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Germany licences confirmed, though significance uncertain

MARK RENDELL CANNABIS INDUSTRY REPORTER

German regulators confirmed on Monday that Aphria Inc., Aurora Cannabis Inc. and Demecan Gmbh, a 50 per cent joint venture with Wayland Group Inc., have been awarded the first licences to grow cannabis in Germany.

The three companies had been chosen on a preliminary basis in April, but still needed to get through an appeal process. (There were unsuccessful appeals against both Demecan and Aphria).

The licences allow a total of 10,400 kilograms of dried cannabis to be produced over the next four years. Aurora and Aphria will each grow 1,000 kilograms a year, while Demecan will grow 600 kilograms a year. Germany's Federal Institute for Drugs and Medical Devices (BfArM), which will buy the product for distribution through medical channels, expects the first harvest in the fourth quarter of 2020.

Germany has become a buzzword among Canadian cannabis companies eager to make the most of their first-mover advantage and expand into international medical markets. The country, which legalized medical cannabis in 2017, is already the most popular export destination for several of Canada's largest LPs. (To export to Germany, LPs need European Good Manufacturing Practices certification, which only six companies have).

Just how important the new in-country licences are, however, depends on who you speak with. After the preliminary tender results were announced, Cam Battley, Aurora's chief corporate officer, likened it to receiving an MMPR licence in Canada in 2014.

"The actual lots being asked for initially are fairly small... but it allows you to actually build production there, and that adds to relationships that you're going to build with the regulators and with the physicians," Mr. Battley told Cannabis Pro in April.

In an interview in early May, Canopy Growth Corp.'s Bruce Linton took a less constructive view – unsurprising, perhaps, given that his company was not chosen by BfArM.

"We had different views on what price should be, all-in price and things like that. But it's the first [tender], and we didn't really want to chase it down," Mr. Linton told Cannabis Pro, after Canopy announced it was acquiring German pharmaceutical company C3 Cannabinoid Compound Company. "I think that what they're going to come back with is a much larger [tender], and then you could see us playing quite hard on that."

Tilray Inc. didn't even bother with the BfArM tender, CEO Brendan Kennedy said on the company's most recent earnings call.

"That product is sold to the German government at a fixed price, and so there's no opportunity for refining products or branding or packaging," said Mr. Kennedy. "It wasn't a tender that we

were interested in when we can obtain a license in Portugal to produce massive amounts of cannabis there. And we knew that the regulators in Germany were more than willing to import our product from Portugal, just like they've allowed us to import product to Germany from Canada."

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Regardless of their view on the initial in-country licences, most large LPs seem to agree on importance of Germany, with its higher medical marijuana prices, growing patient base, and public insurance coverage for drugs, as an export destination.

Independent research firm, **Veritas Investment Research**, took issue with this view in its most recent cannabis sector report. Canadian companies may have a head start in Germany, but the market is unlikely to be as exciting as LPs suggest, wrote **Veritas** Healthcare analyst **Stuart Rolfe**.

"The first outcome (currently our base case assumption) is that Canada mostly dominates German cannabis over the next two years, but actual cannabis product sales are tepid and/or tending to be immaterial. Again, last year's 2-3 equivalent tonnes of international sales is still just 0.35% of our overall forecast domestic Canadian demand – and German sales at one third-to-one half of that tiny figure (perhaps 0.2%) would likely disappoint investors betting on an outcome where Canadian LPs dominate global cannabis," **Mr. Rolfe** wrote.

"The second outcome, which is less likely in the near-term but much more likely long-run, is that Germany 'gets its act together' and develops its own independent cannabis industry – capturing the economic benefits of domestic cultivation and improved (lower) pricing," he wrote.

Mr. Rolfe, who has a bearish view on the cannabis industry in general, also warned that English-language discourse about the German opportunity tended to overlook how little political drive there is in the country for full-fledged legalization.

"We think Germany may be best characterized as "island-hopping" for margin enhancement. Even if current Germany's ~€75 million demand doubles to ~€150 (~C\$225) million in F20, assuming Canadian F20 sales are ~C\$3.6 billion (on 60% conversion of C\$6 billion total sales), the German market would still be less than 7% of producers' Canadian sales (...and LPs do not collect the full sticker price in Germany)," he wrote.