



Green ocean of opportunities

Creso Pharma Ltd (ASX: CPH) is a vertically integrated provider of cannabis and hemp-based products. It offers a wide portfolio of innovative solutions for therapeutics, nutraceuticals, animal health and topical applications through its subsidiaries in Canada and Switzerland. It has just secured major distribution partners for the sales of its products into various markets including the US, Pakistan and Philippines.

Investment case

Over the past few months, cannabis has garnered attention following a series of favourable legal rulings by Australia's Therapeutic Goods Administration, the Court of Justice of the EU, the UN and the US. Further, there has been a surge in positive consumer perception towards cannabis-based pharmaceutical products due to their scientifically-proven therapeutic benefits. In our view, these encouraging developments provide a significant growth opportunity to cannabis players. We believe that Creso is well-positioned to capitalise on these opportunities, underpinned by its global footprint, which includes access to the world's largest legal market for cannabis, through its Canadian subsidiary, Mernova Medicinal Inc.

Valuation of A\$0.49 per share

Using a DCF methodology, we value Creso Pharma at A\$0.49 per share base case and A\$0.68 per share bull case. We believe the stock will re-rate upon the occurrence of: 1) favourable regulatory changes; and 2) successful new product launches underpinned by a strong product pipeline 3) Mernova's growing revenues in retail. Please see page 23 for key investment risks.

Year to Dec (AUD)	2019A	2020A	2021F	2022F	2023F
Sales (mn)	3.6	2.4	7.4	14.2	27.3
EBITDA (mn)	(9.9)	(13.8)	(6.7)	(2.8)	2.7
Net Profit (mn)	(15.1)	(30.8)	(7.3)	(3.4)	2.1
EBITDA Margin (%)	nm	nm	Nm	nm	10.0%
ROA (%)	nm	nm	Nm	nm	8.2%
EPS	(10.5)	(8.3)	(0.7)	(0.4)	0.2
EV/Sales	5.0x	26.1x	26.1x	13.9x	7.2x
EV/EBITDA	nm	nm	nm	nm	71.9x
P/E	nm	nm	nm	nm	93.7x

Source: Company, Pitt Street Research

Share Price: A\$0.20

ASX: CPH

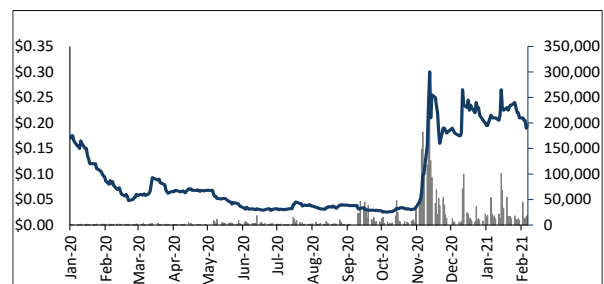
Sector: Healthcare

9 March 2021

Market Cap. (A\$ m)	190.7
# shares outstanding (m)	953.5
# shares fully diluted (m)	1,245.6
Market Cap Ful. Dil. (A\$ m)	249.1
Free Float	78.4%
52-week high/low (A\$)	0.47 / 0.02
Avg. 12M daily volume ('1000)	14,730.9
Website	www.cresopharma.com

Source: Company, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Refinitiv Eikon, Pitt Street Research

Valuation metrics	
DCF fair valuation range (A\$)	0.49 – 0.68
WACC	11.2%
Assumed terminal growth rate	2%

Source: Pitt Street Research

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Creso Pharma

Profit & Loss (A\$m)	2018A	2019A	2020A	2021F	2022F	2023F	2024F
Sales Revenue	0.6	3.6	2.4	7.4	14.2	27.3	52.4
Operating expenses	(16.5)	(13.5)	(16.2)	(14.1)	(17.1)	(24.6)	(42.8)
EBITDA	(16.0)	(9.9)	(13.8)	(6.7)	(2.8)	2.7	9.6
Depn & Amort	(0.0)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)
EBIT	(16.0)	(10.3)	(14.1)	(7.2)	(3.3)	2.2	9.1
Net Interest	(0.3)	(2.0)	(9.3)	(0.1)	(0.1)	(0.1)	(0.1)
Profit before tax	(16.3)	(12.3)	(23.4)	(7.3)	(3.4)	2.1	8.9
Tax expense	-	-	-	-	-	-	-
Minority	(0.1)	(0.3)	-	-	-	-	-
NPAT (Underlying)	(16.2)	(12.0)	(23.4)	(7.3)	(3.4)	2.1	8.9
Significant items	(0.5)	(3.0)	(7.4)	-	-	-	-
NPAT (Reported)	(16.8)	(15.1)	(30.8)	(7.3)	(3.4)	2.1	8.9
Cash Flow (A\$m)	2018A	2019A	2020A	2021F	2022F	2023F	2024F
Profit after tax	(16.8)	(15.3)	(30.8)	(7.3)	(3.4)	2.1	8.9
Depreciation	0.0	0.4	0.4	0.5	0.5	0.5	0.6
Change in trade and other receivables	(0.0)	(0.4)	(1.1)	(1.0)	(1.2)	(2.2)	(4.0)
Change in trade payables	1.4	0.3	0.1	2.7	2.3	3.8	6.6
Other operating activities	7.3	4.9	21.8	(1.1)	(1.1)	(1.7)	(2.9)
Operating cashflow	(8.2)	(10.2)	(9.6)	(6.2)	(2.9)	2.6	9.2
Capex	(7.4)	(3.3)	(0.4)	(0.4)	(0.9)	(1.6)	(3.1)
Other investing activities	3.2	-	(0.4)	-	-	-	-
Investing cashflow	(4.1)	(3.3)	(0.8)	(0.4)	(0.9)	(1.6)	(3.1)
Dividends	-	-	-	-	-	-	-
Equity raised	1.4	9.7	12.5	6.0	-	-	-
Debt drawdown (repaid)	2.4	1.3	4.9	-	-	-	-
Other financing activities	2.4	(1.0)	(3.9)	-	-	-	-
Financing cashflow	6.2	10.0	13.5	6.0	-	-	-
Net change in cash	(6.1)	(3.5)	3.0	(0.7)	(3.7)	0.9	6.1
Cash at End Period	6.4	2.8	5.9	5.2	1.5	2.4	8.5
Net Debt (Cash)	(3.6)	0.4	(2.8)	(1.9)	1.8	0.8	(5.2)
Balance Sheet (A\$m)	2018A	2019A	2020A	2021F	2022F	2023F	2024F
Cash	6.4	2.8	6.0	5.2	1.5	2.4	8.5
Total Assets	22.3	22.7	19.1	20.6	19.4	25.3	40.8
Total Debt	2.8	3.2	3.3	3.3	3.3	3.3	3.3
Total Liabilities	5.8	5.4	5.5	8.2	10.5	14.3	20.9
Shareholders' Funds	16.5	17.3	13.7	12.4	8.9	11.0	20.0
Ratios	2018A	2019A	2020A	2021F	2022F	2023F	2024F
Net Debt/Equity (%)	-21.9%	2.5%	-20.4%	-15.7%	19.9%	7.7%	-26.2%
Return on Asset (%)	nm	nm	nm	nm	nm	8.2%	21.9%



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Introducing Creso Pharma, ASX: CPH

Creso Pharma (ASX: CPH) is a Sydney-based, vertically integrated provider of cannabis and hemp-based products for therapeutics, nutraceuticals, animal health, recreational use and topical applications as well as recreational use in some jurisdictions. Driven by recent advancements in scientific research, which have brought to light the various benefits of cannabis, both therapeutic and medical, the global market for cannabis-based products has been growing rapidly. Further, governments across the globe are relaxing regulations against the use of cannabis, thereby providing a significant growth impetus to this industry.

What is Creso's current positioning?

The company's operations are spread across the globe, with subsidiaries in Switzerland and Canada. Its global rights to a number of unique and proprietary innovative delivery technologies make the company well-positioned to benefit from the 'cannabis revolution'. Creso boasts a strong portfolio of trademarks and brands and also has a diverse and innovative product portfolio across segments, with a robust product pipeline. Further, it continues to expand its distribution footprint across the globe with distribution rights in various countries, including Europe, Uruguay, Latin America and soon Pakistan. It is also exploring opportunities to further expand its reach in Southeast Asian countries, such as the Philippines, Vietnam and Bangladesh.

Creso has a portfolio of proprietary innovative delivery technologies, a robust product pipeline, and distribution rights in global markets

Creso secures a major distribution partner for a minimum order quantity of up to A\$2.48M

On 15 February 2021, Creso announced to the market that it has landed a major distribution partner, Route2 Pharm Pvt Ltd (Route2)¹ for the rollout of its innovative hemp derived therapeutic product lines, namely CannaQix10, Cannaqix50 and CannaDOL into various potential target markets.

The 3-year deal gives Route2 the exclusive distribution rights of Creso's products into Pakistan and Philippines, as well as non-exclusive distribution rights into many other potential target markets². Importantly, the deal embeds a requirement for Route2 to achieve minimum order quantities of c.A\$2.48M in the first contractual year³.

The company believes the signing of this distribution deal could potentially allow it to tap into a vast addressable market of over 750 million people. We believe this is possible given that Route2 has extensive experience of successfully bringing new products to market. Moreover, we think the recent regulatory breakthrough⁴ in allowing Pakistan to enter the billion-dollar Cannabidiol market provides a structural tailwind to Creso and thereby leads to a speedy rollout of its innovative products in the Pakistan market. This in turn should help drive an uplift in the company's revenues, in our view.

Creso to break into the US market

Early March 2021, Creso inked a non-binding letter of intent with a major US distribution partner, CERES Natural Remedies (CERES) for the distribution and sales of its CBD and hemp animal health products anibidiol in the US market, subject to federal legalisation of CBD in the US.

¹ Route2 is a subsidiary company of Route2Health, which is a leading nutritional supplements company with over 30 years of pharmaceutical sciences experiences.

² Other potential markets include Cambodia, Afghanistan, Azerbaijan, Bangladesh, Georgia, the Maldives, Myanmar, Tajikistan, Turkmenistan, Uzbekistan, and Vietnam.

³ Contractual year being defined as being 1 January to 31 December.

⁴ <https://www.hindustantimes.com/world-news/in-landmark-decision-pakistan-approves-industrial-use-of-cannabis-and-hemp/story-BNWRpToqe0eMKBASrnqg8O.html>



Mernova provides Creso the relevant infrastructure to grow internationally

CERES is an established distribution company headquartered in Vermont and specialises in plant-based remedies and CBD and hemp products for the US market. This makes us believe that the commercial arrangement will allow Creso to leverage on CERES' logistical expertise and established network relationships to help drive the sales of its anibidiol animal health products into the US market.

CERES expects to achieve a target of US\$5M in anibidiol sales over the first two years within the US market, subject to federal legalisation of CBD in the US which both Creso and CERES believe will occur in 2021.

Mernova Medicinal Inc. – Creso's gateway to global success

In July 2017, Creso acquired Mernova Medicinal Inc – a licenced cannabis producer in Canada – thereby gaining access to the world's largest legal market for cannabis products. Additionally, this takeover allowed Creso to become vertically integrated, through the acquisition of a 24,000 sq ft, Health Canada GPP-compliant⁵, cannabis cultivation and processing facility in Nova Scotia, Canada. In May 2020, Mernova received its sales license from Health Canada, allowing it to sell its products directly to medical patients and retail customers in Canada's medicinal, and rapidly growing recreational, markets. Since then, it has received several purchase orders for its newly launched recreational cannabis brand – 'Ritual Green'.

Mernova is in the advanced stages of securing its EU GMP certification – which is a prerequisite for the expansion of Mernova-produced products into European markets – and is also growing its product lines, with Hash products to be sold under the 'Ritual Black' brand, and Pre-Roll Joints to be sold under the 'Ritual Sticks' brand, which are both expected to launch in Q1 2021. Moreover, we believe that the company's proximity to the US market will enable it to take advantage of favourable regulatory changes that could arise under Joe Biden's administration, such as the decriminalisation of cannabis.

Why is Creso undervalued?

Due to the termination of the proposed acquisition by TSX-listed PharmaCielo in November 2019, and the COVID-19-led downturn in the cannabis stock market, Creso's share price has been under pressure. However, laws governing the use of cannabis are becoming less stringent across the US, Canada and Australia, and this should drive re-rating of the stock. Its unique product portfolio and robust pipeline (cannabis 2.0) will likely enable it to take advantage of this growth opportunity.

Ten reasons to look at Creso

- 1) Creso, a vertically integrated cannabis company, has a **diverse innovative product portfolio** of high-quality, 'Swiss-made', GMP-certified products, developed with pharmaceutical expertise and methodological rigour. Further, eight of the products have already been commercialised and are actively being sold in several countries globally.
- 2) The Company's diverse branded product portfolio targeting human and pet healthcare markets, is **focussed on four categories: therapeutics, nutraceuticals, animal health and topicals**.
- 3) **It has distribution arrangements with renowned firms**, including Virbac Switzerland, Lupin Pharma Dynamics South Africa and more recently Route2 Pharm and CERES Natural Remedies. More commercial

⁵ GPP is 'Good Production Practice'.



- agreements are on the anvil in newer markets, to expand the company's product penetration internationally.
- 4) The company has global rights to a number of **unique and proprietary innovative delivery technologies**, which enhance the bioavailability and absorption of cannabinoids.
 - 5) Creso owns a license to produce cannabis at a facility operated by its wholly owned subsidiary, Mernova Medicinal Inc, located in Nova Scotia, Canada. **This scalable facility** is well-positioned to cater to the high demand in the Canadian cannabis landscape, which opens up significant revenue opportunities. **The Mernova unit is already generating revenue and continues to win purchase orders, particularly repeat orders**, which augurs well for the company.
 - 6) **Mernova is awaiting EU GMP certification**, post which, subject to regulatory approval, it is expected to begin selling its high-quality cannabis flower, and hash, in the established and growing consumer markets of the EU, particularly Germany and Switzerland. Apart from its high-quality cannabis flowers, Mernova expects to launch premium Hash and Pre-Roll Joint products under the brands 'Ritual Black', and 'Ritual Sticks', respectively, in Q1 2021, and has additional **cannabis 2.0 products currently under development**.
 - 7) **With regulations being relaxed in several countries across the globe**, the medical cannabis industry has been witnessing rapid growth. As a result, the worldwide medical cannabis market is projected to grow at a 15.4% CAGR until 2025 as per forecasts by Market Research Future. Given **the rising scientific evidence on the efficacy of cannabis-based treatments**, the company is well-placed to lead the industry with its robust product portfolio.
 - 8) Although the proposed takeover bid by PharmaCielo, which valued Creso at 63 cents per share as at 4 June 2019, did not proceed, it depicts the inherent business strength of Creso. **The company remains a strong player and an M&A participant in the cannabis space**.
 - 9) In our view, the robust management team and board, **with extensive experience in large pharmaceutical firms and the medical cannabis industry**, should support Creso in its commercialisation journey, and help it secure key certifications and strategic partnerships.
 - 10) We believe **Creso should be valued higher than its current market value**. In the medium term, re-rating will be driven primarily by 1) consistent and growing revenue generation for the Mernova unit; 2) promising regulatory changes by the US, the EU, Australia and the UN; 3) successful new product launches underpinned by a strong product pipeline.

Cannabis: A high-growth play in pharma

Cannabis has been used for its medical and therapeutic properties as far back as 10,000 years ago in Japan, and 5,000 years ago in Romania. Unfortunately, the early 20th century saw various laws and regulations enacted against the use of the drug, making it virtually prohibited in most countries. However, with increasing recognition of its therapeutic benefits and the high cost of prohibition, the global perception of cannabis is beginning to shift.

But what is cannabis? Cannabis is a genus of flowering plants in the family *Cannabaceae*. There are two major species of the plant that produce THC, *Sativa* and *Indica*, although some scientists currently claiming these two species are one and the same. *Cannabis indica* has traditionally been used for



Hash production, but more recently, it has been consumed as dried flower. *Cannabis sativa* has traditionally been used as a source of industrial fiber, seed oil, food, and medicine. Owing to its higher yield, shorter stature, shorter growing cycle, and the fact it is easier to grow in comparison with *Sativa*, *Indica* and Indica-dominant hybrids currently account for most of the global medical cannabis market.

How is cannabis sourced? Cannabis is generally grown indoors in greenhouses, or outdoors, and then sold as dried flower, or processed as per the benchmarks laid out by the pharmaceutical industry and relevant regulatory bodies, to produce cannabis-derived products for medical and/or recreational use.

What form do cannabis medicines come in? Generally, medical cannabis providers sell cannabis as dried flower, or formulate their products as oil extracts, as oil from cannabis can be rich in cannabidiol (CBD), and/or THC, with CBD providing many benefits while being non-psychoactive, and THC having multiple therapeutic uses. Oils are useful because they make doses easy to calculate in terms of the CBD/THC balance. Medical cannabis can also be supplied as other forms of extract, such as Hash, Rosin, etc., or in other forms such as joints, also known as marijuana. We released a [*special report*](#) on cannabis and hemp in March 2020, providing in-depth insights into the mechanics of this new growth opportunity.

Shift in global views towards cannabis

Over most of the 20th century, the stigma associated with cannabis restricted its medical use. However, continued advancements in scientific research led to the discovery of its therapeutic benefits.

What gives cannabis a bad reputation? *Cannabis* contains two basic chemicals called cannabinoids: CBD and delta-9 THC. THC gives *Cannabis* its psychoactive properties, and these properties resulted in it being banned in most countries in the early 20th Century.

CBD has numerous benefits. CBD indirectly stimulates the body's endocannabinoid system, which is responsible for regulating many processes, including immune response, communication between cells, appetite, metabolism and memory. CBD produces its own cannabinoids rather than directly interacting with cannabinoid receptors (CB1 and CB2). Various studies have indicated that it has therapeutic potential in several areas, such as mental health and chronic pain.

Change in consumer perception. Positive results from studies, as well as popularisation of use cases that showcased the tremendous benefits of CBD, have started to change public perception. Two stories in particular gained a lot of attention:

- Skin cancer survivor, Rick Simpson stated in 2003 that applying cannabis-extract oil to cancer spots on his skin, cleared the spots within days. This oil, now widely known as “Rick Simpson Oil” or “RSO”, has been found to contain higher levels of THC than most other medical extracts.
- Charlotte Figi, a young girl with Dravet Syndrome (a form of chronic epilepsy), is famous for using CBD oil to prevent seizures (2012 onwards).

Since these cases became public, there has been an increase in the adoption of medical cannabis over the past decade.

Introduction of favourable laws by various countries helped pave the way for adoption of cannabis. The past few years have seen significant changes in laws regulating the use of cannabis. Canada has been at the forefront of the cannabis legalisation movement, for both medical and recreational use. In

Positive consumer perception to drive adoption of cannabis-based drugs

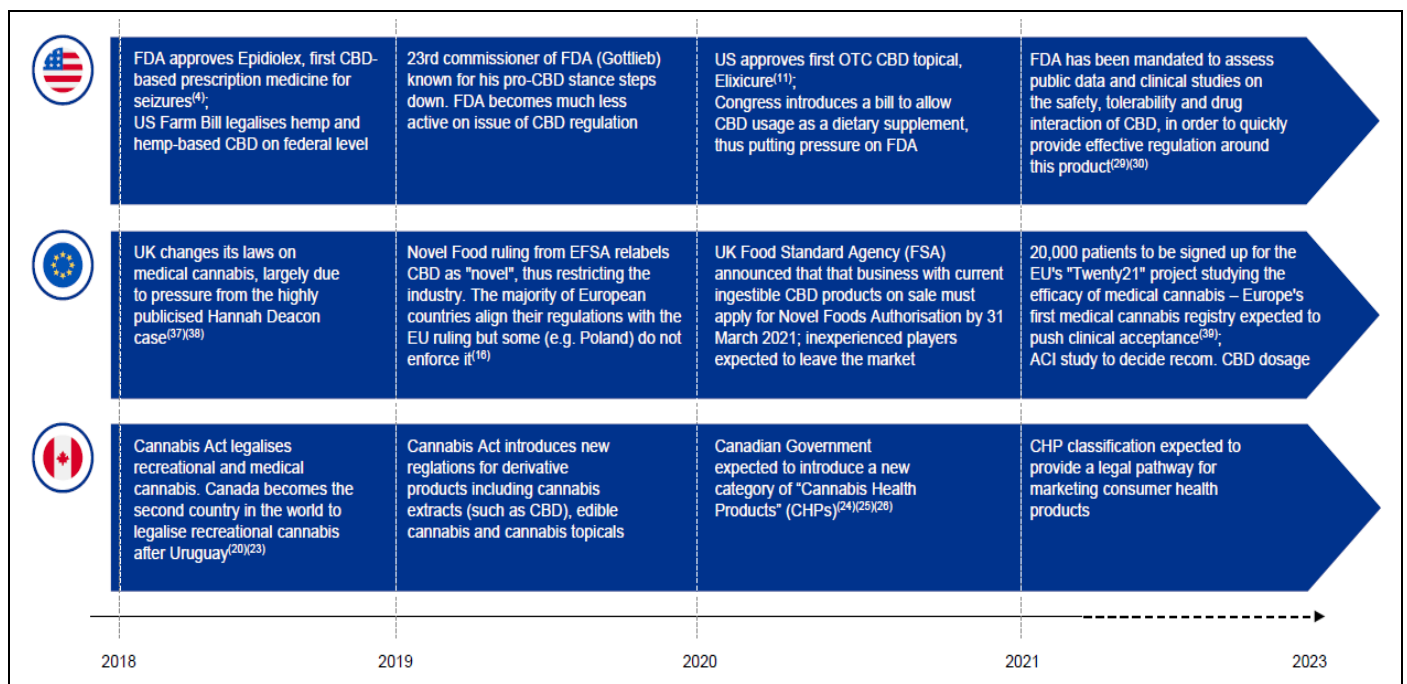


Supportive legislation in major economies is another growth catalyst

2011, the country adopted the Marijuana for Medical Purposes Regulations (MMRP), which allowed possession and production of cannabis for medical purposes. Later, in 2018, Canada allowed the commercial sale and consumption of cannabis for recreational and medical purposes. The US, too, passed the Farm Bill 2018, which legalised the production of hemp (low THC strains of Cannabis sativa) as an agricultural commodity.

More recently, in December 2020, the UN’s central drug policy-making body, the Commission on Narcotic Drugs, voted to remove cannabis from Schedule IV of the 1961 Single Convention on Narcotic Drugs. This decision is expected to support the acceptance of the medical and therapeutic benefits of cannabis, worldwide. In our view, as countries continue to recognise the importance of cannabis, and consequently relax laws governing its commercial sale and use (Figure 1), the cannabis industry should witness tremendous growth in the medium–long term.

Figure 1: Relaxation of CBD regulations



Source: KPMG – 'New Kid On The Block? A Look At CBD In Consumer Health' (2020)

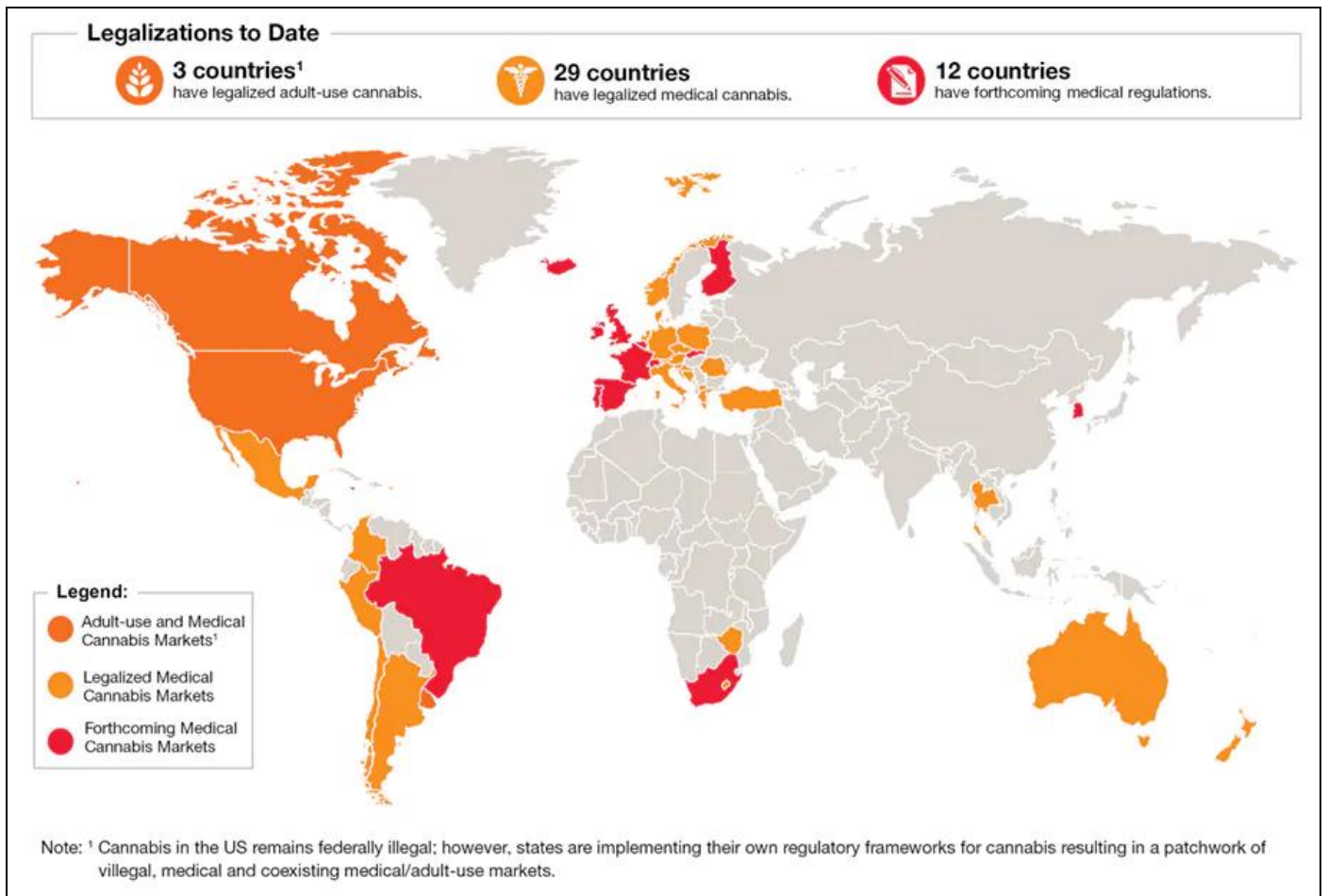
Medical cannabis sector has been witnessing significant growth

The movement that started in Canada is now spreading to other countries. Increasingly, cannabis is finding its way into medical applications, not just in North America, but also in Australia, Europe and Latin America (Figure 2). As per a KPMG report⁶, the global CBD market has grown 43% since 2016, reaching US\$8.2bn (by volume) in 2019. KPMG expects the consumer health market for CBD to reach US\$43.8bn by 2027, growing at a CAGR of 28.4% over 2016–2027. This will be driven by rising awareness and acceptance of cannabis-based medical solutions among the public.

⁶ 'New Kid on the Block – Insights on CBD in the consumer health market'; KPMG Germany (2020).



Figure 2: Global market for medical cannabis



Source: PwC's Canada cannabis series

Cannabis has multiple medical applications. Research on cannabis has revealed its potential to treat various medical conditions, including epilepsy, schizophrenia and other psychological disorders, as well as Type 2 diabetes, inflammatory bowel disease, various forms of cancer, and drug dependency.

Increasing instances of medical conditions, particularly central nervous system (CNS) disorders and cancers, are expected to drive the growth of the medical cannabis market. As per the WHO, epilepsy is one of the most common neurological diseases globally, with roughly 5 million people diagnosed with it every year⁷. Another report by Market Research Future states that the global epilepsy market is expected to grow at a CAGR of 8.2% over 2018–2023, and reach US\$9.5bn⁸.

Scientists have found that THC and CBD can slow the growth, or even kill certain types of cancer cells in lab dishes. Studies have also shown that medical cannabis helps alleviate side effects related to cancer treatments, such as chemotherapy.

As per the latest data from the International Agency for Research on Cancer (IARC), cancer is a leading cause of death globally, and was responsible for 10

⁷ 'Epilepsy – Fact sheet', WHO (June 2019).

⁸ Market Research Future, "Epilepsy Market Carries Exceptional Growth 9.5 Billion USD by 2023 in Therapies, Drugs, Treatment and Management", Medgadget (May 2019).



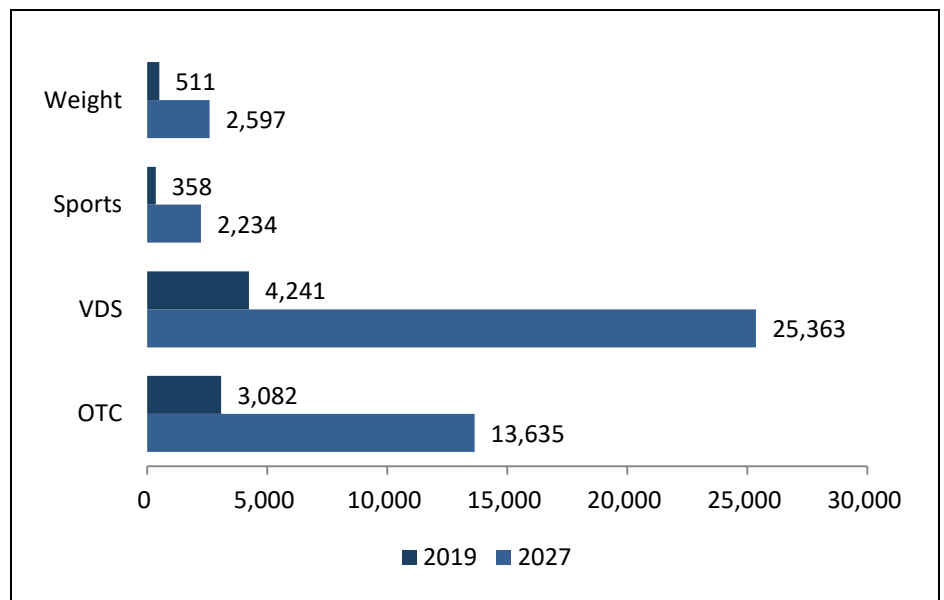
Consumer health market for cannabis is expected to witness significant growth in the medium term

million deaths in 2020⁹. Moreover, the IARC estimates that by 2040 there will be 30.2 million new cases of cancer globally.

In our view, this provides a substantial growth opportunity to cannabis drug developers such as Creso. Currently, CBD accounts for 3.2% of the global consumer health market¹⁰. We believe that as acceptance of the medical benefits of cannabis continues to grow, the market share of cannabis will grow in tandem.

The CBD market for consumer health is largely divided into two categories: Over-the-counter (OTC) drugs and nutraceuticals. As per KPMG’s report, the CBD consumer health market is expected to grow significantly over 2019–2027, across the following sub segments: OTC, vitamins and dietary supplements (VDS), sports nutrition, weight management and well-being products (Figure 3).

Figure 3: CBD consumer health market size by sub segments (US\$m)



Source: KPMG – ‘New Kid On The Block? A Look At CBD In Consumer Health’ (2020); Pitt Street Research

Through its Therapeutics and Nutraceutical segments, Creso targets both sub segments of the consumer health market. Hence, we believe that the company is well-positioned to leverage this growth opportunity.

⁹ ‘Cancer – Fact sheet’, IARC (2020).

¹⁰ ‘New Kid on the Block – Insights on CBD in the consumer health market’; KPMG Germany (2020).



Broad-based innovative product portfolio

The company is developing products in four major areas: Therapeutics, Nutraceuticals, Animal Health and Topicals

Creso’s portfolio of cannabis and hemp-based products spans four major areas: therapeutics, nutraceuticals, animal health and topicals. The Company’s diversified, branded product portfolio consists of multiple products catering to both humans and pets. Thus far, 8 CBD products have been commercialised, with another 5 pending, in 2021/22. In terms of product-wise revenue mix (Figure 4), packaged medical cannabis/dried cannabis flower accounted for ~76%/24% of the company's overall revenue from products in 2019. The company’s products are now sold across the globe, including Canada, Europe, Africa, Latin America and the Asia Pacific region (Figure 5). The products have been developed using standardised dosing and formulations by leveraging pharmaceutical expertise, adhering to GMP standards, and and deploying innovative delivery technologies. Creso leverages its partnerships with leading global companies for product development, manufacturing, and distribution.

Figure 4: Product-wise revenue mix (2019)

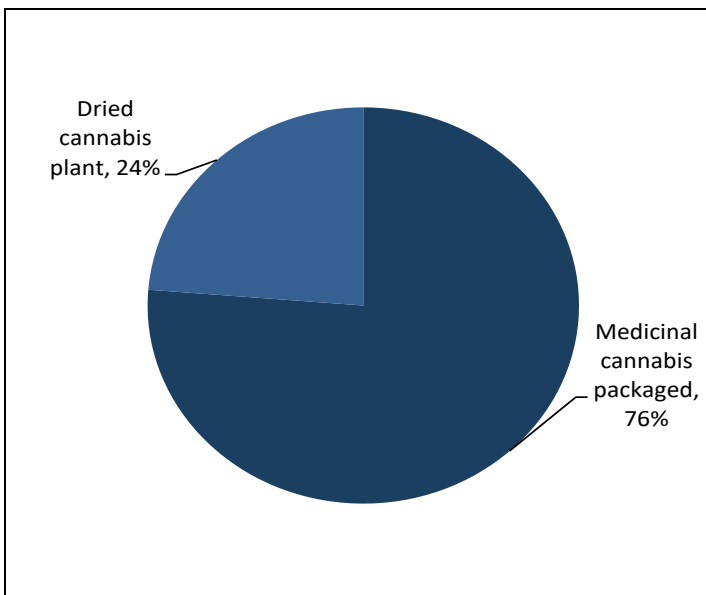
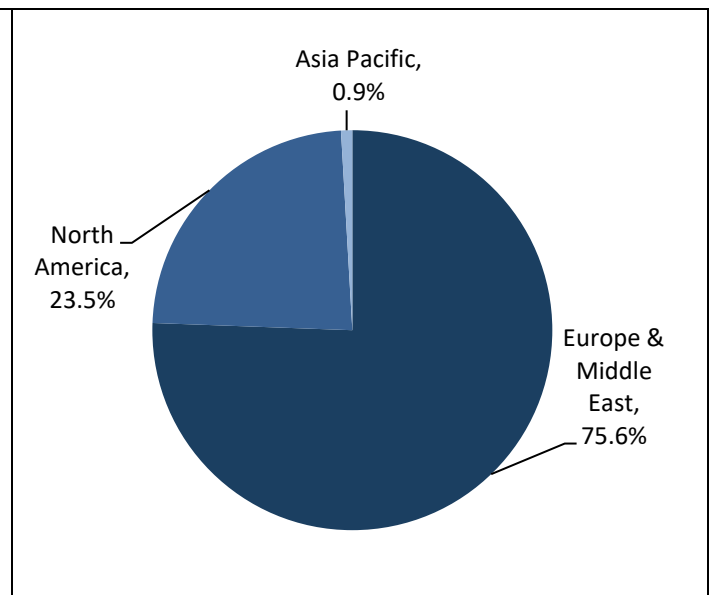


Figure 5: Geography-wise revenue mix (2019)



Source: Company

Creso has a robust product portfolio revolving around four key pharmaceutical categories

CBD has shown therapeutic effects for a number of diseases and conditions

Therapeutics: Cannabinoids contained in the cannabis plant, including CBD, THC, and others, have shown therapeutic effects for a number of diseases (Figure 6). Cannabinoid-based therapies work differently, and have been known to be effective in individuals whose needs remain unmet by conventional therapies. Notably, there exists a wide scope of medical applications for cannabis, with treatment options for patients seeking anti-inflammatory, anxiolytic, analgesic, anti-epileptic, anti-nausea, neuroprotective and anti-oxidant effects without psychoactive interference. As per Market Research Future’s estimates, the global medical cannabis market is projected to reach US\$52.4bn by 2025, growing at a CAGR of 15.4%. Creso offers advanced technology for cannabis-based drug delivery through sophisticated products, such as cannaQIX. cannaQIX 50 (Figure 7) is a CBD-



Creso offers superior, advanced delivery methods for medical cannabis, through sophisticated products such as cannaQIX

based, full-spectrum hemp extract, medical cannabis buccal lozenge formulation with vitamins and minerals, to aid in the management of chronic pain. The product has already been launched in New Zealand, Brazil and Australia. Another great Creso product is medical CBD oil, which is high-grade therapeutic CBD oil containing no THC. It targets chronic pain in humans and has been launched in New Zealand and Australia.

Figure 6: CBD has therapeutic value for many diseases

1	2	3
Therapeutic benefits	Potential treatment of:	For pets:
Anti-inflammatory	Anxiety/Stress Disorders	Animal studies and extensive in vitro research suggest that CBD may have anti-inflammatory effects, may stimulate and regulate appetite, and may modulate anxiety and pain - without psychoactive effects
Anti-convulsant	Metabolic Disorders/Diabetes	
Anti-oxidant	Neuro Inflammation	
Anti-emetic	Neurological Disorders/Epilepsy	
Anxiolytic	Oxidative Injury	
Anti-psychotic	Nausea	
	Schizophrenia	

Figure 7: Products in the Therapeutics space



Source: Company

The global nutraceutical market is expected to reach ~US\$722bn by 2027

Nutraceuticals: The global nutraceutical market presents a plethora of opportunities, as it is expected to post a CAGR of 8.3% over 2019-2027 to reach US\$ 722.5bn, according to estimates by Grand View Research. Creso remains focussed on the continued expansion of its nutraceutical portfolio. The company’s cannaQIX family of products consists of cannabinoid formulations that help reduce stress, manage sleep, and support mental and nervous function in humans. The cannaQIX product line has been launched in various markets, with the company having reached the milestone of selling 2.5 million cannaQIX lozenges globally – representing over 100,000 packs sold since its launch in April 2018. Notably, Pharma Dynamics has launched this Creso developed product (cannaQIX regular) under the Cannamics brand in South Africa’s major retail chains (Figure 8). Likewise, cannaQIX 10, a sugar-free food supplement which contains CBD from full-spectrum hemp oil extract, in addition to vitamins, and minerals, is currently being sold in Switzerland, Liechtenstein, and the UK.

Figure 8: Products in nutraceuticals space



Source: Company



Exponential growth expected in the global veterinary CBD market due to the rising trend of the 'humanisation' of pets

Animal Health: CBD from the hemp plant is as effective as a supplement in animal feed as it is beneficial for humans, owing to our shared endocannabinoid system. According to Market Research Future's estimates, the global veterinary CBD market is expected to witness a CAGR of 123% over 2019–2025. This anticipated exponential growth can be attributed to the rising global trend of the 'humanisation' of pets.

Creso's management is exploring ways to further unlock the animal wellness and health market given the significant need for feed products targeting animal stress, anxiety and age-related ailments. The animal health product line anibidiol has already gained traction and the product (the first Swiss complementary feed for companion animals) contains natural hemp extracts in an innovative granular formulation (Figure 9). The company has also achieved the milestone of selling over three million doses in Europe since the product's launch in 2017, which is estimated to have benefitted over 100,000 dogs. In conjunction with Virbac Switzerland, Creso has already launched its new anibidiol Oil 500 for pets (supports their life cycle management process). Post changes to the regulatory classification of hemp oil in animal products in Europe, Creso is well equipped to work within the limitations of the reformulation process.

Figure 9: Products in the animal health space



Source: Company

Topically applied Creso cannabinoid products leverage the endocannabinoid system to improve skin health

Topicals: Creso's topical products, which are rich in cannabinoids, leverage the endocannabinoid system to improve skin health and appearance without the use of harsh chemicals. The receptors for cannabinoids are spread throughout the body, including the skin, and can effectively reduce oil secretion while simultaneously acting as an anti-bacterial agent and antioxidant. cannaDOL (Figure 10), a CBD-based functional topical with essential oils, addresses the analgesic need in sports-related muscle injuries, arthritis, and osteoarthritis. This product range follows a dual action application concept of cooling and heating, formulated to activate metabolic activity, and promote healing of injuries. cannaDOL was launched in Germany and select European countries, in March 2020. Likewise, 'cannaQIX ORAL CARE' is a sugar-free oral product in an innovative buccal formulation that contains CBD, mint, and sage-derived essential oils, to manage stress, and oral hygiene.



Figure 10: Products in the topicals space



Source: Company

New products, new markets

Creso has an active pipeline of products that are scheduled to be launched in the near to medium term. Various R&D initiatives are underway across both the Animal Health and Nutraceutical divisions in order to create novel commercialisation opportunities. Over the years, Creso has been pursuing strategies to enter into international distribution agreements with leading global companies in a number of new markets. The company has distribution agreements in several countries, including Switzerland, Australia, Uruguay, South Africa and more recently Pakistan and the US, and is focused on growing its global footprint by entering new markets via distribution agreements and collaborations.

Amid the COVID-19 crisis, Creso has continued to expand its global distribution footprint. In April 2020, Creso announced plans to collaborate with two Pakistan-based companies to supply its market-leading product range in the country. It is also planning to explore collaboration opportunities in other key Southeast Asian markets including Afghanistan, Bangladesh, the Philippines and Vietnam.

On 15 February 2021, Creso announced to the market that it has landed a major distribution partner, Route2 for the rollout of its innovative hemp derived therapeutic product lines, namely CannaQix10, CannaQix50 and CannaDOL into various potential target markets, including Pakistan and Philippines.

In June 2020, Creso signed a commercial agreement with DHS Business International for distribution of the company's CBD products in the Brazilian retail market.

Further, in the EU market, the company executed a commercial contract with DHS Business Portugal in August 2020, to launch Creso's CBD products in the Portuguese and Spanish markets in 2021. In October 2020, Creso also bagged a second purchase order worth ~A\$320,000 from South Africa-based Pharma Dynamics. Its cannaQIX product is being sold under the Cannamics brand in South Africa, and follows its successful launch in the South African market in March 2020, through Pharma Dynamics.

In December 2020, the company received regulatory approval from authorities in Uruguay to market its line of CBD animal products in the South

Creso to launch its CBD products in the Portuguese and Spanish markets in Q1 2021



American country. The approval was secured through its commercial partner Adler Laboratories Uruguay, and the first purchase order is expected to be delivered in Q1 2021. During the same month, Creso also entered into an agreement with Martin & Pleasance to capitalise on opportunities to supply CBD products to the Australian market.

Global footprint through various cannabis ventures

Creso’s strategy is to build a business with a global footprint. To facilitate global operations within the cannabis industry, it has subsidiaries in Switzerland and Canada. Its wholly owned Swiss subsidiary, Creso Pharma Switzerland GmbH (Figure 11), is actively engaged in developing, producing, and marketing cannabis- and hemp-derived therapeutic-grade nutraceuticals, and medical cannabis products globally, with a wide range of applications in the human and animal health domains. Creso’s intellectual property comprises trademarks and brands, all owned by the Swiss unit. This provides access to dedicated technical know-how and manufacturing technologies, key to Creso’s unique products. Notably, Creso Pharma Switzerland GmbH owns 16 trademarks registered in multiple countries across the EU region.

Creso expanded into the Canadian market with the acquisition of a 100% stake in Mernova Medicinal Inc., in July 2017. As a result of this strategic acquisition, Creso became the only Australian cannabis company with direct exposure to the world’s largest legal medical cannabis market, which has since expanded to allow retail recreational sales, as of October 2018. It also enabled Creso to rationalise and vertically integrate its supply and production chain through the addition of a Health Canada GPP-compliant cultivation and production facility (as part of the deal). Mernova is located in Nova Scotia, and is optimally situated to the Canadian, US and European cannabis markets. It owns a 24,000 sq ft world-class, cannabis cultivation and production facility, which is scalable to 200,000 sq ft. This unit is already generating revenue, and is in the advanced stages of securing the EU GMP certification.

Creso Pharma expanded into the Canadian market with the acquisition of Mernova Medicinal Inc. in 2017

Figure 11: Core wholly owned subsidiaries of Creso

Subsidiary	Location	Brief Description	Medicinal Cannabis	Nutraceuticals	Animal Health	Cosmetics	Lifestyle/ Adult Recreational
Creso Pharma Switzerland GmbH	Switzerland	Development , production and global marketing of cannabis and hemp derived products	✓	✓	✓	✓	
Mernova Medicinal Inc	Canada	Indoor cannabis cultivation facility built to Health Canada GPP, scalable to 200,000 sq ft	✓	✓	✓		✓
Kunna S.A.S	Colombia	Colombian medicinal cannabis group that produces, manufactures, markets and exports cannabis derivatives and products	✓				

Source: Company

Within a short span, Creso has emerged as a leading global cannabis player

Creso Pharma, founded in November 2015, incorporated Creso Pharma Switzerland GmbH as a wholly owned subsidiary in April 2016. This entity was primarily formed to run the company’s operations in Europe to develop and commercialise its therapeutic products. In October 2016, the company commenced trading on ASX post raising A\$5m through an IPO. It also acquired 100% share capital of Slovakia-based firm Hemp-industries s.r.o during the

Creso Pharma raised A\$5m through an IPO in October 2016



month. Creso established cannabis growing operations on certified organic farms in Slovakia through this wholly owned subsidiary. However, it announced its plan to divest Hemp-industries in July 2018, and eventually completed the sale in March 2019.

In March 2017, Creso signed a Letter of Intent (LOI) with Domaco Switzerland to develop and commercialise new hemp-derived nutraceutical products for human and animal health. In May 2017, it became the first company to import medical cannabis into Australia. The key highlight of the year was the acquisition of Mernova Medicinal Inc., in July 2017. With Mernova in its kitty, Creso became the only Australian cannabis company with direct exposure to the world's largest legal medical cannabis market, which has since expanded to allow retail recreational sales, beginning in October 2018. Other significant milestones achieved in 2017 included the launch of anibidiol in Switzerland by Creso and its commercial animal health global partner Virbac, and a proposed acquisition of Kunna Canada and its wholly owned Colombian cultivation facility.

In 2018 Creso formed a joint venture (JV) with Canadian cannabis investor LGC Capital and British brewer Baltic Beer Company, to capitalise on the emerging cannabis- and hemp-derived beverage markets. Creso held a 33.3% share in the JV firm, CLV Frontier Brands, a business which developed terpene-infused beers and adult soft drinks in Estonia. However, in March 2019, Creso decided to cease funding the operations of the JV owing to the significant cost required to maintain a sustainable business.

In May 2018, Creso announced plans to foray into the strategic Israeli medical cannabis market through a binding JV agreement with Cohen Propagation Nurseries. As per the agreement, Creso held a 74% stake in the JV, which was incorporated to operate a medical cannabis growing facility in Israel. Subsequently, the Cohen Group exited the JV agreement in March 2020.

2019 turned out to be an eventful year for Creso, with the company receiving a licence to cultivate cannabis, through its Canadian subsidiary Mernova, in February 2019. It commenced cultivation of premium cannabis clones in April 2019. During the same month, it won a licence to start exporting its first medical cannabis product into Brazil. In addition, in April 2019, Creso executed a distribution agreement with Burleigh Heads Cannabis, to import and distribute cannaQIX50 in Australia.

In May 2019, Creso harvested its first cannabis crop at Mernova, and revenue generation began post the sale of the dried cannabis flower in July 2019. It is worthwhile to mention that in June 2019, Creso was set to be acquired by a Toronto-based cannabis company PhamaCielo for A\$122m. However, the proposed acquisition did not proceed as the independent expert's report dated 1 November 2019 from BDO Corporate Finance (WA) Pty Ltd concluded the PhamaCielo's share offer was unreasonable to the company's shareholders. Further, in August 2019, Creso signed an agreement with Pharma Dynamics, a leading South African pharma company, to distribute the cannaQIX range of products in South Africa. In September 2019, Mernova received a processing licence from Health Canada allowing it to expand its offerings beyond dried flowers to include cannabis derivatives.

2020 began on a positive note as Creso announced the achievement of a key technological breakthrough in February, which will be utilised to extend the cannaQIX human health product line. In May 2020, Mernova was granted a Sales License by Health Canada, and in August 2020, the company made a number of strategic changes to the board and senior management team to fast track its commercialisation efforts.

During 2018, Kunna S.A.S received their licence to cultivate medical cannabis in Colombia

In May 2020, Mernova obtained a Sales License from Health Canada



2021 has seen Creso secure a major distribution partner in Pakistan. On 15 February 2021, Creso announced that it has won a major distribution partner, Route2, for the rollout of its innovative hemp derived therapeutic product lines, namely CannaQix10, Cannaqix50 and CannaDOL into various potential target markets including Pakistan and Philippines. Importantly, the deal embeds a requirement for Route2 to achieve minimum order quantities of c.A\$2.48M in the first contractual year.

US distribution partner signed in 2021. In March 2021, Creso inked a non-binding letter of intent with a major US distribution partner, CERES Natural Remedies (CERES) for the distribution and sales of its CBD and hemp animal health products anibidiol in the US market, subject to federal legalisation of CBD in the US.

Mernova gaining traction

The Mernova facility is situated in Nova Scotia, Canada, and is optimally located for serving Canadian, US and European cannabis markets. It owns a world-class 24,000 sq ft, Health Canada GPP-compliant, cannabis cultivation and production facility (Figure 12), which is scalable to 200,000 sq ft. There are 10 grow rooms (Figure 13) in the indoor facility, with a total production capacity of 1200-1400 kg per annum. The facility, which commenced production midway through 2019, has a three-phase expansion plan.

Figure 12: Exterior of the Mernova cannabis cultivation facility Figure 13: Interior grow room



Source: Company

Two top executives from Canopy Growth Corp. joined Creso's Mernova team in 2020

Creso became the first ASX-listed firm to own a licensed Canadian cannabis producer

In 2020, Mernova strengthened its senior management team with the appointment of two experienced executives from Canopy Growth – Jack Yu and Isaac Allen as Managing Director and Vice President, respectively. Jack Yu has over 25 years of practical experience growing cannabis, including 9 years of consulting for licensed Canadian medical cannabis growers.

In February 2019, Mernova received a cultivation licence and became the fifth licensed producer in Nova Scotia. Notably, as a holder of a cultivation licence, Mernova was granted the permission to sell and distribute dried and fresh cannabis, cannabis plants and cannabis plant seeds, to other firms licenced under the Cannabis Act. Thus, the license not only allowed Mernova



to begin cultivation of cannabis at the facility, but also permitted the sale of cannabis on a B2B basis. The achievement of this milestone opened up significant revenue opportunities given the high demand for cannabis in Canada.

In September 2019, Mernova received a licence from Health Canada to process cannabis, effectively allowing the expansion of Creso's offerings beyond the cultivation and sale of dried flower, and allowing the company to produce and distribute cannabis oils, concentrates and other derivative products in Canada, and abroad. Further, the licensed producer has been focussing on streamlining its operations to meet the rising demand from the medical and recreational markets in Canada, after it received its Sales Licence from Health Canada in May 2020.

This unit is already generating revenue and is in the advanced stages of securing the EU GMP certification. Post obtaining this certification and other regulatory approvals, Creso is expected to begin selling high-quality cannabis flower and oil to the established and growing consumer markets of the EU, particularly Germany and Switzerland.

Besides high-quality cannabis flower, the company is also progressing well on the development and production of a number of cannabis 2.0 products. In December 2020, Mernova made a strategic decision to diversify its product line by expanding its offerings to include Hash and Pre-Roll Joints into the legal Canadian market. Hash (Figure 14) in particular is currently under-supplied and lacks high-quality products despite significant demand. Notably, Hash, a chemical-free, solventless extract produced by physically separating and collecting trichomes from cannabis flowers, and applying heat and pressure, can now be legally produced and sold in Canada. It has the ability to improve and appreciate with age, and if properly stored, can be kept for up to 12 years or longer. Being a concentrate, it has higher cannabinoid content than the starting material.

Mernova is in the advanced stages of securing EU GMP certification

Mernova expects to launch premium cannabis 2.0 products such as Hash and Pre-Roll Joints, in Q1 2021

Figure 14: Hash products expected to be rolled out in Q1 2021



Source: Company

Continues to bag key purchase orders

Mernova continues to secure purchase orders, which augurs well for the company's revenue profile. These orders are growing in size and regularity, demonstrating the quality of Mernova's products and its ability to secure POs and repeat POs, in the competitive Canadian retail recreational markets.



Figure 15: Ritual Green Mimosa, 15–20% THC, <1% CBD



Source: Company

Notably, since September 2020, Mernova has bagged a total of eight POs valued at C\$510,000, from the Nova Scotia Liquor Corporation (NSLC) for its HPG13, Lemon Haze, and Mimosa strains (Figure 15), with the addition of Black Mamba in the latest order. The multiple purchase orders received from the NSLC, depict a trend towards a recurring revenue model. The NSLC is operated by the Nova Scotia provincial government, and is the sole distributor of retail recreational cannabis in Nova Scotia.

In addition, Mernova has executed a supply agreement with the Ontario Cannabis Retail Corporation (OCRC), which manages the Ontario Cannabis Store (OCS), in Canada. The OCS is a crown agency solely owned by the Province of Ontario. It reports directly to the Ministry of Finance and is Ontario's only online retailer and wholesaler of legal recreational cannabis. The agreement helps ensure that Mernova's products will soon be available in Ontario, Canada's largest recreational cannabis market. As per the agreement, Mernova will supply a range of its high-quality, artisanal cannabis strains, and upcoming cannabis 2.0 products, to the OCS. All Mernova strains are grown indoors, hang-dried, hand-trimmed, and cured. The products will be sold through established stores and through the OCS's online sales platform, under Mernova's Ritual Green brand.

Set to foray into global recreational markets

Taking into consideration the above developments, particularly the agreement with the OCRC, in our view, Mernova continues to make healthy progress in the Canadian recreational cannabis market. Further, in the US, the Democratic Party has recently become the majority party in the US Senate, and this may lead to the decriminalisation of cannabis and the passing of the Marijuana Opportunity Reinvestment and Expungement (MORE) Act. Given the established global distribution network, coupled with a leading Canadian subsidiary, Mernova, which is located just 220 miles from the US border, Creso is well-positioned to benefit from opportunities presented by the world's largest economy. From its current position, Mernova could scale up operations to meet potential demand from the US market. As per the projections of Marijuana Business Daily, the US cannabis market is estimated to be worth ~US\$130bn by 2024.

In November 2020, the Court of Justice of the European Union (CJEU) ruled that member states must not prohibit the marketing of lawfully produced CBD. The CJEU also ruled that CBD is not a narcotic, and thus can be freely

The supply agreement with OCRC brings Mernova's products one step closer to being available in Ontario, which is Canada's largest recreational cannabis market

The MORE Act aims to have cannabis removed from the US Controlled Substances Act



sold in the EU. This landmark decision is expected to significantly shift the European CBD market for pharmaceutical usage, as CBD legally produced in one member country can be exported and marketed to all other member states. As per the estimates of the Orian Research Group, the current market size for CBD in Europe is ~€450m, a 31% share of the global CBD oil market; another report by the Brightfield Group projects that the market is expected to grow 400% over the next four years.

Opportunities galore in Australia

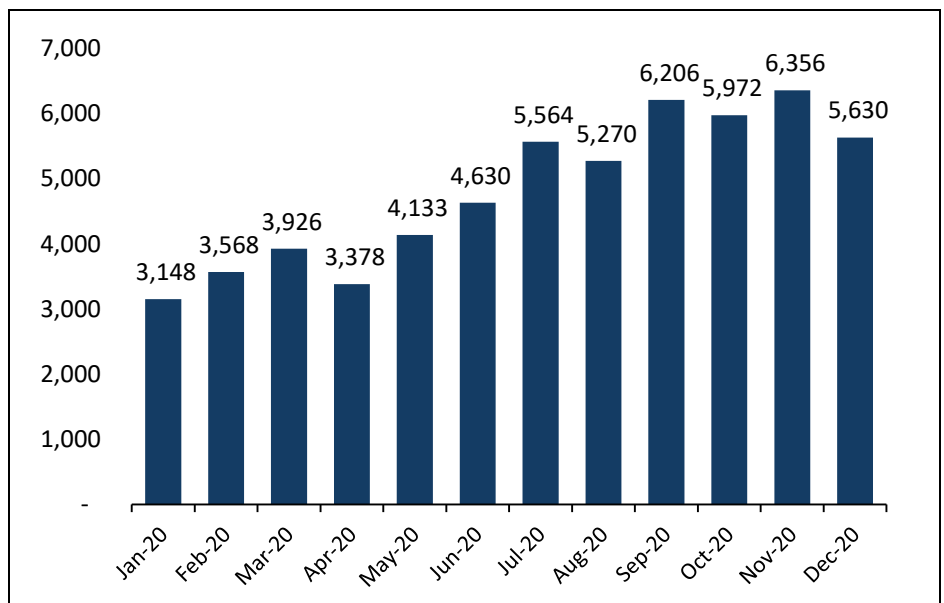
TGA announced a landmark decision to down-schedule low-dose CBD products from a prescription-only medicine to over-the-counter classification

A global change in attitude towards cannabis is underway, paving the way for liberal legalisation of the drug for medical and recreational use. Governments are drawn by the financial and job creation potential of lifting the prohibition. With the latest decision made by the Therapeutic Goods Administration (TGA), Australia seems to be following the global trend of relaxing access requirements to cannabis-based therapeutic and cosmetic products. The TGA announced its final decision to down-schedule low-dose CBD products from schedule 4 (prescription medicine) to schedule 3 medicine (over-the-counter medicine). Although the decision limits OTC supply to only those products approved by the TGA and included on the Australian Register of Therapeutic Goods (ARTG), the favourable ruling is expected to create a significant market opportunity for Creso’s CBD and hemp products.

Typically, medical cannabis can only be used if permitted by the TGA. However, medicines not approved by the TGA can be accessed through three pathways: 1) Special Access Scheme (SAS) (Category B); 2) Authorised Prescriber Scheme; and 3) Clinical Trials. SAS (Category B) is the most common way for patients to access medical cannabis products that are not approved by the TGA. An application is submitted by doctors to the TGA on a case-by-case basis, which includes diagnosis, justification for usage, proof of efficacy, and safety of product, as assurance that their patients will be adequately supervised during the treatment period. This route has been leveraged since 1992, but came in the limelight post revision of regulations in 2016 (Figure 16).

TGA has permitted ~85,000 applications under Special Access Scheme since its inception in 1992

Figure 16: Number of SAS Category B approvals in 2020

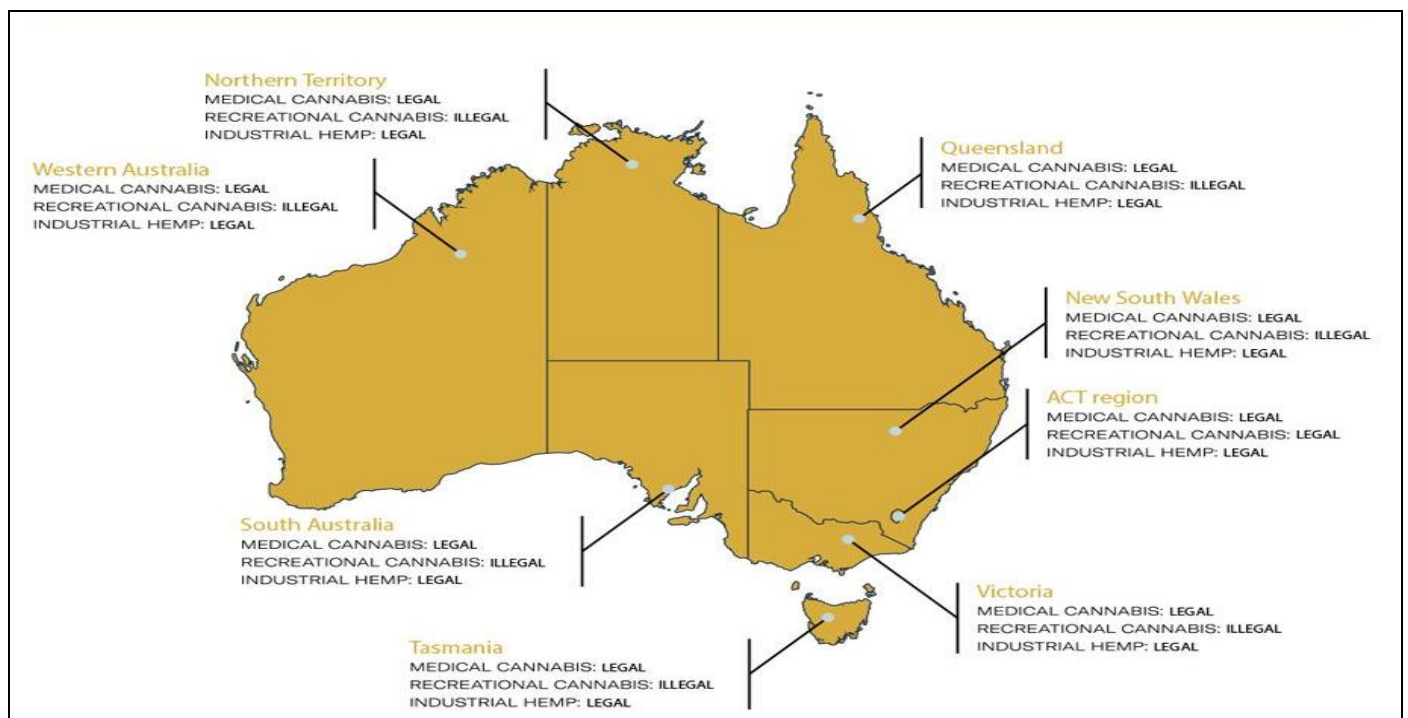


Source: TGA, Pitt Street Research



It was in 2016, when Australia legalised medical marijuana at a federal level, and it was only in 2019 that the legislation restricting the export of medical cannabis products was repealed. More importantly, the government announced plans to support major medical cannabis projects in an attempt to make Australia a leading exporter of cannabis-based medicines. Recreational cannabis usage, which offers the highest growth potential, is still illegal in most regions (Figure 17). Australia seems to be emulating the US model of legislation, i.e., each state has its own legislation governing cannabis. The new cannabis laws passed by the Australian government allow the cultivation and possession of marijuana by adults in the Australian Capital Territory (ACT).

Figure 17: Legal status of cannabis by state in Australia



Source: Prohibition Partners

The Australian legal cannabis market was valued at US\$171.7m in 2019

As per the estimates of Grand View Research, the Australian legal cannabis market was valued at US\$171.7m in 2019, and is expected to register a healthy CAGR of 42.1% during 2020–2026. The down-scheduling of CBD products in Australia is expected to be a game-changing development in terms of providing several near-term opportunities to the company. Creso’s existing portfolio of CBD products, currently available in Australia by prescription, includes a low-dose lozenge, cannaQIX 50, sold under the ‘LozaCan’ brand via distribution partner Burleighs Heads Cannabis. Currently, the lozenges are available through the TGA’s SAS pathway, and the company will now explore the requirements for sales of this product in pharmacies.

TGA’s decision also seems to favour the company’s recent deal with leading natural and sustainable health and lifestyle brand Martin & Pleasance. Martin & Pleasance sells to over 4,000 pharmacies across Australia and New Zealand. As per the agreement, Creso will supply its Swiss-made CBD products for sale under new and existing Martin & Pleasance brands in Australia and New Zealand. The company has earmarked four products from its nutraceuticals range in lozenge and tea form.



Valuation

Using a DCF methodology, we value Creso Pharma at A\$0.49 per share base case and A\$0.68 per share bull case (Figure 18).

Our key assumptions are as follows:

- **Three-stage DCF:** As CPH is at the early stage of its lifecycle, we break-up our DCF into three stages comprising a high growth stage (CY21 to CY25), a transition stage (CY26 to CY30) and a maturity stage (terminal year). Beyond CY30, we assume a terminal value growth of 2%.
- **Discount rate:** We use a WACC of approximately 11.2% based on the capital structure of the business. We build elevated equity risk premium into our cost of equity in order to price in the various company specific risks including potential delay in product rollout, lumpy nature of sales cycle and loss of key customers and distributors.
- **Revenue driver:** We dissect total revenue into three divisions comprising Human Health, Animal Health, and Mernova. From this basis, we attempt to forecast divisional revenues by focusing on and estimating the future sales growth rates of each division. For instance, in the high growth stage for the Mernova division, we factor in accelerated growth as we think the division will significantly benefit from the ongoing favourable regulatory tailwind, production ramp-up, increased global demand, and scale-up in the sales pipeline. Furthermore, the potential grant of EU GMP certification could enable the Mernova division to unlock significant sales opportunities in countries in the EU.
- **Margin driver:** Guided by industry average for drugs (pharmaceutical) companies¹¹, our long run gross margin for CPH is set at around 70%. For CY19, CPH had recorded a gross margin of 59%. We believe this will converge with our long run target due to product and scale efficiencies.
- **Funding.** We model an equity raise of A\$6M in CY21 to meet ongoing cash expenditures. We expect positive operating cashflows to emerge by CY23, after which CPH should be able to self-fund its operations going forward. Overall, we expect CPH to break even on both EBITDA and NPAT levels by CY23.
- **Tax rate:** We assume a corporate tax rate of 27%. As the company has a significant amount of tax losses to carry forward, our base case modelling expects CPH to begin paying cash tax in CY26.

Figure 18: DCF valuation as of 17 February 2021

Base Case Valuation		Bull Case Valuation	
Present value of FCF (m)	118.9	Present value of FCF (m)	156.9
Present value of Terminal FCF	342.3	Present value of Terminal FCF	479.4
Enterprise Value (m)	461.3	Enterprise Value (m)	636.3
Net debt (cash) (m)	(2.8)	Net debt (cash) (m)	(2.8)
Minority interest (m)	-	Minority interest (m)	-
Equity value (m)	464.1	Equity value (m)	639.1
Share outstanding	946.3	Share outstanding	946.3
Implied price (A\$)	0.49	Implied price (A\$)	0.68
Current price (A\$)	0.19	Current price (A\$)	0.19
Upside (%)	158%	Upside (%)	255%

Source: Pitt Street Research

¹¹ http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html



Risks

The major factors we foresee that have the potential to alter our current investment rationale are:

- Any unfavourable regulatory changes in the nutraceuticals and therapeutic markets may increase compliance costs, along with extended approval times for Creso's products in new geographies.
- Being a manufacturer and distributor of products designed for humans and pets, Creso remains exposed to inherent risks, including product liability claims, regulatory action and litigation.
- Competition in the global medical cannabis market is bound to intensify, owing to lucrative opportunities, and may erode Creso's profitability. Further, competition from the black market remains a challenge for Creso, particularly in regions where the use of recreational cannabis is prohibited.
- Given the expansion of the legal cannabis market, industry consolidation may restrict access to key partnerships required to broaden Creso's portfolio and geographic reach.



Competent and influential leadership team

Creso has a strong leadership team with several members being avid cannabis legalisation activists, with extensive pharmaceutical experience, and relationships with global financial institutions and governments. The company's current board and management composition is as below (Figure 19).

Figure 19: Board and management members

Name	Designation	Affiliations (current and past)
Board of Directors		
Dr. Miri Halperin Wernli	Director & Co-founder	Merck, Sharp and Dohme, Roche, MindMed
Boaz Wachtel	Director & Co-founder	Phytotech, IMCPC, Green Leaf Party
Adam Blumenthal	Non-executive Chairman & Co-founder	EverBlu Capital, Roots Sustainable Agricultural Tech
Dr. James Ellingford	Executive Director	Roots Sustainable Agricultural Tech, MinRex Resources
Management Team		
Jorge Wernli	Commercial/Market Access Director	Vifor Pharma
Dr. Gian Trepp	Commercial/Marketing Director	GBT Pharma, Precision Healthcare
Carole Abel	Director Commercial Operations	MindMed, Actelion Pharmaceuticals
Chris Hession	Director of Strategic Partnerships	
Bruce Linton	Strategic Advisor	Canopy Growth Corp
Chris Grundy	Chief Financial Officer	Pan Pharmaceuticals Ltd

Source: Company, Pitt Street Research

Board of Directors

Dr. Miri Halperin Wernli is a co-founder, and is the Head of Technology, Innovation and Distribution at Creso. She has over 25 years of experience in strategic and operational roles. Her previous roles include leadership positions in R&D and strategic marketing in global pharmaceutical firms in the US and Switzerland. She holds a PhD and an MBA.

Boaz Wachtel is a co-founder of Creso, and former managing director of Phytotech Medical, now MMJ Holdings Limited (MMJ: ASX), Australia's first publicly-traded medical cannabis firm. He is a certified Clinical Research Manager, and has facilitated the initiation of the National Medical Cannabis Programme. He holds an MA in management and marketing from the University of Maryland.

Adam Blumenthal is the Chairman of the Board and co-founder of Creso. He has 10 years of investment banking and corporate finance experience and has deep understanding of Australian and international markets for capital raising and financing solutions. He previously worked at several cannabis companies which he successfully brought to market.

Dr. James Ellingford has vast experience in the international arena and has close ties to financial institutions and several governments. He previously served as the President of an international, publicly-listed billion dollar business.



Management team

Jorge Wernli currently serves as the Commercial/Market Access Director at Creso. He has over 30 years of experience in the pharmaceutical sector and is an expert in Market Access, Pricing Reimbursement and government affairs. His previous experience helped him build relationships with Ministries of Health in Europe, South America and several countries in Asia.

Dr. Gian Trepp is the founder and owner of GBT Pharma and has over 18 years of experience in strategic and operational leadership roles. He currently serves as a Marketing Director at Creso, and has held leadership positions in general management and marketing within global pharmaceutical companies in Switzerland and US.

Carole Abel is the Commercial Operations Director and has over 20 years of experience, including 11 years in the pharmaceutical industry where she led a cross-functional team across project management, training, process optimisation, and compliance functions.

Chris Hession is the Director of Strategic Partnerships and has over 20 years of experience in leadership positions in the food, beverage, and nutraceutical ingredient sectors in the Asia Pacific region.

Bruce Linton is one of world's leading cannabis industry executives and an entrepreneur. He serves as the Strategic Advisor at Creso and has extensive sector experience as founder, CEO, board member and adviser to a number of cannabis firms.

Chris Grundy is the Chief Financial Officer with over 30 years of experience in the life sciences sector in various firms from early stage to large multinational corporations. He is a qualified Chartered Accountant and has worked in Australia, the UK, and Africa.

Appendix I – Glossary

Australian Register of Therapeutic Goods (ARTG) – A therapeutic good must be “included in” ARTG before it can be lawfully supplied in Australia. Access to non-ARTG goods can be granted through other routes such as Special Access Scheme or clinical trials.

Cannabidiol (CBD) – CBD is the second-most prominent compound found in the Cannabis plant after THC, and is non-psychoactive.

Good Manufacturing Practice (GMP) – It is a system for ensuring that products are consistently produced and controlled according to quality standards. It is designed to minimise the risks involved in any pharmaceutical production that cannot be eliminated through testing the final product.

Marijuana for Medical Purposes Regulations (MMPR) – MMPR was a set of rules and regulations for growing, buying, and selling medical cannabis in Canada. Under the MMPR, doctors were allowed to prescribe medical cannabis to their patients. Patients then purchased their medicine through a commercial grower (licensed producer) that was licensed by Health Canada.

Marijuana Opportunity Reinvestment and Expungement (MORE) Act – It refers to the pending US legislation which essentially removes cannabis from the Controlled Substances Act, and enacts various criminal and social justice reforms related to cannabis.

Ontario Cannabis Store (OCS) – The OCS is a crown agency solely owned by the Province of Ontario. It reports directly to the Ministry of Finance and is Ontario’s only online retailer and wholesaler of legal recreational cannabis.

Special Access Scheme (SAS) – SAS is the most common pathway for patients to access medical cannabis products that are not approved by the Therapeutic Goods Administration. The approval is granted on a case-by-case basis and requires an application to be submitted by a health practitioner on behalf of the patient.

Tetrahydrocannabinol (THC) – THC is the main psychoactive compound in cannabis that produces the high sensation for which cannabis is known.

Therapeutic Goods Administration (TGA) – This organisation is responsible for regulating supply, import, export, manufacturing and advertising of therapeutic goods in Australia via enforcement of standards, compliance and licensing.

Appendix II – Capital Structure at 17 February 2021

Class	In million	% of fully diluted	Note
Ordinary shares	946.3	76.4%	
Listed options	174.1	14.1%	Exercise price of 5 cents; expiry 22 Jan 2023
Unlisted options	116.0	9.4%	Wtd. avg. exercise price of 19 cents; expiry between Jul 2021 and Dec 2025
Performance rights	1.7	0.1%	
Employee Performance Rights (Under Plan)	0.3	0.0%	
Fully diluted shares	1,238.4		

Source: Company



Appendix III – Major Shareholders

Creso has one substantial shareholder – Adam Blumenthal, also a director – who owns a 16.24% stake in the company.

Appendix IV – Comparable Companies

We have considered companies that are involved in medical and nutraceutical cannabis products, and have no or limited focus on recreational cannabis products. We further applied the market capitalisation criteria of US\$100-500m for a meaningful comparison with Creso.

Company	Location	Code	Market Cap as at 29 Jan 2021 (US\$m)	Website
Ecofibre Ltd	Sydney, Australia	ASX: EOF	479	www.ecofibre.com
cbdMD Inc	Charlotte, NC	AMEX:YCBD	204	www.cbmd.com
Cann Group Ltd	Bundoora, Australia	ASX: CAN	139	www.canngrouplimited.com
Incannex Healthcare Ltd	Melbourne, Australia	ASX: IHL	133	www.incannex.com.au
Botanix Pharmaceuticals Ltd	North Perth, Australia	ASX: BOT	109	www.botanixpharma.com
Zoetic International Plc	London, UK	LSE:ZOE	195	zoeticinternational.com
BellRock Brands Inc	Denver, CO	CNSX:BRCK.U	172	www.bellrockbrands.com
Hempfusion Wellness Inc	Denver, CO	TSX:CBD.U	193	www.hempfusion.com
Revive Therapeutics Ltd	Toronto, Canada	CNSX:RVV	123	www.revivether.com
Medical Marijuana Inc	San Diego, CA	OTCPK:MJNA	138	www.medicalmarijuanainc.com
Creso Pharma Ltd	Sydney, Australia	ASX: CPH	163	www.cresopharma.com

Source: S&P Capital IQ; Pitt Street Research

Ecofibre Ltd. The company engages in the breeding, growing, processing and sale of hemp-based products in Australia and the US. The company owns 300 landrace strains of cannabis, and serves various end-markets including food, health, and industrials. It operates through four brands – Ananda Food, Ananda Hemp, Ananda Professional, and Hemp Black.

CbdMD Inc. A pharmaceutical company that provides various CBD products under its brands – cbdMD and Paw CBD. Under cbdMD, it provides CBD tinctures, gummies, topicals, capsules, bath bombs, bath salts, and sleep aids. Under the Paw CBD brand, it offers veterinarian-formulated products, including tinctures, chews, and topicals.

Cann Group Ltd. Cann provides therapeutically targeted cannabis-based pharmaceuticals for various medical conditions, including palliative care, chronic non-cancer pain, nausea and vomiting, multiple sclerosis, and paediatric and young adult epilepsy. Notably, it was the first Australian company to receive a licence and permit from the federal government to cultivate medical cannabis in Australia.

Incannex Healthcare Ltd. It is a developer of pharmaceutical cannabinoid products, and is currently running four clinical programmes to develop products for Obstructive Sleep Apnoea, Traumatic Brain Injury, Sepsis, Associated Acute Respiratory Distress Syndrome, and Temporomandibular Joint Disorder.



Botanix Pharmaceuticals Ltd. It is a clinical stage synthetic cannabinoid pharmaceutical company engaged in the development of dermatological and antimicrobial products. It currently has three products in advanced clinical-stage trials – BTX 1503 Gel (targets moderate to severe acne), BTX 1702 Solution (targets Rosacea) and BTX 1801 Ointment (antimicrobial).

Zoetic International Plc. A vertically integrated company, Zoetic provides a range of CBD-based products in the US and the UK. In the US, the Chill brand is a tobacco alternative selling smokables and chew pouches, while in the UK it sells CBD oils. The company also plans to enter the cosmetics and beauty market in the UK.

BellRock Brands Inc. The company produces and sells ~200 cannabis-based products targeting cosmetics, therapeutics, nutraceuticals, and animal health segments. Its brands include Mary's Medicinals, Mary's Nutritionals, Mary's Methods, Mary's Tails, Beezle, Dixie, Synergy, Mindset, Aceso, Therabis, Défoncé, and Rebel Coast. BellRock was formed as a result of the merger between BR Brands and Dixie Brands on 31 October 2020.

HempFusion Wellness Inc. The company provides Broad-Spectrum CBD Hemp Extract products made from its proprietary Whole Food Hemp Complex. HempFusion offers products for stress, sleep, and energy, as well as for acne and eczema.

Revive Therapeutics Ltd. This company engages in R&D for therapeutics for rare disorders and infectious diseases. Its CBD-based pharmaceutical portfolio includes solutions for rare inflammatory diseases such as liver disease. The FDA has granted orphan drug designation status to its CBD for use in treating auto-immune hepatitis, and ischemia and reperfusion injury from organ transplantation.

Medical Marijuana Inc. The company provides CBD-based products for nutraceutical applications. It provides prescription-based hemp oil under the Kannaway and HempMeds brands and is also involved in the development of new therapeutic agents that target oxidative stress and act as immunomodulators and neuroprotectants. It also provides CBD-based dietary supplements and skin care products.

Appendix V – Creso's intellectual property

WO 2019, 030561, *Composition containing cannabinoids with improved bioavailability*, priority date 8 August 2017, invented by Miriam Halperin Wernli, Silvia Huber, Franco Madea, Gian Batista Trepp, and Jorge Wernli.

- The patent discloses the composition for oral/buccal delivery of cannabinoids that contains a vasodilator (e.g., clove oil or capsicum extract) – in addition to the cannabinoids – to facilitate faster transfer of cannabinoids into the bloodstream.
- Applications for the patent were filed in Canada, Brazil, Australia, Colombia, the US, and Europe, but have not been granted patents in any of the countries yet.

WO 2019, 002933, *Veterinary granules containing hemp extract*, priority date 30 June, 2017, invented by Miriam Halperin Wernli, Silvia Huber, Franco Madea, Gian Batista Trepp, and Jorge Wernli.

- The patent discloses the composition for oral/buccal delivery of cannabinoids – suited to pets – that comprises cannabinoid-containing oil and/or hemp extract, encapsulated in water-soluble, polysaccharide-containing granules. The granules are safer to consume,



as they do not contain potentially harmful psychotropic substances (e.g., tetrahydrocannabinol) and dissolve within the buccal cavity, facilitating faster release of the active ingredient, directly into the pets' bloodstream.

- Applications for the patent were filed in Europe, Mexico, Colombia and Brazil, but have not been granted in any of the countries yet.

Appendix VI – Analyst Qualifications

Stuart Roberts, lead analyst on this report, has been an equities analyst since 2002.

- Stuart obtained a Master of Applied Finance and Investment from the Securities Institute of Australia in 2002. Previously, from the Securities Institute of Australia, he obtained a Certificate of Financial Markets (1994) and a Graduate Diploma in Finance and Investment (1999).
- Stuart joined Southern Cross Equities as an equities analyst in April 2001. From February 2002 to July 2013, his research speciality at Southern Cross Equities and its acquirer, Bell Potter Securities, was Healthcare and Biotechnology. During this time, he covered a variety of established healthcare companies, such as CSL, Cochlear and Resmed, as well as numerous emerging companies. Stuart was a Healthcare and Biotechnology analyst at Baillieu Holst from October 2013 to January 2015.
- After 15 months over 2015–2016 doing Investor Relations for two ASX-listed cancer drug developers, Stuart founded NDF Research in May 2016 to provide issuer-sponsored equity research on ASX-listed Life Sciences companies.
- In July 2016, with Marc Kennis, Stuart co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Life Sciences companies.
- Since 2018, Stuart has led Pitt Street Research's Resources Sector franchise, spearheading research on both mining and energy companies.

Cheng Ge is an equities research analyst at Pitt Street Research.

- Cheng obtained a B. Com in Finance and LL. B from the University of New South Wales, in 2013, and has passed all three levels of the CFA Program.
- Before joining Pitt Street Research, he has worked for several financial services firms in Sydney, where his focus was on financial advice.
- He joined Pitt Street Research in January 2020.

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