



# Ag & Vet Weekly

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*All the news on ASX-listed agriculture and veterinary companies*

## Dr Boreham's Crucible: Elixinol Global

By **TIM BOREHAM**

**ASX code:** EXL

**Share price:** \$1.70

**Shares on issue:** 60,023,540 (with a further 77,870,572 escrowed until December 2020).

**Market cap:** \$234.4 million

**Chief executive officer:** Stratos Karousos

**Board:** Andrew Duff (chairman), Paul Benhaim, Mr Karousos, Greg Ellery

**Financials (half year to June 30, 2019):** revenue \$17.45m (up 17%) loss of \$9.8m (previously \$299,000 profit), cash of \$48.1m (up 238%).

**Major identifiable holders:** Paul Benhaim (Raw With Life) 56%, D&G Health (David Neman and Gabriel Ettenson) 10.2%

Given it's chock full of omega acids and other goodies, hemp is acknowledged as one of nature's finest super foods.

But how much of a good thing is too much?

The issue has been occupying the collective minds of the US Food and Drug Administration, which is determining the safe levels of cannabinoids in food (hemp contains only minute levels of the 'whoopie' ingredient tetrahydrocannabinol, or THC).

For Elixinol, one of the world's biggest producers of hemp ingredients, the key thing is not so much the decreed level - 20 milligrams a day is the best guess - but the fact that the agency has made a formal call on the safety aspect.

So far, the biggest food supplements and cosmetics companies have been rearing at the bit to use hemp ingredients, but have held back pending the agency's guidance.

"It's the next inflexion point for our industry, possibly the last," says Elixinol founder Paul Benhaim. "Companies like Nestle and Pepsi have done their due diligence on the sector and are waiting to act."

In the meantime, hemp in food is a legislative grey area in the US, as are the country's baffling cannabis laws. "We are selling it [hemp foods] today," Mr Benhaim says. "It's not that it's illegal, it's just that there hasn't been clarity offered by the FDA."

The FDA's former commissioner Scott Gottlieb recently reminded everyone that hemp additives remained illegal Federally, but called for coherent regulation to address the "patchwork" of state-based laws.

But he seemed more concerned about anything containing THC, so go figure ...

While the company grapples with US regulators, Japan is providing its own headache after the company's 50.5 per cent subsidiary Elixinol Japan was discovered to be selling non-compliant hemp (that is, not derived from stems and seeds).

With an internal investigation afoot, the stock dropped 11 percent, or 24 cents.

Elixinol Japan accounted for \$1.6 million of Elixinol's June half revenue, 8.7 percent of the total.

## **Chicken, beef or hemp?**

The US-focused Elixinol has already benefited from last year's passing of the Hemp Farming Act Bill, which removed hemp from the controlled substances schedule and allowed it to be regulated likely any other agricultural commodity.

Mr Benhaim says the liberalization led to an immediate revenue uptick. "It's also allowed us to have conversations with much larger fast-moving consumer goods companies - multinationals who have been watching this space for some time."

However, the Farm Bill had some unintended consequences as well.

"Many people thought they could jump on board the magic wave and make a quick buck," he says. "I have never seen any farmer grow hemp for the first time successfully - it usually takes five attempts."

As a result, the market was flooded with low-quality material containing only one CBD isolate rather than the full range of whole-plant cannabinoid and terpene goodness.

## **Elixinol - a potted history**

Arguably, Elixinol is the most successful ASX-listed pot stock, with a track record of selling its product in 40 countries (notably the US).

Elixinol was founded by Mr Benhaim, a Briton who became a global hemp expert after travelling the world to enhance his knowledge of the complex plant. He ended up in Australia and in 1999 founded Hemp Foods Australia, which is a wholesaler retailer, manufacturer and exporter of ingredients and finished products.

These include hemp seeds, flour, oil, and nut butters, while its hemp burgers are available through Woolworths.

While the company is based in Sydney its spiritual home is at Bangalow near Byron Bay in New South Wales, where it grows the stuff.

In 2014, Mr Benhaim founded Elixinol LLC in the US and then took Elixinol world-wide. Based in Colorado, the US arm makes and distributes industrial hemp-based dietary supplements and skincare products.

The company listed in January last year, having raised \$20 million at \$1 apiece. In April last year, Elixinol entered an equal joint venture with the growing group Northern Colorado High Plains Producers, which doubled Elixinol's growing capacity.

In June this year, Elixinol entered a joint venture with Infusion Strategies with RFI Ingredients, a 40-year old hemp supplier that services the likes of Nestle and Pepsi Cola.

Elixinol holds 60 percent of the joint venture, called Infusion Strategies and is the exclusive cannabidiol (CBD) supplier to that venture.

In 2014, the company formed a subsidiary, Nunyara Pharma, to participate in the emerging Australian medical cannabis sector. Nunyara holds a manufacturing licence and has applied to the Office of Drug Control for cultivation licence (a decision is pending).

At the heart of Elixinol's medical dope plans is a 24-hectare property in the northern rivers district of NSW, acquired for \$2.6 million in February. Once permitted, the facility will serve as an integrated growing, cultivation and manufacturing facility.

In the meantime, Elixinol's medical products are available in New Zealand, which recently changed the law to allow low-THC level cannabis medications.

Elixinol also owns 51 percent of Pet Releaf, the "most widely distributed hemp and CBD pet product in the market".

## **Musical chairs**

Despite its success, Elixinol has not been averse to pulling the trigger on some changes at executive and board level.

In July, Mr Benhaim ceded the CEO role to the company's chief commercial officer Stratos Karousas (who also joined the board).

Mr Benhaim became chief innovation officer but remains on the board. Given he accounts for almost 40 percent of the register, would anyone argue? Director Linda McLeod also ceded her seat, but resumed an executive role.

In a further refresh - as they say - US regional prez Gabriel Ettenson became chief technology officer while information technology director Greg Smith became global chief information officer ... not be confused with global chief technology officer of course.

Hitherto the director of business development for the US, the aptly-named Leif Harrison became CEO for the Americas, while European sales director Ali Atcha became CEO for Europe and the UK.

## **Finances and performance**

When your columnist last covered Elixinol in September last year, he waxed lyrical about Elixinol's refreshing status as a profit generating entity - \$120,000 in the 2017-'18 year - in a sector drowning in red ink.

Sadly, we have to retract that praise because Elixinol reverted to a loss of \$9.8 million for the (first) June half. However, revenue is clocking over nicely: turnover of \$17.45 million for the six months, 17 percent higher than previously. The company generated \$38 million of revenue in calendar 2018.

The results show a skew to Elixinol's own brands rather than 'private label' arrangements, with the latter contributing 18 percent of revenue compared with 38 percent in the previous corresponding half.

Branded product sales rose 63 percent to \$7.5 million, or 41 percent of the total. They also account for 52 percent of US sales, compared with 36 percent previously.

Mr Benhaim attributes the operating loss to the costs incurred in expanding the business: operating expenses rose to \$19.9 million in the six months to June 30, from \$7.6 million previously, with marketing expenses accounting for 21 percent of revenue.

Full time equivalent staff numbers also swelled to 134, from 59 previously.

The company has been scaling up capacity for an expected surge in orders, including amassing a \$20 million inventory of raw material.

Mr Benhaim says Elixinol's costs will not be as high next year because the investment in facilities has largely been completed.

Elixinol has a bulging cash kitty of \$48.1 million, courtesy of a supersized \$50 million placement in June (at \$3.90 apiece). Since listing, Elixinol shares have traded between \$5.69 (early April this year) and \$1.35 (mid-February 2018).

## **Dr Boreham's diagnosis:**

With a market cap approaching \$260 million despite last week's Japanese hiccup, Elixinol is the biggest ASX-listed cannabis stock ahead of the \$170 million market cap Cann Group.

As the only member of 'cannabis corner' with a respectable revenue and earnings track record, it is a unicorn stock in a sector that is yet to live up to its promises.

Mr Benhaim expects 2020 to be a "pivotal year" for the company, not just in the US but elsewhere.

"We are gaining a reputation everywhere for being a quality supplier, but if the FDA comes on board [with the hemp food standard] we will see significant growth," he says.

Elixinol also appears to be overcoming the problem of widespread discounting in the US following enactment of the Farm Bill, which resulted in a flood of substandard hemp on the market.

The company lost several bulk and private label customers, whose pleas for a discount fell on deaf ears. Since then, there's been a flight back to quality.

Mr Benhaim sees Europe as a key growth market, especially in hemp-happy Germany where growing the stuff remains verboten. European hemp demand is tipped to grow at a compound annual rate of 42 percent to be a \$1.7 billion market by 2023.

We shouldn't forget that while the health benefits of omega acids are well accepted, the advantages conferred by CBDs - such as pain, anxiety and insomnia relief - remain largely anecdotal.

But let's not forget that most of the stuff flogged by Blackmores and Suisse are clinically unproven as well - or should we say proven not to be harmful - and they have become billion dollar plus companies.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He always thought hemp was what New Zealanders called something on a camel and that CBD was the main business district of a large city.***