

# Cannabis: An industry growing in every sense

With the increasing popularity of cannabis products of all kinds causing considerable growth globally, our experts provide their international insights into the trends shaping the market.



The cannabis industry around the world is experiencing unprecedented growth, as restrictions on recreational use are relaxed and the medicinal properties of cannabidiol (CBD) are finally acknowledged. [One report](#) published by Arcview Market Research and BDS Analytics earlier this summer predicted that global industry revenues will break \$40bn (£31.3bn) by 2024.

While there is a general trend of legitimisation and acceptance, the mechanisms of legalisation and company operating rules vary hugely across countries. So, how are the entities in these different markets navigating the challenges involved?

## ENTHUSIASM OVERRIDES UNCERTAINTY IN THE UK

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The UK legalised medical cannabis in November 2018 and the market is showing encouraging signs as a growing investment hub. However, it will come as no surprise that the uncertainty around Brexit is hindering some cannabis companies currently looking for those investment. It's important to note, however, that this issue isn't particular to the cannabis market.

"Brexit and the other macro economic factors rumbling on at the moment may have hindered an initial surge in the market," says PKF Littlejohn partner Joseph Archer.

Another general issue for UK business is gaining access to bank accounts and lending facilities, as institutions hedge their bets. Despite the universal nature of this problem, Archer does see it affecting cannabis companies more acutely.

"I think this is exacerbated by a certain amount of stigma around cannabis and a lack of understanding from the banks about what these companies are actually doing," he reflects.

## LISTING CHALLENGES

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One challenge that does seem particular to cannabis companies is gaining a listing on a recognised stock exchange. The UK Listing Authority (UKLA) is renowned for its robust requirements and still appears to be somewhat sceptical about the industry. While the kudos of a London Stock Exchange (LSE) listing appears some way off, two companies are enjoying success on the UK-based NEX Exchange.

Those companies are Ananda Developments and Sativa Investments, both of which have recently invested abroad. Ananda has purchased a stake in an Israeli company focused on improving CBD and THC extraction techniques, while Sativa has invested in two Canadian-based pharmaceutical cannabis companies, Veritas and Rapid Dose Therapeutics. These pioneering players in the UK market could provide a roadmap to success for subsequent companies.

And it's not just the listed companies making progress. Archer is working with companies that have a long-term view of the UK market, helping them to plan their operations for the next year and beyond.

"There is a lot of desire to invest early in the process, which is very positive," he says. With the sheer volume of different countries around the world opening up to the possibilities of cannabis, he sees London as a natural hub to facilitate the investment needed.

A spate of recent investments from North America reflects the perceived value of the UK as an investment hub. Long may this trend continue...

## MALTA BLAZING A TRAIL OF INNOVATION

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Maltese prime minister Joseph Muscat has been consistently proactive in cultivating new economic opportunities on the Island. The legalisation of cannabis in March 2018 was the latest in a series of economy-boosting legislation passed in its halls of power.

The first of these initiatives was a controversial, but lucrative, decision in 2014 to start selling Maltese citizenship. Then in 2018 the country passed laws creating a regulatory framework for a new blockchain, cryptocurrency and distributed ledger technology (DLT) industry.

The government formed the Malta Digital Innovation Authority (MDIA), which, along with the Malta Financial Services Authority (MFSA), is overseeing these exciting developments. The MDIA has now been tasked with stimulating similar investment on the island in artificial intelligence (AI) and the 'internet of things' (IoT).

“Over the past five or six years, the government has proven to be very clever about forging new streams of revenue for Malta in a country that has virtually no natural resources,” says Dr Marilyn Formosa, head of legal, PKF Malta. “It shows what is possible for the cannabis industry here.”

## CONSIDERABLE INVESTMENT INTEREST

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Since legalisation Malta Enterprise, the organisation in charge of issuing licenses to cannabis companies, has received 46 applications and already approved 20 of those, meaning 2020 looks like a very exciting year for the burgeoning industry.

More than simply indicating the government’s aptitude for nurturing new industries, Dr Formosa sees the expanding tech industry as something that could directly benefit new cannabis industry operators.

“We’ve been in talks with Malta-based companies that are creating IT solutions to help cannabis companies, and we’re in the process of brokering interactions between those kinds of organisations,” she enthuses.

Speaking at the [Cannabis Europa Conference](#) this summer, prime minister Muscat predicted that the industry could create 700 new full-time jobs and supplement Malta’s exports by over €900M (\$993m / £777m) by 2022. With such ambitious government backing and considerable interest from investors already on display, with smart execution the cannabis industry could offer a bright future for Malta.

Another example is Senator Mike Crapo, who is not a proponent of legalization, but in his role as Senate Banking Committee chairman, has recently changed his tune and provided vocal support for legislation that would allow banks to work with cannabis companies. Furthermore, the Safe Act recently overwhelmingly passed in the House of Representatives.

## NORTH AMERICAN MARKET WORKING THROUGH TIME OF FLUX

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The U.S. cannabis market was valued at [\\$11.3bn](#) in 2018 and predicted to enjoy a CAGR of 14.5% over five years. It is, however, experiencing a challenging period as it becomes embroiled in the country’s ‘[vaping crisis](#)’. Noam Hirschberger, a director of PKF O’Connor Davies in New York, asserts that this is chiefly an issue within the illicit market rather than legal cultivators and distributors, but the effect will be felt throughout the industry.

Despite the fact that the health issues are believed to centre around the use of [vitamin E acetate](#), a thinning agent found in black market THC-based vaping oils, prominent companies within the industry are feeling the effects. “Educating the public about the differences between legitimate and illicit vaping products is now more important than ever,” said Hirschberger.

Before the vaping crisis, perception of the industry and its legitimacy was on the rise, in some cases thanks to the addition of high-profile board members.

Former Speaker of the House of Representatives and prominent Republican John Boehner joined the board of Acreage Holdings in 2018, giving the cannabis investment startup a huge publicity boost and opening the door to a new world of investors. Following suit this year, Boehner’s colleague from across the aisle, former Senate majority leader Tom Daschle, joined the board of Northern Swan.

## INTERSTATE DISCREPANCIES

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As of 2019, [33 US states](#) have legalised cannabis in some form but the fact that it remains illegal at a federal level can cause confusion and inconsistency for companies, with each state having its own unique rules and regulations.

“I think it’s an unsustainable situation,” comments Hirschberger. He cites the ‘[States Act](#)’ as the countries best hope of legalisation. It would amend the Controlled Substances Act and exempt state-approved marijuana activity from federal enforcement.

Another key piece of legislation that is currently working its way through the system is the [Safe Banking Act](#), which aims to facilitate cannabis companies working with big banks and enjoying lending facilities as they seek to grow their operations.

Quite apart from the issues of lending and growth, there are more practical, everyday reasons that make this act important, with some states currently insisting on the sole use of cash for transactions.

Hirschberger comments: “At ground level, there have been considerable issues surrounding the huge amounts of cash involved in the industry, leaving dispensaries open to security concerns.”

The 'Safe Act', as it's known, is gaining momentum. Republican senator Mike Crapo, Senate Banking Committee chairman, has recently shifted his position and provided vocal support for the legislation. In addition, the act recently passed through the House of Representatives with a landslide victory. Next stop is the Senate, which could prove less receptive, but this early and comprehensive victory offers encouraging omens.

Across the border, Canada offers US companies the opportunity to list on a stock exchange, something that is not yet open to them on home soil. Timur Lidzhev, a director at PKF firm PFC Accounting in Calgary, has undertaken extensive work with one of the leading cannabis companies for this very reason.

It's not just US companies using Canada as a base for listing, the country's own market is predicted to enjoy considerable growth, from \$569m in 2018, the first year of legalisation, to nearly [\\$5.2bn by 2024](#).

December will see the legalisation of 'edibles' in Canada, a significant boost to the country's cannabis industry. Lidzhev can see incredible value in this imminent law change. "It's early days now but, in the near future, I think that edibles will account for more than 50% of the market in Canada," he says.

It's another market, though, in which he sees the greatest long-term potential in Canada. It's the sale of CBD oil-based health products that Lidzhev thinks will really take the market to the next level.

So far, he says, the legal cannabis industry has largely served existing customers from before it was legitimised. But CBD oil, with its purely medicinal values and wide-reaching applications in the world of health and beauty, could attract an entirely different customer base. With the global CBD market valued at [\\$462m](#) last year and expected to grow significantly in 2019, Lidzhev's prediction seems a sound one to make.

## A WORLD OF OPPORTUNITIES

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With offices around the world and involvement in the nascent cannabis business since the earliest days, PKF International is uniquely placed to advise investors in this exciting global industry.

Working with businesses around the world to broker relationships and assess new opportunities, PKF is a business tailor made to facilitate your journey into the world of cannabis investment. With experts ready to help you in any one of the locations listed below, give us a call to discuss your next step:

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