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# KANABO

Promising market, but fraught with risks

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Kanabo Group became the first company from the cannabis industry to get listed on London Stock Exchange's main market recently. Its initial public offering (IPO) was oversubscribed by over 300% according to its CEO, Avihu Tamir, indicating investor bullishness about it.

The global legal marijuana market is a fast growing one. The UK market alone is expected to grow multi-fold in the five years between 2019 and 2024, which shows the extent of opportunity available for investors.

Israel based Kanabo is a fledgling company in this market which began operations only five years ago, whose unique selling point is its metered vaporising device that allows inhalation of its CBD formulations for medicinal purposes. Market growth can be a big opportunity for Kanabo.

However, the future of the cannabis industry is fraught with risks too. Studies on positive impacts of medical marijuana are still in a nascent stage. Adverse indications can lead to regulatory restrictions that can impact market potential. The market is an untested one too, which suggests that the extent of consumer demand cannot be predicted with authority at present.

## Company Profile

### Background and Products

Kanabo started its business operations in 2017. It was founded by Avihu Tamir, who is also the company's CEO. Tamir had earlier founded a company named Teva Nature to import cannabis vapourisers to Israel. Teva Nature, as per Kanabo's website, is still a leading importer and provider of vaporisers in Israel.

It is from his experience in the cannabis industry, that Tamir saw a need for developing vapourising solutions. While Tamir's original background is in consulting, Kanabo's leadership team is made up of medical professionals in the cannabis industry.

Kanabo now provides cannabis based medical solutions through its vaporisation device, VapePod, which administers metered doses of its proprietary cannabis based oil formulations. The uniqueness of this device is that it allows for inhalation of

cannabis treatments, as opposed to smoking it. This is meant to provide a healthier alternative to smoking cannabis.

It also provides three over-the-counter cannabidiol (CBD) formulations, named Reload, Relax and Repair. As the names suggest, they assist in wellness, aimed at providing clarity, tension release, balance and to quieten the mind.

### Financials

As yet, Kanabo's revenues are under £100,000 annually. Numbers for 2020 are available only up to June, but going by the trends for the six months it would appear unlikely that they would cross the £100,000 mark, especially in the year of Covid-19 when the firm has been cautious about expansion.



It has made a gross profit in each of the years since its inception. However, the bulk of its expenditure is covered under research and development as well as administrative expenses resulting in operating losses. In 2019, for example, its R&D expenses were at £287,000. Its selling and marketing expenses were much higher at £907,000. In contrast, its gross profit was £37,000.

As a result, Kanabo has stacked up relatively big operating losses over the years (see table below).

<b>Kanabo's financials over the years (£,'000s)</b>				
	Six months ending Jun 30, 2020	Year ending Dec 31, 2019	Year ending Dec 31, 2018	Year ending Dec 31, 2017
Revenues from sales and services	14	82	54	38
Cost of sales and services	6	45	30	19
<b>Gross profit</b>	8	37	24	19
Research and development expenses	74	287	377	129
Selling and marketing expenses	--	206	161	39
General and administrative expenses	279	907	1026	91
<b>Operating profit/loss</b>	-345	-1157	-1378	-201

## ***Kanabo's plans***

The company's devices are available in the UK and Germany at present. It says that it is likely to get an EU-wide go-ahead as well in its IPO documents. It also aims to lead in emerging markets in the medical vapourisation segment overtime.

## **The IPO**

Investors were clearly looking forward to the IPO, which took place through the reverse takeover of Spinnaker Opportunities. The company managed to raise £6 million, which was significantly oversubscribed. It had an issue price of 6.5p and within the week of its debut, its share price had soared to almost 8x that number before coming off. Even now, however, it is at around 25p levels, a significant upturn compared to the issue price.



## Opportunities

### Growing global cannabis market

The global legal marijuana market is expected to show healthy annual growth rates over the rest of the decade. Research on the benefits of cannabis is still in its nascent stages, but it is said to positively impact ailments ranging from cancer to psychological disorders. The industry has already grown much in countries like Canada and the US. A number of cannabis shares are also listed on the exchanges.

More growth could happen in the next few years. The industry will mature. Attitudes around marijuana usage could get more relaxed. And recreational marijuana usage can become more widely permitted.

### UK Market

The UK market is growing too. According to Prohibition Partners, a London based cannabis research provider, the legal cannabis market in the UK is expected to grow from less than US\$200,000 in 2019 to US\$3billion by 2024.

Kanabo anticipates market growth in its prospectus too. It says that it believes that “the availability of prescription based medical cannabis...will continue to grow over time based upon current market data” in its primary markets of the UK and Germany. It bases this on the presence of an established market for CBD oils and vaporisers, which are available at retail stores. Besides this, medical cannabis also has higher acceptance.

With this as the background, opportunities for investors in the UK market are on the rise since the Financial Conduct Authority (FCA) has allowed public listing of medical marijuana shares some time ago.

MGC Pharmaceuticals, another cannabis drug research company providing treatment for epilepsy also debuted on the London Stock Exchange a week before Kanabo did, albeit as an AIM stock. Its IPO too has seen a good reception.

There are others in the pipeline too. One of them is World High Life, an investment company that focuses exclusively on buying or investing in companies in the cannabis industry. David Beckham backed Cellular Goods is another one.

Moreover, while recreational marijuana usage and production is still illegal, it may just be legalised overtime, going by the North American example.

## Risks

### Regulatory risks

There are risks here too, however. One of them is cannabis related regulations. Studies on medical benefits of marijuana are still in their early stages. There might be adverse reports at a later date, that can affect the global marijuana market.

An example of this is the e-cigarette market. E-cigarettes have been associated with hampered health as per the US Food and Drug Administration and have even been banned



in states like California, in the US. In fact, Kanabo itself points out that there is potential for a blanket measure because of this very challenge. It may result in restrictions on vaporisation devices too, even though an inhalation device is a very different one.

## **Lack of developed consumer market**

The consumer market for CBD products is also very new. As a result, it's unclear at present the extent of demand for the different products that will exist in various markets. While the North American example provides some indication, culturally there could be differences in how other markets react to them.

Additionally, given the fact that cannabis research is still in its early stages, consumers are likely to be sensitive to any adverse health effects published in the news.

## **Competitive market**

There are already a number of companies in the cannabis industry both in the UK and overseas. As the market grows, while there will on the one hand be an opportunity to capture a bigger share of the market, on the other hand the competition can also be expected to intensify.

M&A activity in cannabis is already visible. UK's GW Pharmaceuticals, which also provides treatment for epilepsy with the help of cannabis, was recently acquired by Jazz Pharmaceuticals, the NASDAQ listed Ireland based pharmaceuticals multi-national.

International companies, with longer track records and those that are better funded could in particular be competition for Kanabo. This can put Kanabo's potential growth at risk.

## **Outlook on Kanabo**

In sum, there are both opportunities and risks to consider for Kanabo. If Kanabo is indeed able to ride the medical marijuana wave, an investment in it can show fast growth. But it can also dwindle to almost nothing.

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