the positive effects of cannabidiol are not dependent on the presence of THC, so users can still take advantage of the health benefits of CBD by purchasing products that contain only non-psychoactive CBD.

In comparison, medical marijuana produces anywhere between 5-20% THC on average, with prize strains tipping the scale at 25-30% THC.

**Figure 1 - Overview of Hemp vs Cannabis**

Cultivated from Cannabis Sativa L.		
Industrial Hemp		Marijuana
Low THC Strains - non psychoactive		High THC Strains - psychoactive
<b>Nutraceuticals - Elixinol US</b>	<b>Hemp Foods - HFA</b>	<b>Medical Cannabis - Elixinol Australia</b>
Derived from CBD oil extracted from the crushed leaves and stalks of the hemp plant. Shown to have therapeutic benefits in a range of indications.	High nutritional content "Superfoods" consisting only of hemp seeds, either whole or crushed. The seeds contain undetectable levels of CBD.	Pharmaceutical Grade product which includes high levels of THC and CBD cannabinoids. Subject to high levels of regulation in Australia and the US. Elixinol Australia has been established to develop products for this market.
Available in: capsules, tinctures and Liposomes.	Ready to eat product for retail, and in bulk format for export or trade sale	Dried leaf product or as an extract.
Over the counter in the US, not available in Australia.	Available in all jurisdictions.	Available via Special Access and Authorised Prescriber Schemes in Australia. Limited availability in the US.
<b>Therapeutic Benefits</b>		
Antixiolytic (Anxiety)	High in fatty acids	Anti - inflammatory
Inflammation	Gluten Free	Anti - convulsant
Nausea	Very high protein	Anti - psychotic
Schizophrenia	Easily digestible	Vomiting and nausea
		Antixiolytic (Anxiety)

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The popularity of CBD nutraceuticals is most likely because of their efficacy in providing relief for sufferers of chronic disease, affordability and wholly organic nature of the product. In the US these nutraceuticals are available over the counter without a doctor's prescription.

# Company Overview

Table 2 provides an overview of the business units within Elixinol. Elixinol was formed at the time of the Initial Public Offer, hence there is no trading history for the group, however, Elixinol US and Hemp Foods Australia have traded as standalone entities for some time.

Figure 2 - Elixinol Overview

	Elixinol US	Hemp Foods Australia	Elixinol Australia
<b>Operational status</b>	Operating	Operating	Non operating
<b>Headquarters</b>	USA	Australia	Australia
<b>% FY17 Proforma Revenues</b>	<p>FY17 Pro rata Revenues by Segment</p> <p>■ Elixinol US ■ HFA</p>		
<b>Segment Focus</b>	Hemp Nutraceuticals Manufacturing and distribution of dietary hemp supplements	Hemp based food for human consumption Manufacturing, distribution and sale of hemp based foods and cosmetic products	Medicinal Cannabis Manufacture and distribution of medicines for chronic disease
<b>Products</b>	Hemp oil capsules Hemp oil tinctures CBD rescue balm CBD lip balm CBD dog treats	Hemp seeds Hemp oil Hemp protein powder Hemp flour	Current applying for licenses
<b>Markets</b>	Sales in +40 countries including USA UK South Africa Japan	Australia Japan (via Elixinol US) South Korea United States	Initially Australia
<b>Employees</b>	20 full time plus consultants	11 Full time 6 Part time	2 group executives

SOURCE: PROSPECTUS

Going forward the company will report on a December year end.

The company does not currently participate in the market for medicinal cannabis in Australia or the US.

# Key Risks

Both Elixinol US and HFA are businesses generating revenues and earnings. We expect the industries in which they operate to experience significant growth. Elixinol Australia is a start-up and carries significantly higher risk in relation to the development of medicines.

**Agricultural Risk** - The businesses of Elixinol AUS, Elixinol US and HFA are reliant on agricultural products. As such, the businesses are subject to the risks inherent in the agriculture industry. These risks include insects, plant diseases, storm, fire, frost, flood, water availability, water salinity, pests, bird damage and force majeure events. Both broadacre and greenhouse cultivation systems are subject to their own unique inherent risks. Any adverse outcomes in respect of these matters will or may adversely affect the Elixinol Group's activities and operations, financial performance and prospects.

**Loss of key relationships** - The medicinal cannabis, CBD nutraceutical and hemp food industry are undergoing rapid growth and change, which has resulted in increasing consolidation and formation of strategic relationships. It is expected that this consolidation and strategic partnering will continue. Acquisitions or other consolidating transactions could harm the Elixinol Group in a number of ways. The Elixinol Group may lose strategic relationships if third parties with whom the Elixinol Group has arrangements with are acquired by or enter into relationships with a competitor (which could cause the company to lose access to necessary resources). The Elixinol Group's current competitors could become stronger, or new competitors could form from consolidations. This could cause the Elixinol Group to lose access to markets or expend greater resources in order to stay competitive. Separately, the relationship between the Elixinol Group and third parties may deteriorate organically, which may have an adverse impact on the Company's business.

**Supplier arrangements** - The Company has arrangements with a number of key suppliers. In particular, currently, the key grower for Elixinol US is Colorado Cultivars, whilst HFA has a key supply relationship with Tiverton Agriculture. To the extent that Elixinol US, HFA and Elixinol AUS (once it commences operations) cannot secure and retain key suppliers or negotiate binding long form agreements, their respective abilities to maintain consistent production levels may be compromised, which in turn may have a material adverse impact on the financial performance and position of the Elixinol Group.

**Funding** the company may require additional shareholder funding depending on the progress against the business plan as well as numerous other factors. These include failure to achieve planned revenues, higher than expected costs, capital expenditure requirements or other opportunities for growth including acquisition.

**Obtaining licences for importing, cultivating, manufacture and distribution (including export) of medicinal cannabis products.** Elixinol Australia's business model is reliant upon the necessary licences and permits issued by the ODC to import products, cultivate cannabis and manufacture medicinal cannabis products. There is no assurance or guarantee that the necessary licences and permits will be granted to Elixinol AUS, or granted on the terms anticipated by Elixinol AUS. Investors should be aware that Elixinol AUS cannot guarantee that any approvals, licences or permits required for its proposed operations will be obtained. A failure to obtain any such approvals, licences or permits will result in Elixinol AUS being unable to establish its business.

**Start up Risk** - Potential investors should be aware that investing in a start-up enterprise and industry, such as the Company, and in particular, with respect to Elixinol AUS, should be considered highly speculative and involves several significant risks including under capitalisation and obstacles or delays in the implementation of the business model or revenue generation.

Additionally, the future profitability of Elixinol AUS is contingent on patient uptake, the results of further medical research and clinical trials, general economic conditions, the level of competition in the industry and regulatory factors.

**Regulatory changes** - Each of the operating companies has operations within industries which have recently experienced key regulatory and legislative changes. Whilst this is seen as an opportunity for growth, as with any legislative and regulatory change, there is a natural period of uncertainty whilst regulators, market participants and consumers interpret and respond to the change. These risks are amplified with Elixinol US which is subject to local law enforcement.

Management considers that the businesses of Elixinol US, Elixinol AUS and HFA have complied historically with all applicable industry laws and regulations. Notwithstanding this, given the continuing developments in the relevant laws and regulations, there is a risk that a regulatory body could, in the future, change the retrospective application of these laws which may adversely impact the Elixinol Group.

**Clinical Trials** – Elixinol intends to run clinical trials both in Australia and the US in the broad field of medicinal cannabis. While the nature of the drugs to be tested is known (broadly), the company has not yet discussed specifics of clinical indications or timing (which is initially dependent upon the granting of certain licences). The clinical trial process is expensive and highly regulated. There is no guarantee of success. Indeed any adverse findings from Elixinol's trials or those conducted by other market participants may have an adverse impact on the company's financial prospects.

This listing of risk areas is not intended to be exhaustive. The prospectus includes several other risk areas, most of which are generic in nature. These include but are not limited to contracts and agreements, counterparty risk, integration risk and US Tax Inversion.

# Elixinol US

## INDUSTRY OVERVIEW

Elixinol US is the largest and most profitable business unit within the Group. Based in Broomfield Colorado, the business was co-founded by Paul Benhaim in 2014. It specialises in the production of CBD Hemp based nutraceutical products. The products are manufactured from hemp plants that contain only traces of THC and are considered very safe. i.e. Industrial Hemp.

Elixinol US does not operate in the medicinal cannabis sector either in the US or Canada or anywhere else.

CBD based nutraceuticals are available over the counter in the US. So long as the active ingredient does not exceed 0.3% THC, the products do not require FDA approval and are not classified as drugs.

## LEGAL STATUS OF HEMP INDUSTRY

The hemp industry has existed in the US for nearly two decades, however, Federal laws were only passed in 2014 via the Farm Bill which legalised cultivation. This law removed the obvious conflict between the Federal Drug Enforcement Agency (DEA) and hemp industry. Prior to that, many states had passed legislation permitting the use of hemp based products. Hemp farming is now permitted in 31 States and of these, the State of Colorado is considered one of the most hemp friendly by virtue to its timely passing of legislation.

Federal Laws in relation to the use of hemp products continue to evolve. The DEA continues to maintain its own definition of hemp which is considerably tighter definition compared to the Farm Bill. Nevertheless, this appears to be a side matter as the legal hemp industry operates in an un-restricted manner in many US States.

**Figure 3 – Elixinol products for the US market**



SOURCE: COMPANY DATA

The prospectus contains lengthy legal opinion on the legal status of industrial hemp products under Federal and State Laws in the United States. The short answer is that Elixinol operates within the bounds of the State and Federal laws – subject to producing products from non psychoactive hemp.

**For Elixinol, the US market for hemp products relates only to the use of industrial hemp that is confined to low THC strains of the hemp plant.**

**MARKET SIZE FOR HEMP CBD PRODUCTS**

As far as we are aware there is no data from any US Government body on the revenue value of industrial hemp. Unofficial sources estimate the total value of all hemp based products (including foods, textiles and nutraceuticals etc.) sold in the US in 2016 as US\$688m with a five year compound annual growth rate of 22%<sup>1</sup>.

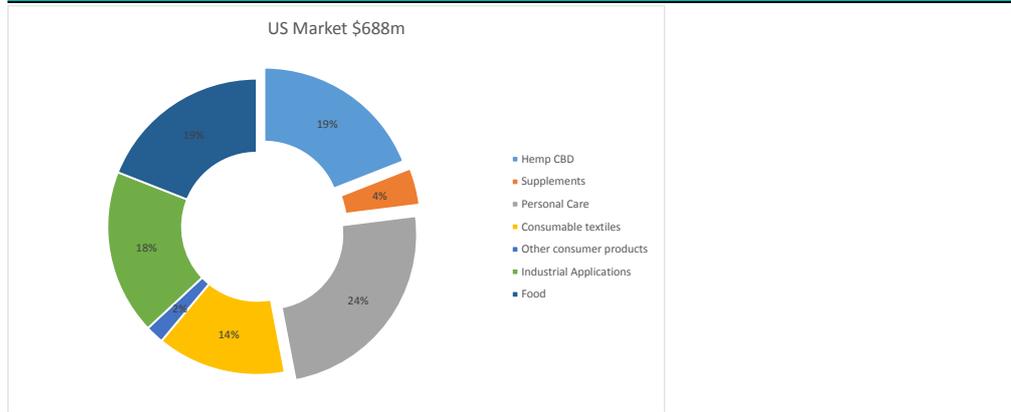
Within this total, we estimate Elixinol US participates in markets worth an estimated \$323m (47% of the total market).

In our view CBD nutraceuticals is a market disrupter in the market for over the counter skin care products, dietary supplements and personal care. Hemp CBD is not yet mainstream as none of the major brands in either skin care or dietary supplements (Clinique, Neutrogena etc.) have hemp CBD products in their portfolios and this is probably because they represent a relatively high level of business risk. For example, some of the mainstream payment processors (including PayPal) won't do business with Elixinol because of the nature of its products. Similarly advertisers (including magazine publishers) won't accept revenues from Elixinol and others in the hemp business.

**Ambiguity in Federal Laws in the US is likely to have restricted hemp industry growth**

**The pull out section of the pie chart are the markets where Elixinol has a presence**

**Figure 4 - US Market for Industrial Hemp Products**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Retail sales leaders (for the US market) in Hemp CBD for 2016 included CV Sciences, Bluebird Botanicals, CW Hemp, Liberty Lotions and Isodiol amongst others. BlueBird Botanicals, CW Hemp (marketed as Charlotte's Web) and Liberty Lotions are privately owned and revenue statistics are not available.

Based on our discussion with Elixinol management, the two most prominent brands in the retail market are Charlotte's Web and Elixinol, albeit there is no brand recognition data available.

Of the other brands CBD Oil (owned by CV Sciences which is listed on the OTC in the USA) and Isodiol (which is listed on the Canadian Stock Exchange) have published revenue data.

Elixinol does not have plans to introduce its nutraceutical products from the US into the Australian market. These remain schedule 4 items (medicines) on the Poisons Standard and are only available via prescription.

In figure 5 we present the most recent financial data from the listed peer group in the US.

<sup>1</sup> Hemp Business Journal

**Figure 5 - Peer Revenue Data**

CV Sciences (CVSI)	Code CVSI:OTC	Quarter ended 30-Sep-17	Quarter ended 30-Sep-16	Growth	Annualised Revenues Straight Line Estimate
		US\$	US\$		US\$
Revenues		5.6	2.9	91%	22.4
Gross profit		4.0	1.9	111%	16.0
Margin		71%	65%		71%
Adjusted EBITDA		0.875	0.647		
Margin		16%	22%		
<b>Isodiol</b>	<b>ISOL:CSX</b>				
Revenues		4.0	0.1	5856%	16.0
Net loss		- 1.0	- 0.5	na -	3.9

SOURCE: COMPANY EARNINGS REPORTS

The revenue growth experienced by CV Science appears to be 100% organic growth. For the 9 months to 30 September 2017 the company had revenues of US\$13.4m and a gross profit of US\$9.3m.

Isodiol International Inc revenue growth was driven by the acquisition of ISO International LLC.

Our annualised estimate of revenues for these companies is based on revenues from the September 2017 quarter.

Based on these most recent quarterly statistics, CV Science and Isodiol are marginally larger than Elixinol in revenues. Elixinol US revenues in calendar year 2017 were A\$13.3m (US\$10.3m).

We conclude that the US market for Hemp CBD products is highly disaggregated with no single brand dominating the market.

## Elixinol US Key Facts:

### PRODUCT CONCENTRATION

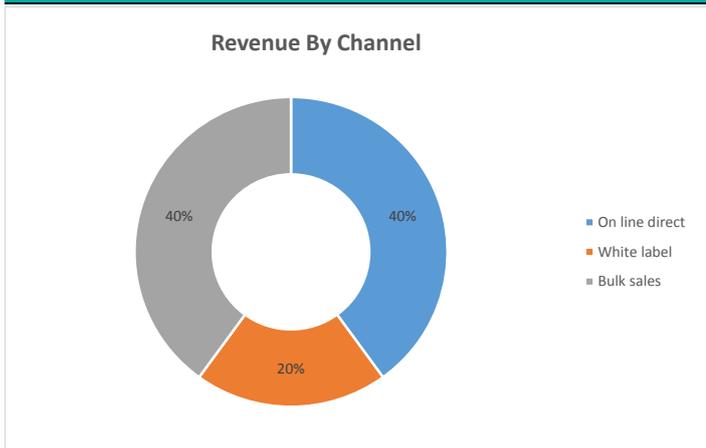
- Revenues are derived from the sale of Hemp CBD products (refer to figure 3);
- There are 16 stock keeping units in the Elixinol range today;
- Hemp CBD does not attract any form of reimbursement from Medicare or private health insurance, therefore all consumption is funded by the consumer; and
- Elixinol products are licenced by the city of Denver to sell CBD products.

### DISTRIBUTION

- The company's website remains the largest customer contact point for selling with half of all revenues earned from on line sales either direct to the retail clients or resellers;
- In the US there are 19 different websites offering hemp based nutraceutical products from various brands. Hemp CBD products have not yet entered mainstream retail, hence they do not appear on retailer websites;
- Hemp CBD is not distributed via the large distributors typical of prescription medicines (i.e. AmerisourceBergen, CVS Caremark). There are specialised distributors which cater to Hemp CBD products; and
- Various social media are an important medium for product advertising and knowledge dissemination.

On line sales represent 40% of revenues and continue to be the fastest growing sales channel

**Figure 6 - Revenue by channel**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

- The white label product represents toll processing for other brands.

**PRODUCTION**

- All production takes place at the company’s facility in Broomfield, Colorado. The company also contract manufactures for several other brands. The in house production allows the company maximum flexibility and speed for adopting new products;
- The key piece of production equipment is a CO<sub>2</sub> extractor for harvesting the cannabinoid. The company estimates the cost of a new piece of equipment that would allow it to increase production 3x at US\$1m;
- The production process remains typical of cottage industry today with high labour input. As volumes expand we expect production capacity to be added with increasing levels of automation over time;
- All Elixinol formulations are created in house and the company continues to develop new formulations and products to meet the constantly changing consumer demand;
- Elixinol is not a grower/cultivator of hemp crops in the US. Raw materials are sourced from licensed, contracted suppliers in Colorado and other states within the US. Growers are paid based on yield, including CBD content. Elixinol has relationships with all the larger commercial grade suppliers. As there are more than 31 states with legislation to grow hemp crop, the supply of growers is fairly deep, however, like all markets, high quality product will command a premium; and
- Hemp crops are not considered commodities as the various strains of plant are selected for their individual characteristics.

**Figure 7 - Trading History**

Elixinol US - December year end	2015	2016	1H17	2H17	2017	2018
\$m	Actual	Actual	Actual	Actual	Actual	BP forecast
Revenues	2.8	7.1	5.8	7.5	13.3	22.6
Growth	na	157%	na	na	86%	70%
Gross profit	1.5	6.0	4.3	4.7	9.1	15.4
Margin	55%	68%	75%	63%	68%	68%
Operating expenses	-1.0	-3.9	-2.9	-3.9	-6.8	-12.7
Opex ratio	35%	54%	50%	53%	51%	56%
EBITDA	0.6	2.1	1.4	1.0	2.5	3.0
EBITDA margin	20%	29%	25%	14%	19%	13%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Working capital increased by \$428K in 1H17. In prior financial years working capital increases had been smaller. In 1H17, Elixinol US cash from operations was \$1.012m.

We expect the working capital requirements will increase going forward as revenues and production expand.

Looking forward, the business will need to relocate within a short period in order to be able to meet anticipated demand. We expect that the move together with the expanded production capability will require at least \$3.0m - \$5.0m in capital within 12 months.

# Hemp Foods Australia

Hemp Foods Australia (HFA) is dedicated to the production of organic hemp seeds, hemp seed oil and hemp protein all of which are food products produced from the hemp plant. The company is based in NSW and up until very recently its growth had been constrained by Commonwealth laws which prevented the marketing of these products for human consumption.

The laws changed on 12 November 2017 and these products may now be marketed as foods and sold in a far more broad retail channel and in many more products than has been the case. The relevant law change being the inclusion of hemp based seeds and oils onto the Australia and NZ Foods Standards code.

Up until very recently the HFA products were only available in Health Foods Stores and on line and could not be marketed for human consumption. The change in regulation is expected to open new avenues to market for hemp foods to be included as an ingredient in a range of products and for mainstream distribution.

## WHY HEMP FOODS

The nutritional qualities of Hemp Foods provide a high quality marketing platform. These qualities include:

- Gluten free – for anyone with celiac disease (intolerance to gluten found in many cereal products including wheat, barley and rye) hemp products are a winner. No gluten means hemp flour may become mainstream for persons with celiac disease;
- Protein rich and low fat – more protein per 100g than flaxseed; and
- High in essential fatty acids and an ideal ratio of omega 6 to omega 3.

Hemp Food products are sometimes referred to as “Superfoods” because of these qualities. The marketing appeal of these products for the health conscious buyer is very important for the future sales growth of these products.

While hemp foods may become an alternative source of protein, particularly in Asia, we note that there is already an abundance of protein in Asian diets – mainly through seafood and poultry. Nevertheless, hemp based foods may become mainstream and HFA is in prime position to capitalise on this opportunity.

## MARKET SIZE FOR HFA

Hemp foods have been legal outside of Australia for many years with North America and Europe being the largest markets. Despite this, market penetration rates are estimated to be low i.e. < 5%. We do not expect HFA will participate in markets outside of Australia and Asia.

HFA's business will be in Australia and Asia (where it already exports certain bulk products and finished goods to Japan, Korea and the US). There are currently no reliable estimates of market size for Hemp Foods in Australia, however, HFA is considered one of the largest brands, hence we speculate the current value of revenues is < \$20m annually.

Figure 8 - HFA Best Sellers



Organic Hulled Hemp Seeds 114g

**\$9.95****BUY NOW****Sold Out**

Hemp Oil Organic 250ml

**\$16.95****BACKORDER**

Hemp Protein Powder - 500g

**\$34.95****BUY NOW**

Organic Hulled Hemp Seeds 250g

**\$14.95****BUY NOW**

SOURCE: COMPANY DATA

Other brands in the category (all of which are privately owned) include:

Piping Rock, Every Bit Organic Raw, Sani Hemp, Australian Primary Hemp.

We expect further brands will emerge as the market for these products expands. The key limiting factor is likely to be access to raw materials (hemp crop). There is currently no excess supply in Australia. HFA mitigates this risk by virtue of its long standing relationship with the premier growers in Australia. The company also has the balance sheet to support larger growing orders and provided certainty of payment to the growers.

#### MANUFACTURING AND PRODUCTION

HFA is not a cultivator. All growing is contracted to licenced professional farmers in Queensland, New South Wales and Victoria who use broad acre farming methods to grow the hemp crop. All farming of hemp crop is strictly controlled by licenses at the State level.

Hemp crops can be grown in approximately 4 months using broad acre farming.

Production occurs at the company's facility at Bangalow in NSW. The company estimates the facility is operating at ~30% of production capacity. The plant was recently upgraded and new production equipment was installed in October 2015. In addition, HFA has the room to expand its operations to over 400% of its current capacity at the existing site.

The company intends to utilise contract manufacturing for other verticals including snack foods and planned skincare ranges for which product launches are planned later in 2018.

Figure 9 - Trading History

Hemp Foods Australia \$m	Year ended 30 June			Pro forma Actual	Forecast
	Jun-15	Jun-16	Jun-17	Dec-17	Dec-18
Revenues	2.7	2.5	2.9	3.2	3.8
Growth	0%	-9%	17%		20%
Gross profit	1.1	1.1	1.0	1.4	1.7
Margin	39%	44%	33%	45%	45%
Operating expenses	-0.8	-0.7	-1.8	-2.2	-2.9
EBITDA	0.3	0.4	-0.8	-0.6	-1.0

SOURCE: COMPANY DATA

Prior to the IPO, HFA was privately owned and reported on a June year end. The company became a wholly owned subsidiary of Elixinol Limited at the IPO.

The forecast does not include revenues from new product lines that are expected.

HFA working capital increased by \$660K in FY17.

# Elixinol Australia

Elixinol Australia was recently incorporated for the purposes of obtaining licences to import, cultivate, produce, manufacture and supply medical cannabis in Australia. Medicinal cannabis are pharmaceutical grade drugs containing both CBD and THC cannabinoids. The use of these products will be strictly controlled by Federal Laws.

The potential of these products to provide relief for patients is believed to be significant. Childhood epilepsy and pain relief for end stage cancer sufferers are two of the first indications likely to be approved for use in Australia.

We believe a considerable portion of the valuation attached to ASX listed stocks participating in the market for licit cannabis based products is due to the potential for supernormal profits from medicinal cannabis.

As testimony for this conclusion we note the market capitalisation of GW Pharma (A British company with NASDAQ listing (GWPH) at US\$3.4bn. The company's first product Epidiolex is shortly expected to receive US FDA approval in the treatment of childhood epilepsy. GW Pharma has no revenues.

## LEGAL BACKGROUND

Australian law is silent on the level of THC in cannabis extracts. All extracts of cannabis are drugs, regardless of specific cannabinoid levels. The only exemption appears to be hemp seed oil which is an extract, but does not contain cannabinoids – hence why Health Foods Australia is able to exist.

In Australia, hemp products or extracts etc. are illegal if they contain more than 50mg/kg of cannabidiol. These products are considered drugs and require a doctor's prescription.

## LEGISLATIVE CHANGE

The laws in Australia have changed recently to allow for a legal, domestic source of medicinal cannabis products for use in treating patients with illnesses where a health professional feels there may be some benefit. Domestic cultivation ensures sufficient supply for Australian patients and the production of a high quality product.

The legislation was changed due to a growing awareness of the potential benefits of medicinal cannabis products within the medical community, however, there is a global shortage of appropriate products that can be prescribed. The legislation provides for the cultivation and manufacture of Australian produced medicinal cannabis products, addressing the supply shortage and expanding the tools available to medical practitioners where appropriate.

Elixinol is pursuing licences (a manufacturing licence initially) with the Office of Drug Control's Medicinal Cannabis program as the next step in development of its Medicinal Cannabis product development.

## KEY CHANGES IN JANUARY 2018

In January 2018, The Australian Government changed the Narcotic Drug Regulations to permit the export of Australian manufactured medicinal cannabis products. Similar laws have applied to allow the export of Narcotic Raw Material from opium plants for years.

As well as permitting export of oils and extracts by manufacturers, cultivators and producers will now be able to supply raw cannabis flower to companies who hold manufacturing licences under the *Therapeutic Goods Act 1989* for them to carry out dose standardisation, final packaging and labelling of the product.

For Elixinol we believe these changes are important:

- Subject to the granting of appropriate licences, Elixinol's medicinal cannabis products will be available in Australia as well as for export; and
- The company may not require a cultivation licence. It should be able to contract commercial growers in Australia. Elixinol will still require a manufacturing licence.

#### MORE DETAIL ON MEDICINAL CANNABIS

The Office of Drug Control (“ODC” which resides within the Federal Department of Health) is managing the introduction of Medicinal Cannabis in Australia. The ODC is also responsible for the issue of licences for the commercial cultivation and production of Australian Grown Cannabis.

There are various access pathways to Medicinal Cannabis which we summarise below.

The Special Access Scheme (A&B) (the SAS scheme) applies where patients need access to medicines not on the Australian Register of Therapeutic Goods (ARTG). The SAS scheme applies to imported drugs only, so it is relevant as there are no Medicinal Cannabis products currently produced in Australia. Any unapproved therapeutic good can potentially be supplied via the SAS scheme except for goods included in Schedule 9 of the Poisons Standard (where the manufacture, possession, sale or use is prohibited by State or Territory law) which cannot be accessed through the SAS process.

Patients may also access Medicinal Cannabis via the Authorised Prescriber pathway. This applies to drugs that have not been approved by the TGA.

**Figure 10 - Medicinal Cannabis Access Pathways**

Product	Special Access Scheme Category A	Special Access Scheme Category B	Authorised Prescriber	Compounded in public hospital
Imported – patient by patient	✓	✓	✓	✓
Imported – under sponsored import policy	✗	✓	✓	✓
Domestically cultivated and manufactured	✗	✓	✓	✓

SOURCE: OFFICE OF DRUG CONTROL

In order to become an Authorised Prescriber, a GP must undergo specific training. Even then, the GP can only prescribe a product to individual patients in their immediate care without further TGA approval. The rules are modestly more relaxed for Specialists.

As we understand the supply of products under either the SAS scheme or the Authorised Prescriber Scheme is subject only to ethical guidelines. It is not clear where the responsibility lies for patient safety. In our view this is a key risk for patients and doctors. Long term use of marijuana with high levels of THC has been proven to cause brain damage.

There is no reimbursement for products supplied under either SAS or Authorised Prescriber pathways. Patients will pay 100% of the purchase price out of pocket. Pricing of these products will be determined by market supply and demand.

In order to become part of the mainstream schedule of medicines and to be included on the ARTG, these drugs would need to be subjected to the normal clinical trial process. Elixinol Australia may consider such a trial at a future date.

#### MEDICINAL CANNABIS OUTSIDE AUSTRALIA

The leading developer of Medicinal Cannabis in the US is GW Pharma (NASDAQ: GWPH) with a market capitalisation of US\$3.4bn. It is by far the largest stock on the US Marijuana index in terms of market capitalisation. GW Pharma is dedicated to discovering, developing and commercializing novel therapeutics from its proprietary cannabinoid product platform.

**Imported product must be manufactured in a GMP facility and come from a regulated medicinal cannabis market**

Its first product is Epidiolex for the treatment of Epilepsy. Regulatory applications have been accepted for review in both the US and Europe. These applications are supported by clinical trial data – which is the key distinguishing feature between it and other medicinal cannabis products. The company has an extensive pipeline of the other products in development for additional indications.

If Epidiolex is approved in Europe and or the US, we speculate the company may apply for product registration in other countries including in Australia. If the GW Pharma products are to be registered, it is likely they would become entitled to reimbursement, providing the company with a crucial first mover advantage.

The Canadian market is also well developed with at least 4 companies with market capitalisation of greater than C\$1bn.

These groups derive the majority of revenues from the sales of dried leaf cannabis plant and cannabis oil. These products have high levels of THC and are available via doctor prescription to registered patients. There are more than 200,000 registered patients in Canada. As we understand the use of these products is not supported by clinical data.

It is also expected that these companies will shortly supply marijuana for recreational use.

#### **BUSINESS MODEL**

- Stage 1 – obtain various licences to import, cultivate, manufacture and supply medical cannabis in Australia.
- Stage 2 – Import bulk raw material for the manufacture of proprietary medicinal cannabis products and outsource manufacturing.
- Stage 3 – Establish GMP/TGA certified manufacturing facilities for the production of Elixinol Medicinal Cannabis products.

The Medicinal Cannabis market is currently non-existent here. In our view the key road block remains convincing the GP community of the benefits of the products. Many will be deeply concerned about the long term potential for serious side effects from these products, particularly amongst younger patients.

Based on our understanding of the laws surrounding distribution, we believe the potential market for medicinal cannabis in Australia is limited – certainly smaller than in Canada on a per capita basis.

#### **FINANCIAL DATA**

Elixinol Australia was only recently incorporated. It has not previously traded.

Table 7.1 of the prospectus outlines the capital budget for the establishment of the Elixinol Australia. The total cost which includes purchase of land, establishing a greenhouse and setting up a production facility is estimated at \$13.5m.

At this time, none of these funds are committed. We assume no revenues at this point.

We attribute no value to Elixinol Australia at this time.

# Valuation

We summarise the valuation metrics of the more prominent market participants in Australia and abroad as follows.

Figure 11 - Hemp CBD Industry Peer Valuations

	Currency	Market Cap	Price/Book	Enterprise Value	FY16 Revenues	FY17 Revenues	FY18 Revenues	FY16 EBITDA	FY17 EBITDA	FY18 EBITDA	FY18 EV/Sales	FY18 EV/EBITDA
							(estimates)			(estimates)		
<b>Canada - Medicinal Cannabis</b>												
		\$m		\$m	\$m	\$m	\$m	\$m	\$m	\$m		
Med Releaf	CAD	1,930	9.67	1,911	19.3	40.3	44.8	4.6	13.9		43	525
Canopy Growth	CAD	6,478	6.47	6,343	12.7	39.9	79.7	(0.5)	(8.1)	(24.3)	80	na
Aphria	CAD	2,618	5.56	2,179	8.4	20.4	42.1	(0.1)	0.5	10.4	52	209
Aurora Cannabis	CAD	5,345	10.04	5,331	1.4	18.1	60.9	NA	(10.1)	(4.1)	88	na
Iodiol International	CAD	451	8.15	424	-	0.4	-	-	(0.6)	-	na	na
<b>US Listed Peers</b>												
GW Pharmaceuticals	USD	3,346		2,034	10	8	13.8	(108.5)	(142.7)	(190.7)	147	na
Axim Biotechnologies	USD	273		575	0			(3.8)				
Cannabics Pharmaceuticals Inc	USD	143	66.65	159	0	-		(0.3)	(1.8)			
<b>Australian Peers</b>												
Developers of medicinal cannabis												
Elixinol	AUD	162	1.6	141	-	-	26.4	-	-	0.1	na	na
Creso Pharma	AUD	88	4.6	84	-	0.2		(4.2)	(15.1)			
Botanix Pharmaceuticals	AUD	80	18.6	74	-	0.0		(1.7)	(4.8)			
Medlab	AUD	149	57.0	156	3.0	4.4	7.0	(3.6)	(3.8)	(2.2)	22	na
MGC Pharmaceuticals	AUD	106	10.6	98	-	0.1		(4.4)	(7.2)			
<b>Growers</b>												
Auscann	AUD	440	35.53	445	-	-		(5.9)	(14.2)			
Cann group	AUD	414		345	-	-		(1.4)	(2.5)			
MMJ Phytotech	AUD	91	2.95	82	0	0		(6.5)	(12.5)			

SOURCE: BLOOMBERG, BELL POTTER, GREYED OUT AREAS REPRESENT NO DATA AVAILABLE

## Elixinol US

The US market for all CBD Hemp product was estimated at US\$688m in 2016 and growing at ~22%. Assuming the market continues to grow at this rate, we estimate the gross value of revenues by 2020 at US\$1.5bn. The addressable market for Elixinol products (being 47% of the total market) is estimated at US\$716m.

Our valuation is based on the assumption that Elixinol can maintain 5% - 10% market share in the US. In order to reach revenues of US\$50m – US\$70m by 2020, revenues need to grow at a compound rate of between 70% to 90% over the next three years.

Over the last two financial years Elixinol US revenues have grown at 157% and 87% respectively. The increase is primarily due to the investment in additional sales and marketing hires in early 2016, the launch of a new website, search engine optimisation, social media and advertising campaigns, as well as increased presence at trade shows.

Other key assumptions in the financial forecast for Elixinol US:

- Revenue growth of 70% in FY18 and FY19, 40% in FY20;
- revenue growth is driven via a \$2m increase in marketing and brand promotion spending, funded from proceeds from the IPO as well as internally generated cash;
- Research and development spend increases – consistent with the prospectus commentary, we expect a material increase in the level of R&D expenditure to develop new products and bring new applications to market. The company has indicated its intention to enter new markets including skin care and veterinary products;
- We assume Elixinol US remains profitable and cash generative throughout the forecast period; and

- Of the peers, Isodiol in Canada is also in the Hemp CBD business specialising in nutraceuticals. It appears to be a reasonable comparison to Elixinol US.

### **Hemp Foods Australia**

HFA is fledgling business which the company expects can grow rapidly following the inclusion of hemp foods on the Australia and New Zealand Food Standards Code-meaning that the products can be marketed for human consumption.

Despite the law change occurring in November 2017, CY 2017 revenues still managed to grow by 28% to \$3.2m. There are many opportunities to grow revenues led by the expansion into the grocery, food services and in Asian markets.

As the business grows we anticipate further investment in working capital only. We note that the current facility is currently utilising 30% of production capacity. Further expansion of production capacity in the medium term (2 to 3 years) is unlikely.

We anticipate HFA will become breakeven in 2020 based on revenues of approximately \$6.0m. The current revenue run rate is approximately \$3.2m.

Due to its relatively modest size, there are no directly comparable peers on the ASX, however, we note that market leader in the dietary supplements industry Blackmores (BKL:ASX) has consistently traded on a PE multiple greater than 20x. A significant contributor to Blackmores performance has been the high sales growth achieved in new markets in Asia.

### **Elixinol Australia**

Elixinol Australia is to embark on the development of cannabis derived medicines for the Australian and International market.

The Canadian market is the most mature market for medicinal cannabis. In FY17 revenues expanded exponentially which drove the valuations on these stocks to record highs. In addition, we understand the valuations on these stocks are also being driven by the imminent legalisation of marijuana for recreational use – a market estimated to be worth >C\$5bn. Elixinol does not participate in the market for medicinal cannabis or recreational use.

The Canadian market for medical cannabis is currently estimated at C\$407m<sup>2</sup> and expected to grow to C\$1.3bn by 2024, implying a revenue CAGR of 17%. Market leader Med Releaf recently signed a major retail distribution agreement for its brand of products to be sold via the Shoppers Drug Mart on line portal. Shoppers Drug Mart is one of the largest retail pharmacy chains in Canada.

In relation to Med Releaf, approximately 5% of its FY17 revenues was derived from the sale of cannabis extracts and 95% was from dried leaf. This indicates the vast majority of revenues are derived from the sale of products used for medicinal purposes.

The growth of the market for medicinal cannabis in Canada is potentially a proxy for the Australian market, however, distribution in Australia will be far more tightly controlled (vs Canada) and there is no contemplation of legalising high marijuana for recreational use. Based on our discussions with various market participants there small numbers of authorised prescribers (20 to 30) and patients currently using medicinal cannabis in Australia. Nevertheless, expectations for revenue growth over the long term (3 to 5 years) remain high. We consider expectations for revenue growth as speculative.

The company is in the process of applying for various licences to facilitate future revenues. As there is no certainty these licenses will be granted, we assign no value to future revenues at this time.

<sup>2</sup> Med Releaf company presentation Feb 2018

**VALUATION**

Our valuation is set at \$2.12 being 33% upside to the last closing price. The valuation is determined by a DCF and implies an enterprise value of ~\$200m.

The key short term catalysts to achieve this valuation are:

Continued strong growth in the US business – following record revenues in 2016 and 2017, revenues are expected to continue to show further growth in 2018 – greater than 50%.

Hemp Foods Australia – we expect revenues to at least double (off a very small base) within two to three years.

# Summary Financial Data

HFA previously had a year end of 30 June which has now been changed to co-incide with the 31 December year end for the group. The prospectus provided FY17 pro-forma forecast of revenues and earnings, with the proforma adjustment being for the revenues and earnings of HFA adjusted for the December year end.

The forecast was based on 9 months of actual data and 3 months of forecast for the period October to December 2017.

**Figure 12 - FY17 Prospectus Guidance vs Actual**

\$m	FY17 Pro Forma Prospectus	Pro Forma Actual
<b>Revenues</b>		
Australia	3.2	3.2
North America	12.3	13.3
Corporate	0.0	0.0
	<u>15.5</u>	<u>16.5</u>
<b>Gross profit</b>		
Australia	1.3	1.4
North America	8.2	9.1
Corporate	0.0	0.0
Total Gross Profit	<u>9.5</u>	<u>10.5</u>
<b>EBITDA</b>		
Australia	-1.0	-0.6
North America	2.2	2.5
Corporate	-1.5	-1.9
	<u>-0.2</u>	<u>0.0</u>
<b>EBITDA Margin</b>		
Australia	-30%	-19%
North America	27%	27%
Corporate	na	na
Total EBITDA margin	-1%	0%
Depreciation and amortisation	-0.6	-1.6
<b>Profit before tax</b>	<b>-0.8</b>	<b>-1.5</b>
Income tax expense	-0.7	-0.3
NPAT - statutory	-1.5	-1.9
Add back		
Amortisation of acquired intangibles		1.3
<b>Normalised NPAT</b>		<b>-0.6</b>

SOURCE: COMPANY DATA

Both HFA and Elixinol US have 3 years of trading history as summarised in figure 7 and 9. On a pro-forma basis, the consolidated entity was breakeven at EBITDA for FY17.

Proforma group operating cash was an outflow of \$1.2m driven by increases in working capital. We expect the group will continue to consume working capital as it grows. Our forecast assumes a further \$1.3m expansion in FY18 followed by ~\$2m each year thereafter.

**Figure 13 - Elixinol Group - summary Balance Sheet**

Summary Balance Sheet \$m	Dec-17
Cash	18.8
Net working capital	2.4
Goodwill	72.6
Othe intangibles	6.5
Net other	0.8
Deferred tax	-1.7
Borrowing	<u>-0.3</u>
Net Assets	99.1
Issued Capital	101.8
Retained earnings	<u>-2.7</u>
	99.1

SOURCE: COMPANY DATA

The key balance sheet items are cash and intangibles.

The newly formed parent company is Elixinol Global Ltd. It acquired the three subsidiaries (Elixinol US, HFA and Elixinol Australia) on 27 Dec 2017.

The acquisitions were wholly funded by the issue of scrip in Elixinol Global. The pre money valuations on Elixinol US and HFA were determined by an independent valuer, however, the basis of the valuation was not discussed in the prospectus. The combined goodwill and intangibles of ~\$79m represents a 4.8x multiple of CY17 pro forma revenues. EXL continues to trade well above the issue price of \$1 which suggests that the valuation was not excessive.

Figure 14 summarises the key elements of the capital structure and largest shareholders following the IPO.

**Figure 14 - Key elements of Elixinol Global Capital Structure**

Fully diluted shares on issue	102,928,540	
Market price	\$ 1.59	
Market capitalisation \$m	163.7	
Net Cash	-18.5	
Enterprise value \$m	<u>145.1</u>	
Escrow arrangements		
24 months from IPO (m)	77.9	
Until 27 Dec 2018	55,559	
Free float	23.5%	
<b>Key shareholders (millions of shares)</b>		
Paul Benhaim - Raw With Life	54.6	53.1%
D&G Health	12.7	12.3%
Other existing shareholders	15.6	15.2%
New shareholders at the IPO	<u>20.0</u>	19.4%
	<u>102.9</u>	100.0%

SOURCE: COMPANY DATA

## TAXATION

The directors of the company believe it is likely that the acquisition of Elixinol US by the Australian Parent company (Elixinol Global) should result in the company being treated as a US resident corporation, subject to US federal income tax on its worldwide earnings.

# Board and Management

## **Andrew Duff - Independent Non-Executive Chairman**

Andrew joined the Company in 2017. He has significant ASX-listed company experience, including as a director. He is also the Chairman of Cornerstone Health Pty Ltd.

Up until mid-2016 Mr Duff was the Chief Financial Officer and Finance Director of Primary Health Care (ASX:PRY), an ASX 100 listed company.

## **Paul Benhaim - Chief Executive Officer and Executive Director**

Paul has over 25 years' experience in the hemp industry and is the co-founder of Elixinol US, Elixinol AUS and HFA.

Paul has been responsible for creating and developing each of the business plans for Elixinol US, Elixinol AUS and HFA and negotiating production, cultivation and distribution. Paul will be responsible for business strategy including organic and acquisition led growth opportunities for Elixinol Global.

In 1996, Paul created 9bar, one of Europe's first hemp food products. Paul then moved to Australia in 1999 to assist the establishment of a hemp industry. He co-founded HFA shortly after arriving in Australia.

## **Linda McLeod - Managing Director**

Ms McLeod has over 30 years in business advisory, corporate finance, private equity and venture capital. Her industry experience includes healthcare, biotechnology, agriculture and resources sectors. Areas of practice have included business strategy, M&A, due diligence and corporate governance.

Linda joined the Company in 2017 with a focus on driving the business strategy and implementing the business plan.

## **Stratos Karousos Independent, Non-Executive Director**

Mr Karousos has extensive experience as a lawyer working in mergers and acquisitions, equity capital markets, corporate restructuring, private equity transactions, joint ventures, and corporate governance in various sectors, including health and agriculture.

He joined the Company in 2017 with a focus on assisting with the execution of its acquisition strategy.

## **SENIOR MANAGEMENT**

### **Ron Dufficy – Chief Finance Officer**

Mr Dufficy is a senior finance executive having held senior financial positions in large Australian listed entities. These includes Aristocrat Leisure Ltd where he was the CFO of the largest and most profitable division of company and based in the US for 9 years.

### **Gabriel Ettenson – General Manager of Elixinol US**

Mr. Ettenson is a Co-founder of Elixinol US and has been pivotal to the company's growth to date. He remains a large shareholder in Elixinol Global.

**Figure 15 - Directors shareholdings**

Andrew Duff	25,000
Paul Benhaim	54.6m
Linda McLeod	200,000
Stratos Karousos	100,000

SOURCE: COMPANY DATA

**Table 1 - Financial summary**

Profit & Loss (A\$m)						Valuation Ratios (A\$m)					
	FY17	FY18e	FY19e	FY20e	FY21e		FY17	FY18e	FY19e	FY20e	FY21e
<b>Year Ending December</b>	Proforma					Reported EPS (cps)	-1.8	-1.0	1.1	3.8	6.5
<b>Total Revenues</b>	16.5	26.4	43.0	59.7	72.2	Normalised EPS (cps)	-0.6	0.2	2.4	5.0	7.8
<b>COGS</b>	-6.0	-9.3	-14.0	-18.8	-22.8	EPS growth (%)	na	large	large	112%	55%
<b>Gross profit</b>	10.5	17.1	29.0	40.9	49.5	<b>PE(x)</b>	na	na	<b>65.3</b>	<b>30.8</b>	<b>19.9</b>
<b>GP margin</b>	63.7%	64.9%	67.4%	68.5%	68.5%	<b>EV/EBITDA (x)</b>	7009.4	998.2	38.2	18.3	12.0
Operating expenses	(10.5)	(17.0)	(25.3)	(33.2)	(37.8)	<b>EV/EBIT (x)</b>	-91.0	-98.5	92.7	27.2	15.7
<b>EBITDA</b>	<b>0.0</b>	<b>0.1</b>	<b>3.7</b>	<b>7.7</b>	<b>11.7</b>	NTA (cps)	23.8	24.7	28.0	34.1	42.6
Depreciation and Amortisation	-1.6	-1.6	-2.2	-2.5	-2.7	P/NTA (x)	6.5	6.3	5.5	4.5	3.6
<b>EBIT</b>	-1.5	-1.4	1.5	5.2	8.9	Book Value (cps)	23.8	95.2	96.3	100.1	106.6
<b>EBIT margin</b>	-9.4%	-5.4%	3.5%	8.6%	12.4%	Price/Book (x)	6.5	1.6	1.6	1.5	1.4
Pre tax profit	-1.5	-1.4	1.5	5.2	8.9	DPS (cps)	0.0	0.0	0.0	0.0	0.0
Tax expense	-0.3	0.4	-0.4	-1.3	-2.2	Payout ratio %	0%	0%	0%	0%	0%
<b>NPAT - normalised</b>	-1.9	-1.1	1.1	3.9	6.7	Dividend Yield %	0%	0%	0%	0%	0%
Net abnormal items	1.3	1.3	1.3	1.3	1.3	Net debt/Equity	0%	0%	0%	0%	0%
<b>Reported NPAT</b>	-0.6	0.2	2.4	5.2	8.0	Net debt/Assets	0%	0%	0%	0%	0%
<b>Cashflow (A\$m)</b>						Gearing	net cash	net cash	net cash	net cash	net cash
Gross cashflow	-0.6	-1.1	1.6	5.5	10.0	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net interest	0.0	0.0	0.0	0.0	0.0	Interest cover (x)	n/a	n/a	n/a	n/a	n/a
Tax paid	-0.6	0.4	-0.4	-1.3	-2.2	<b>Division Earnings</b>					
<b>Operating cash flow</b>	-1.2	-0.8	1.2	4.2	7.8		<b>FY17</b>	<b>FY18e</b>	<b>FY19e</b>	<b>FY20e</b>	<b>FY21e</b>
Maintenance capex	-0.5	-1.2	-1.2	-4.0	-0.2	<b>Elixinol US</b>					
Other capitalised intangibles	0.0	0.0	0.0	0.0	0.0	Revenues A\$m	13.3	22.6	38.3	53.7	64.4
<b>Free cash flow</b>	-1.6	-2.0	0.0	0.2	7.6	EBITDA	2.5	3.0	6.0	9.3	11.5
Business acquisitions	0.0	0.0	0.0	0.0	0.0	Margin	19%	13%	16%	17%	18%
Proceeds from issuance	20.0	0.0	0.0	0.0	0.0	<b>Elixinol Australia</b>					
Movement in debt	0.0	0.0	0.0	0.0	0.0	Revenues	-	-	-	-	-
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBITDA	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Change in cash held</b>	18.4	(2.0)	(0.0)	0.2	7.6	<b>Hemp Foods Australia</b>					
Cash at beginning of period	4.2	18.8	16.9	16.9	17.1	Revenues	3.2	3.8	4.6	6.0	7.8
<b>Cash at year end</b>	18.8	16.9	16.9	17.1	24.7	EBITDA	(0.6)	(1.0)	(0.4)	0.2	2.0
<b>Balance Sheet (A\$m)</b>						Margin	-19%	-26%	-10%	3%	25%
Cash	18.8	16.9	16.9	17.1	24.7	<b>Elixinol Global</b>					
Receivables	1.2	1.9	3.2	4.4	5.3	EBITDA	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Inventory	2.5	3.7	5.6	7.5	9.1	<b>Group revenues</b>					
Other current assets	0.8	0.8	0.8	0.8	0.8	<b>Group EBITDA</b>	<b>16.5</b>	<b>26.4</b>	<b>43.0</b>	<b>59.7</b>	<b>72.2</b>
Property, Plant and Equipment	1.1	2.0	2.3	5.1	3.9	<b>Interim Earnings</b>					
Intangible assets	79.1	77.8	76.5	75.2	73.9		<b>1H18</b>	<b>2H18</b>			
Deferred tax assets	0.1	0.1	0.1	0.1	0.1	Revenues	11.9	14.5			
<b>Total assets</b>	103.6	103.2	105.4	110.3	117.8	EBITDA	0.1	0.1			
Trade payables	1.3	2.0	3.0	4.0	4.8	D&A	-	-			
Debt	0.3	0.3	0.3	0.3	0.3	EBIT	-	-			
Tax payable	-	-	-	-	-	Tax	-	-			
Other liabilities	2.8	2.8	2.8	2.8	2.8	NPAT	-	-			
Deferred income tax liability	-	-	-	-	-						
Provisions	0.2	0.2	0.2	0.2	0.2						
<b>Total Liabilities</b>	4.5	5.2	6.2	7.2	8.1						
<b>Net Assets</b>	99.1	98.0	99.2	103.0	109.7						
Share capital	101.8	101.8	101.8	101.8	101.8						
Retained earnings	(2.7)	(3.8)	(2.6)	1.2	7.9						
Reserves	-	-	-	-	-						
<b>Shareholders Equity</b>	99.1	98.0	99.2	103.0	109.7						

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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