

The Cannabis King-Maker

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One Technology Every Medical Cannabis Company Needs

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If you want to see just how much medical marijuana has been embraced by a market, take a look at Colorado.

Colorado legalized medical marijuana through a ballot measure in 2000. Today, that state has three times as many marijuana dispensaries as it does Starbucks locations.

Federally, a Republican-controlled Congress is on the verge of greatly increasing opportunities for medical marijuana research. The Medical Cannabis Research Act, sponsored by a Rep. Matt Gaetz (R-FL), passed a House committee September 13.



That marks the first time a committee under GOP control has passed a pro-cannabis bill. It now awaits a floor vote.

And President Donald Trump could end up being one of the medical marijuana industry's biggest boosters. On the campaign trail, he acknowledged that medical marijuana has shown benefits for users. This summer, he expressed support for a request from Colorado lawmakers to leave the question of legalization up to the states to the chagrin of his own Attorney General Jeff Sessions.

Public sentiment is also at a record level.

According to a Quinnipiac poll, 94% of those asked said that a doctor's prescription should be all that's needed for adults to partake.

Federal rescheduling, descheduling, and legalization will be critical. It's no accident that the biggest companies in the cannabis world in 2018 were all based in Canada.

Canada's success in legalizing medical marijuana nationwide in 2001 paved the way for once-tiny companies to break into \$1 billion market-cap territory.

The U.S. finally seems to be taking some big steps at the federal level...

The Pharmaceutical Game Changer

The U.S. Food and Drug Administration approved Epidiolex for the treatment of two forms of epilepsy on June 25.

GW Pharmaceuticals Inc. created this drug to provide a better solution for Lennox-Gastaut Syndrome (LGS) and Dravet Syndrome. These mainly affect young children. Most of these patients either have high rates of mortality or require multiple forms of seizure medications to treat their symptoms.

This twice-daily oral solution is a pharmaceutical formulation of purified cannabidiol (CBD), but doesn't give the high associated with THC in marijuana.

After all, the market for Epidiolex alone is expected to reach \$1.3 billion a year by 2022, according to Cowen analysts.

But GW is already testing Epidiolex for the treatment of tuberous sclerosis, a disease similar to epilepsy that often causes seizures.

So, opportunity abounds not only for pharma companies following closely behind the drug's maker. A host of other companies – many with still-low stock prices – also become attractive to watch.

Granted, it's important not to get excited when a company announces Phase 1 or even Phase 2 testing. There's no guarantee that trials will yield a positive result.

Epidiolex's primary active ingredient is CBD, the molecule in cannabis that does not get the user high.

The U.S. consumer market for cannabis-based pharmaceuticals will take off in 2020 and, over the next decade, will skyrocket to \$50 billion a year, according to Statista.

Of course, the GW Pharmaceuticals big win also opens the door for competitors that aren't trying to make a pharma-grade product at all.

The thing is, dozens of companies already produce over-the-counter CBD-based products, and hundreds more are working on their own.

All of them retail at a price that is less than half what Epidiolex costs, \$32,500 per year.

Even some states that don't allow medical marijuana – such as Texas and Alabama – already allow CBD oils for treatment of intractable epilepsy or seizure disorders.

When you take into account not just pharmaceuticals, but the growth in nutraceuticals and other CBD products that are being developed, a \$1 trillion market worldwide is not out of the question.

But just don't take my word for it.

Michael Gorenstein, CEO Cronos Group, one of NCI's smartest sources in the industry, also pegs the market to soar to \$1 trillion now that the brakes are coming off and marijuana is becoming more mainstream. He'll be the first to tell you, "the genie is out of the bottle."

Dr. Michael Dor, the Harvard University-educated doctor who serves as a senior medical advisor for the Israeli Ministry of Health, told NICI when we were in Toronto in August 2018, that the possibilities for medical uses of cannabis in products are virtually endless.

Among the ailments being studied with cannabis-based treatments are chronic pain, nausea associated with cancer or AIDS, multiple sclerosis, CTE, and more.

Dr. Julia Arnsten, chief of internal medicine of the Albert Einstein College of Medicine in New York, believes in the big potential for cannabis as a treatment of various diseases. She pointed out to NICI a 2017 report from the National Academies of Sciences, Engineering, and Medicine, which surveyed the available studies to conclude that medical marijuana is an effective treatment for pain.

With additional research backing, which Arnsten said is needed given how new it is as a mainstream treatment option, she believes more doctors will embrace it, especially for treating pain.

The research is exciting – and promising. Any firm that succeeds in getting a successful, reliable product to market will make huge profits for its shareholders.

And the research can't come soon enough, as the medical profession desperately searches for alternatives to the highly addictive and dangerous opioids.

The U.S. Department of Health and Human Services last year declared the opioid epidemic a national health crisis. According to the HHS, opioid overdoses killed more than 42,000 people in 2016. About 40% of the deaths were linked to prescription opioids.

Shifting Products, Shifting Demos

Jared DeCamp, the co-owner of the Herbal Remedies dispensary in Salem, Oregon, recently told USA Today that the days of smoking cannabis are on their way out the door, as only about half of his store's sales go to smokeable flower these days.

In Colorado, smokeable cannabis composed 67% of all sales across the state in 2014. That figure is down to 44%, while sales of concentrates have doubled to 31%. According to Colorado's Behavioral Risk Factor Surveillance System survey from Summer 2018, the number of people eating or drinking cannabis products climbed to 40.4% in 2017 from 35.2% the year prior.

That's saying a lot when you consider that the newer forms of cannabis may cost two or three times what a standard one-eighth ounce of marijuana does, which can sell for around \$45.

Demographic shifts in cannabis consumers is another important factor in this shift toward precision dosing. Cannabis use among Baby Boomers, for instance, climbed 57.8% between 2007 and 2013, according to a study in Addiction. That increase is even more dramatic for adults 65 and older, whose cannabis use grew 250% over the same timeframe.

Boomers now see cannabis as alternative medicine that helps with everything from anxiety to insomnia. A recent report by Ohio State University notes that as much as 70% of the 50-and-older demographic is using some form of alternative medicine.

This is a powerful group of consumers. The American Association of Retired Persons says boomers account for two-thirds of U.S. disposable income and are set to inherit \$15 trillion in the next 20 years.

In other words, they have plenty of money to buy the very best in cannabis.

But these products require very specific formulations and precise dosing mechanisms so that consumers get exactly what they expect, every time. This group of consumers will accept no less.

To succeed, there's one thing any grower or pharma company needs. It is the key, the king-maker, in the cannabis industry.

And, somehow, few are talking about it...

Precision Dosing Will Unlock the Key to Medical Cannabis Fortunes

When it comes down to it, people who are starting to use cannabis – or coming back to it – now legal in their state are moving away from smoking. “Flower” is losing out in favor of edibles or vaporizing concentrates, oils, “wax,” or “shatter.”

That makes sense. Consumers seeking out the potential health and pain relief benefits from cannabis don't want to cloud the picture by deeply inhaling smoke into their lungs.

But the new generation of products has to overcome a problem. Many newer users, especially older ones, don't know how much to take... or the amounts in the product perhaps have more strength than was planned.

The cautionary tales of these users getting extremely high, without wanting to, were not few a couple of years ago. That can be dangerous, especially for certain demographics.

This part of the industry has matured fast, but more of them need to nail down what some call precision dosing and other defined dose. Whatever the moniker, reliability will mint the companies that get it right in this first wave a fortune.

It's a remarkably lucrative area for firms to pursue as cannabis-infused products typically have a much higher profit margin (32%) than pharmaceutical drugs (21%) or wine and spirits (19%), according to a survey by Marijuana Business Daily.

Companies have begun to develop technologies that can efficiently break down and quantify the amount of CBD, the non-psychoactive component in marijuana, and tetrahydrocannabinol (THC), the component that gets people “high,” which makes dosing for specific effects much easier.

Others are putting out products that release a very specific amount of vapor so that customers can more accurately gauge how much they're ingesting. California-based Dosist is an early example of a firm that provides vaporizer pens that vibrate to indicate when a user has inhaled 2.25 milligrams of vapor of medical-grade product.

NICI's recommendation for the cannabis firm best equipped to become the industry's first household name, Emerald Health Therapeutics Inc. just filed for 17 U.S. patents related to its "defined dose" cannabis-dosage formulations.

These products aim to provide consumers with inhaled dosage forms for smoking and vaping, as well as capsule and edible formulations based on a "novel understanding of cannabinoid molecular pathways and how they influence disease mechanisms."

"Our aim is to produce a product pipeline of next-wave cannabis products that fit the better-defined needs and preferences of consumers as Canada and other countries that legalize medical and recreational cannabis use," said Dr. Avtar Dhillon, executive chairman at Emerald and founding advisory board member at NICI.

There's a lot of technology that goes into altering cannabinoids to produce reliable effects every time, from quick onset drugs designed as a sleep aid to long-use drugs engineered to ease back pain.

The key will be finding the companies that are developing the best tech to make that happen.

And NICI will. That's why we're here.

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